Meeting of the
Yolo County Audit Subcommittee
November 14, 2024
11:30 a.m.

All meetings of the Yolo County Audit Subcommittee will be held in person at the Yolo County Administration Building, located at 625 Court Street, Woodland, Room 202. Please note: Zoom participation will no longer be supported.

If you have anything that you wish to be distributed to the Committee and included in the official record, please contact Nathan Lugo, Audit Manager at least two (2) working days before the meeting at 530-666-8668 or nathan.lugo@yolocounty.gov.

Committee Members:

Chair, Mary Vixie Sandy	(Board of Supervisors – Voting)
Jim Provenza	(Board of Supervisors - Voting)
Lawrence Raber	(Public Member – Voting)

Yolo County Internal Audit Staff

Nathan Lugo	(Audit Manager – Non-voting)
Noemy Mora-Beltran	(Senior Auditor – Non-voting)

11:30 Am Call to Order

1. **Introductions.**

2. **Roll Call.**

3. **Approval of Agenda.**

4. **Follow-up of items from prior meeting (if any).**
   a. Update on Subcommittee membership and governance

5. **Public Comment**
   This item is reserved for persons wishing to address the Committee on any related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are customarily limited to 3 minutes per speaker, but an extension can be provided at the discretion of the chair.

CONSENT AGENDA

6. **Approval of prior meeting minutes for September 12, 2024.**

REGULAR AGENDA

7. Receive Vendor Performance Monitoring Audit Results (Baker Tilly)

8. Status Update on the Division of Internal Audit and Ongoing Audits (Lugo)

9. Proposal for Standardized Internal Audit Reporting Structure (Lugo)

10. Request to Extend Contracts with On-Call auditors for Additional 12 Months (Lugo)

11. Subcommittee comments and questions

12. Confirm next meeting date: February 13, 2025, at 11:30 to 12:30 pm

13. Adjournment (Approximately 12:30 p.m.)

Public records that relate to any item on the open session agenda for a regular meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Committee. Public records are available for inspection by contacting Nathan Lugo, Audit Manager at 530-666-8668 or nathan.lugo@yolocounty.gov and meeting materials can be inspected at County offices located at 625 Court Street, Woodland, CA 95695; those interested in inspecting these materials are asked to call 530-666-8668 to make arrangements. The documents are also available on the County of Yolo Financial Oversight Committee website located at: https://www.yolocounty.org/government/general-government-departments/financial-services/financial-oversight-committee.

YOLO COUNTY AUDIT SUBCOMMITTEE

MINUTES OF MEETING September 12, 2024

Members present:	Mary Vixie Sandy (Supervisor-Chair), Jim Provenza (Supervisor), Larry Raber (Public Member)
Others present:	Nathan Lugo and Noemy Mora-Beltran (Internal Audit)
Moderator:	Noemy Mora-Beltran
Recorded by:	Noemy Mora-Beltran

1) **Introductions.** Members and Internal Audit above were in the meeting.

2) **Roll Call.** Mary Vixie Sandy called the meeting to order at 11:55 a.m. with Jim Provenza and Larry Raber in attendance. Quorum was formed.

3) **Approval of agenda.** Agenda approved. (Provenza/Raber)

4) **Follow-up items from prior meetings (if any).** Nathan Lugo reported that there was an update on Subcommittee membership and that this item was on the agenda on Item #8.

5) **Public comment.** Noemy Mora-Beltran reported that no public comments were received for the record.

Consent Agenda

6) Approve prior meeting minutes 6/13/2024
7) Summary of audit reports received by June 30, 2024 – County, Special Districts, JPAs, and Other

   Consent Agenda approved. (Provenza/Raber)

Regular Agenda

8) **Update Regarding Audit Subcommittee Membership and Request for Additional Time for Analysis (Lugo)**
   Nathan Lugo provided an update on the committee request to collaborate with the County Administrative Officer (CAO) to explore the process for adding two additional members from the Financial Oversight Committee (FOC) to the Audit Subcommittee. In consultation with County Counsel, Nathan found potential legal issues, as adding the members would create a quorum for the FOC. He also noted governance documentation challenges, as the FOC and Internal Audit charters lack detailed information on reporting structures and authority over Internal Audit staff.

   Additionally, committee member Raber mentioned that there has been confusion over the years regarding the Audit Subcommittee reporting structure and that it would be best practice to have an Audit Committee to oversee audit work (both external and internal audits).

   Nathan requested additional time to prepare a staff report on governance structure recommendations, to be presented at the November 14, 2024, Audit Subcommittee meeting.

   Approved by (Provenza/Raber)

9) **Receive Update on the Division of Internal Audit and Ongoing Audits (Mora-Beltran/Lugo)**
   Nathan Lugo provided an update on the Division of Internal Audit and on ongoing audits:

   - *FY2024-25 Audit Plan:* The existing 3-year audit plan has been revised based on a countywide risk assessment, input from meetings with department heads, and consideration of inherent risks. This data was used to develop the current audit plan.

   - *Administrative Reporting Lines:* Administrative tasks for the Internal Audit reporting lines are near completion with updates to the Audit Charter still pending until the governance structure is analyzed. Updates to the budget unit are also on hold until September 2024, when the County budget is approved.

   - *Policies and Procedures:* Internal Audit policies and procedures are outdated and need to be revised to align with current practices and the management of the whistleblower hotline.

   - *Whistleblower Hotline:* Approximately eight cases remain open for documentation of procedures performed, referral to departments, and support to the Human Resources Director for handling cases.

   - *Corrective Action Plans (CAPs):* A collaborative approach to update CAPs has been initiated. Internal Audit will work with departments to update target dates and on identify current risks.

   The subcommittee members discussed that a report on corrective actions has not been submitted to the full Board of Supervisors for accountability purposes. Nathan will compile a list of key reports and Internal Audit activities that should be forwarded to the full Board and will present it at the next Audit Subcommittee meeting on November 14, 2024.

10) **Review and Approve FY2024-25 Proposed Annual Audit Plan (Lugo)**
    Nathan Lugo presented a proposed audit plan (work plan) for the fiscal year 2024-25. The audit plan includes 14 performance audits, 6 audits for the Health & Human Services Agency (HHSA), and 4 continuous & mandated audits. It also categorizes audits into Priority I for high-risk areas and Priority II for low-risk areas, depending on available staffing resources. Additionally, the plan emphasizes a broader focus on government performance audits and includes a separate section for HHSA, acknowledging the department's size and associated risks. Due to limited staffing resources, Internal Audit will continue to utilize on-call auditors.

    The subcommittee members approved the FY2024-25 Proposed Annual Audit Plan with direction to move the IT Disaster Recovery & Emergency Preparedness audit to Priority I due to its risk level.

    Approved by (Provenza/Raber)

11) **Recommendation to Transition from IIA Red Book Standards to GAO Yellow Book Standards (Lugo)**
    Nathan Lugo presented a staff report recommending that the Division of Internal Audit transition from the IIA Red Book Standards to the GAO Yellow Book Standards. The Yellow Book standards are utilized by numerous government entities, including the City of Sacramento, and are more aligned with federal requirements. Additionally, these standards offer clearer guidance on performance audits and enhance transparency and credibility for the public. There will be no additional costs associated with this transition.
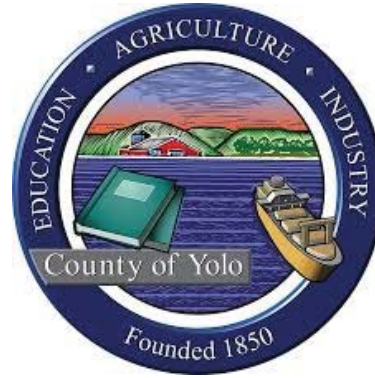
    Approved by (Provenza/Raber)

12) **Subcommittee comments and questions**
    Subcommittee members appreciate the work performed by Nathan Lugo.

13) Confirm next meeting date: November 14, 2024, at 11:30 to 12:30 pm
    Meeting confirmed.

14) Adjournment (Approximately 12:52 p.m.)

Yolo County, California

Vendor Performance Monitoring, October 30, 2024

Presenter: Mike Chimera, Manager

November 14, 2024

Objectives

1. Assess the end-to-end performance monitoring process, including setting performance standards, data collection, performance assessment, and reporting.

2. Evaluate the criteria and metrics used for vendor performance evaluation, key performance indicators (KPIs), and key monitoring documentation.

3. Evaluate the assignment of monitoring ownership and status reporting.

4. Analyze escalation procedures for non-compliance or non-performance.

5. Analyze service level agreements compliance to determine effective third-party risk management.

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Audit Strengths

- The General Services Department was supportive, cooperative, and responsive

- The Health & Human Services Agency ("HHSA") has implemented a standardized approach to vendor performance monitoring

- 20+ risks assessed, no high criticality findings

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Finding 1: Inadequate Vendor Performance Monitoring and Technology Utilization

Finding	Recommendation
The County does not have a centralized process for tracking and monitoring vendor performance, which includes the absence of performance evaluations. Vendor performance monitoring is not consistently performed across departments. The County's ERP system has the capability of supporting vendor performance monitoring. HHSA has more formal procedures in place for monitoring vendor performance.	We recommend developing procedures that can be utilized at the department level and Procurement Division for third-party service level agreements. The procedures should consist of completing vendor performance evaluations throughout the duration of the contract from award to project completion. After departments complete performance evaluations, the Procurement Division should update the Strategic Sourcing module within Infor for each respective supplier. The County could potentially utilize HHSA's procedures as a starting point.

Finding 2: Absence of Performance Metrics for Vendor Performance Evaluations

Finding	Recommendation
The County currently lacks a structured set of performance metrics to effectively monitor and evaluate vendor performance across departments.	We recommend the following for vendor performance evaluations: • Key Performance Indicators Development - straightforward and impactful KPIs that align with the County's objectives. Ex: delivery timelines, quality of goods or services, adherence to contract terms, and responsiveness. • Review Periodically - Arrange regular, concise review meetings to evaluate vendor performance against the established KPIs. • Receive Vendor Feedback - Invite vendors to share feedback on their performance metrics.

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Finding 3: Lack of Risk Monitoring Plan and Efforts to Monitor Subrecipients

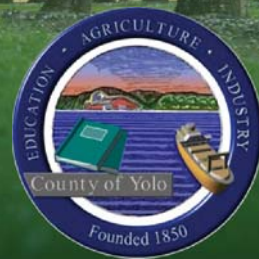| Finding	Recommendation

The County's Procurement Policy refers to a Risk Monitoring Plan that is being performed at the department level, however, such a plan could not be provided.
 	
The County has a "Subrecipient Risk Assessment Analysis" for entities to complete as the County considers issuing contract awards. While the assessment provides a solid foundation for assessing risk prior to contract award, the organization currently lacks formal documentation for evaluating and monitoring subrecipients.
	We recommend the following:
	
	• Risk Monitoring Plan - Develop a comprehensive risk monitoring plan that incorporates regular assessments of vendor performance, identification of potential risks, and strategies for risk mitigation.
	  ▪ Risk analysis, including evaluations
	  ▪ Risk response plans
	  ▪ Review regularly
	  ▪ Documentation needed
	  ▪ County-wide Training
	
	• Monitor Performance of Subrecipients - Develop formal procedures that are to be referred to for regular monitoring and performance evaluation of subrecipients.

Finding 4: Inadequate Documentation for Remediating Poor Vendor Performance

Finding	Recommendation
There is a lack of formal documented procedures for addressing and remediating poor vendor performance within the County. Although email support is retained and can be referenced, there is not a formalized process in place to formally document poor vendor performance, and no escalation procedures have been established.	We recommend the following to remediate poor vendor performance: • Incorporate Documentation Protocols - protocols for recording vendor performance issues and remediation actions • Structured Escalation Procedures - step-by-step process for escalating vendor related issues to the appropriate contacts • Centralized Documentation - universally completed by all County departments when vendor performance issues need to be escalated

Questions?

Yolo County, California

Vendor Performance Monitoring Audit

October 30, 2024

bakertilly

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Executive Summary

Background

Yolo County (the "County") requested assistance from Baker Tilly Advisory Group, LP (Baker Tilly) in performing an evaluation of the County's vendor performance monitoring efforts and service level agreements compliance to determine effective third-party risk management, service provider due diligence, and performance. The audit focused on the following:

- Established policies and procedures
- Development of key performance indicators (KPIs)
- Identification of key monitoring documentation
- Assignment of monitoring ownership
- Established status reporting
- Escalation procedures for non-compliance or non-performance

Baker Tilly performed testing to assess the effectiveness of vendor performance monitoring controls. Our evaluation encompassed various aspects of the General Services and Procurement Division's processes, including development, maintenance, and execution. This report offers recommendations to address gaps and enhance the County's process as it relates to vendor performance monitoring. The conclusions were gathered through staff interviews and an analysis of relevant organization-wide and departmental documents.

Scope

The scope of our audit included:

1. Assess the end-to-end performance monitoring process, including setting performance standards, data collection, performance assessment, and reporting.
2. Evaluate the criteria and metrics used for vendor performance evaluation, key performance indicators (KPIs), and key monitoring documentation.
3. Evaluate the assignment of monitoring ownership and status reporting.
4. Analyze escalation procedures for non-compliance or non-performance.
5. Analyze service level agreements compliance to determine effective third-party risk management.

Acknowledgements

Thank you to the County team members for their support and cooperation throughout the audit. Their insight and responsiveness in providing information was integral to the successful execution of this audit. Specifically:

Listing of Findings

The findings noted in this audit are listed in the table below. Additional information on the findings, recommendations, management's responses, and observations are located within the Detailed Report section.

Rating/Criticality:

- **High** - Matter is urgent and requires immediate action by Executive Management.
- **Medium** - Matter is a priority that requires Management's attention and a commitment to correct in a reasonable timeframe.
- **Low** - Corrective action is necessary as a result of an infrequent error or opportunity to improve internal controls or processes.
- **Observation** - This observation may not have resulted in an error, but internal controls or processes could be improved to better align with industry practices.

Finding #	Finding	Rating/Criticality
1	**Inadequate Vendor Performance Monitoring and Technology Utilization**	**Medium**
2	**Absence of Performance Metrics for Vendor Performance Evaluations**	**Medium**
3	**Lack of Risk Monitoring Plan and Efforts to Monitor Subrecipients**	**Medium**
4	**Inadequate Documentation for Remediating Poor Vendor Performance**	**Low**

Detailed Report

Background, Roles, and Responsibilities

Baker Tilly conducted an audit of the vendor performance monitoring efforts for the County. As a result, we performed testing to ensure that controls related to vendor performance monitoring are in place and operating effectively.

We evaluated numerous factors that may contribute to the vendor performance monitoring process, including but not limited to vendor contracts, policies/procedures, established metrics & KPIs, and vendor performance documentation.

The Health & Human Services Agency ("HHSA") has implemented a more standardized approach to vendor performance monitoring compared to other departments within the County. Its contract administrators follow dedicated policies and procedures that establish clear standards for active contract management. These standards include guidelines for categorizing contracts by risk level, setting requirements for meetings, defining performance outcomes and data expectations, and outlining administrative responsibilities. Additionally, programs within HHSA incorporate performance measures into their contracts when appropriate. The County should consider adopting similar policies and procedures across all departments to establish consistent and structured guidance for vendor performance monitoring.

The recommendations provided in this report are based on the information gathered through staff interviews and an analysis of pertinent organization-wide and departmental documentation. The interviews allowed Baker Tilly and the County to assess the internal control environment and effectiveness of the vendor performance monitoring process.

Audit Methodology

Baker Tilly's audit approach consists of the following phases:

1. Planning   2. Information Gathering   3. Analysis   4. Reporting

Ongoing project and change management

Phase I: Planning
- Identify communication channel, reporting relationships and responsibilities of project staff
- Assign key responsibilities
- Confirm the timing and format for project status meetings
- Conduct meetings to understand current processes and risks to refine the project workplans
- Confirm preliminary timelines
- Confirm work products to be delivered including expectations
- Conduct a kick-off meeting explaining the audit process, timeline, and expectations

Phase II: Information Gathering
- Develop and distribute information requests (e.g., vendor contracts, performance reports, monitoring policies, and procedures, etc.)
- Analyze performance monitoring systems and tools in use, and established policies and procedures
- Conduct interviews with contract managers, executive management, and other key stakeholders

Phase III: Analysis

- Assess the end-to-end performance monitoring process, including setting performance standards, data collection, performance assessment, and reporting
- Evaluate the criteria and metrics used for vendor performance evaluation, KPIs and key monitoring documentation
- Evaluate the assignment of monitoring ownership and status reporting
- Analyze escalation procedures for non-compliance or non-performance
- Analyze service level agreements compliance to determine effective third-party risk management
- Provide guidance and recommendations for improving internal control gaps and opportunities for improvements based on testing audit objectives 1-5.

Phase IV: Reporting

- Develop an audit report that summarizes the methodology and highlights key risks and findings
- Discuss any findings and process improvement recommendations with Management and obtain Management responses

Findings, Recommendations, and Management's Responses

Finding #	Finding	Recommendation	Rating	Management's Response
1	**Title:** Inadequate Vendor Performance Monitoring and Technology Utilization **Criteria:** Vendor performance should be formally tracked and monitored. Additionally, technology should be maximized to increase efficiency and effectiveness of vendor performance monitoring activities. Vendor performance should be formally documented following structured procedures developed by the County. **Condition:** The County does not have a centralized process for tracking and monitoring vendor performance, which includes the absence of performance evaluations. We noted that vendor performance monitoring is not consistently performed across departments. Within the supplier database in the Infor ERP system, the Procurement Division, specifically in the "Contract Manager" role, has the capability to upload performance evaluations, create milestones, and develop survey templates. Additionally, in the Strategic Sourcing module, supplier performance is utilized with event weighting to help determine which suppliers to award events. This tool is not consistently being used. As a result, the lack of centralized procedures around monitoring vendors across departments and inadequate technology utilization poses risks to the County. **Cause:** Vendor performance is not consistently monitored or tracked across departments. The County's technology is not being fully utilized to monitor and track vendor performance.	**Recommendation:** We recommend developing procedures that can be utilized at the department level and Procurement Division for third-party service level agreements. The procedures should consist of completing vendor performance evaluations throughout the duration of the contract from award to project completion. Once performance evaluations are completed at the department level, the Procurement Division should update the Strategic Sourcing module within Infor for each respective supplier. The key performance criteria that should be documented with weighted scoring (1-5) includes: 1. Supplier's Overall Performance 2. Quality of Work 3. Timeliness of Performance 4. Response Time 5. Responsiveness to County's Needs Utilizing the technology currently housed at the County will allow the County to maximize efficiency and effectiveness of a formalized vendor performance monitoring plan.	**Medium**	**Management's Response:** Management partially concurs with this finding. While management acknowledges that the County does not currently have a centralized process for tracking and monitoring vendor performance, it should be noted that the responsibility for vendor monitoring rests with each individual department. It is technically feasible to utilize the Supplier Performance Evaluation tool within Infor CloudSuite to record supplier ratings; however, these ratings are intended solely for informational purposes. For instance, a negative rating does not inhibit a requester from initiating a contract proposal, approving a contract, or processing vendor payments. Additionally, it is important to highlight that in the Infor system, suppliers are linked only to contracts, not to Purchase Orders, which further limits the County's ability to comprehensively track vendor performance. **Action Plan:** Procurement will develop standardized procedures to serve as a foundation for all departments to track and monitor vendor performance consistently. These procedures will ensure a

Finding #	Finding	Recommendation	Rating	Management's Response
	Consequence: Financial loss, reputational damage, and operational inefficiencies			uniform approach across the County and assist in identifying and addressing any performance issues. To ensure that the procedures effectively mitigate identified risks, Procurement will collaborate with Internal Audit during the development process, ensuring that all risk areas are appropriately addressed and that the procedures align with best practices and regulatory requirements. **Owner/Responsible:** Tonia Murphy **Personnel:** Procurement Division & Internal Audit **Target Completion Date:** July 1, 2025

Finding #	Finding	Recommendation	Rating	Management's Response
2	**Title:** <u>Absence of Performance Metrics for Vendor Performance Evaluations</u> **Criteria:** Key performance indicators should be established and implemented for vendor performance monitoring. Without standardized metrics, evaluations of vendor performance are inconsistent, which leads to unreliable assessments. **Condition:** The County currently lacks a structured set of performance metrics to effectively monitor and evaluate vendor performance across departments. This gap has led to challenges in assessing vendor reliability, quality of service, and overall contribution to the County's objectives and goals. **Cause:** The Procurement Division has identified best practice KPIs but have not formally established or implemented any metrics in monitoring vendor performance due to staffing implications. Per the Procurement Division, they "hope to implement best practices of such metrics, when fully staffed again." **Consequence:** Inconsistent vendor evaluations, difficulty in identifying vendor related issues, and reduced accountability	**Recommendation:** We recommend the following for vendor performance evaluations: 1. Key Performance Indicators Development - Develop a set of straightforward and impactful KPIs that align with the County's objectives. Emphasize metrics such as delivery timelines, quality of goods or services, adherence to contract terms, and responsiveness. 2. Review Periodically - Arrange regular, concise review meetings to evaluate vendor performance against the established KPIs. This approach allows for ongoing monitoring while minimizing the impact on a team that lacks resources. 3. Receive Vendor Feedback - Invite vendors to share feedback on their performance metrics. This collaborative approach can help refine the KPIs and strengthen any partnerships.	**Medium**	**Management's Response:** Management agrees with this finding. **Action Plan:** Procurement will collaborate with the Department of Financial Services to implement best practices as formal Key Performance Indicators (KPIs) for vendor performance monitoring when staffing resources allow. The development of these KPIs will ensure that vendor performance is consistently tracked and evaluated across all departments. Additionally, priority will be given to establishing performance metrics for subrecipients, ensuring compliance with federal and programmatic requirements. This phased approach will provide departments with the necessary tools to effectively monitor both vendors and subrecipients, mitigating risks and enhancing accountability. **Owner/Responsible:** Tonia Murphy **Personnel:** Procurement Division & Department of Financial Services **Target Completion Date:** July 1, 2025

Finding #	Finding	Recommendation	Rating	Management's Response

3	**Title:** Lack of Risk Monitoring Plan and Efforts to Monitor Subrecipients
	
	Criteria: Effective vendor management demands a comprehensive risk monitoring plan to identify, evaluate, and mitigate potential risks related to vendor performance. In line with best practices and regulatory guidelines, the County should establish mechanisms to consistently monitor and assess the performance of subrecipients, ensuring adherence to contractual obligations and regulatory standards.
	
	Condition: The County's Procurement Policy refers to a Risk Monitoring Plan that is being performed at the department level, however, such a plan could not be provided. Additionally, the County has a "Subrecipient Risk Assessment Analysis" for entities to complete as the County considers issuing contract awards. While the assessment provides a solid foundation for assessing risk prior to contract award, the organization currently lacks formal documentation for evaluating and monitoring subrecipients.
	
	Cause: We noted that the County does not have formal documented procedures around subrecipient monitoring efforts. Additionally, the risk monitoring plan(s) referenced in the County's Procurement Policy could not be provided upon request.
	
	Consequence: Regulatory non-compliance, risk of fraud, and financial loss
		Recommendation: We recommend the following:
		
		1. Risk Monitoring Plan - Develop a comprehensive risk monitoring plan that incorporates regular assessments of vendor performance, identification of potential risks, and strategies for risk mitigation. More specifically, the risk monitoring plan should capture the following:
		
		  1. Risk analysis, including evaluations – identifying, assessing, and prioritizing risks
		  2. Risk response plans – documents that outline strategies to address potential risks
		  3. Review regularly – periodic reviews and analysis of risks to detect new potential risks
		  4. Documentation needed – documentation to include risk response plans and monitoring reports. Plan to include necessary information required
		  5. Training – county-wide training on how to recognize and evaluate potential risks
		
		2. Monitor Performance of Subrecipients - Develop formal procedures that are to be referred to for regular monitoring and performance evaluation of subrecipients. Ensure timelines
			Medium	**Management's Response:** Management agrees with this finding.
				
				Action Plan: As part of the standardized procedures for tracking and monitoring vendor performance, Procurement will develop a framework to identify, assess, and prioritize vendor-related risks. This framework will include risk response plans with strategies to mitigate those risks, and a schedule for periodic reviews to ensure continuous oversight. All processes will be documented, and Procurement will provide training for department staff on risk identification, management, and performance monitoring. Department heads will be responsible for ensuring adherence to the plan and its procedures.
				
				Procurement will also work with Internal Audit to develop formal procedures for the monitoring of subrecipients. These procedures will include compliance requirements and performance metrics to ensure subrecipient compliance and accountability.
				
				Owner/Responsible: Tonia Murphy
				
				Personnel: Procurement Division & Internal Audit

Finding #	Finding	Recommendation	Rating	Management's Response
		are established and performance metrics are incorporated.		**Target Completion Date:** July 1, 2025
4	**Title:** Inadequate Documentation for Remediating Poor Vendor Performance **Criteria:** Poor vendor performance and remedial actions taken should be formally documented following structured procedures developed by the County. **Condition:** There is a lack of formal documented procedures for addressing and remediating poor vendor performance within the County. The absence of structured documentation hinders the ability to effectively manage and improve vendor relationships and may result in the County accepting subpar goods or services without proper or timely remediation. Although email support is retained and can be referenced, there is not a formalized process in place to formally document poor vendor performance, and no escalation procedures have been established. **Cause:** The County does not have formal procedures established around remediating poor vendor performance. **Consequence:** Unclear remediation, accountability concerns, lack of historical evidence	**Recommendation:** We recommend the following related to remediate poor vendor performance: 1. Incorporate Documentation Protocols - Establish and implement standardized documentation protocols for recording vendor performance issues and remediation actions. This could include templates for incident reports, action plans, and follow-up reviews. 2. Structured Escalation Procedures - Create a detailed document that outlines the step-by-step process for escalating vendor related issues to the appropriate contacts. This should include who to contact, how to contact, and what information is needed. 3. Centralized Documentation - Utilize a documentation method that is universally completed by all County departments when vendor performance issues need to be escalated. The formalized documentation would be included in the supplier's file within their performance evaluation.	**Low**	**Management's Response:** Management agrees with this finding. **Action Plan:** Procurement will identify and document a standardized remediation process for addressing poor vendor performance. This process will be shared with departments as formal guidance to ensure consistent and effective management of vendor performance issues. **Owner/Responsible:** Tonia Murphy **Personnel:** Procurement Division **Target Completion Date:** July 1, 2025

Observations and Recommendations

Observation #	Observation	Recommendation
1	**Title:** Vendor Performance Contract Clauses **Observation:** During the testing phase, we examined a sample of third-party service level agreements, and we identified a few contracts with vendors that did not include specific language related to vendor performance monitoring. Specifically, the contract either lacked clearly defined milestones, performance measures, deliverables, and/or service levels. Additionally, there were instances where contracts did not include the necessary language outlining desired outcomes, including quantifiable objectives that may be performance-based. This omission could lead to challenges in assessing and ensuring the vendor's adherence to agreed-upon performance standards.	**Recommendation:** We recommend including clauses in all service level agreement contracts that outline performance expectations, KPIs, and consequences for non-compliance. Additionally, we recommend regular performance reviews, where a schedule can be established for regular performance reviews and assessments. Key clauses for vendor contract development include: • Insurance • Right to audit • Default/termination • Renewal • Compliance with laws/regulations • Indemnification • Liability • Subcontractors • Conflicts of interest • Professional standards • Invoice requirements – numbering, specific goods/services, etc. • Outline specific goods/services in the contract • Performance expectations • KPIs • Consequences of non-compliance

Best Practices

To provide effective guidance on vendor performance monitoring, it is essential to understand best practices throughout the entire procurement process. While our recommendations are specifically tailored to vendor performance monitoring, incorporating procurement best practices will enhance risk mitigation, improve decision-making, and ensure quality assurance.

National Association of State Procurement Officials (NASPO)[1]

The NASPO publication of the *State & Local Government Procurement: A Practical Guide* provides guidance for procurement in the public sector. This practical guide includes a comprehensive list of recommended best practices. Key recommendations that would positively impact the County, and are directly from the publication, are highlighted here:

- Governance
    - "The central procurement office and the Chief Procurement Officer should establish measurements for assessing the performance of the procurement process, such as processing times, supplier performance data, and client survey responses."
- Strategies and Planning
    - "Public procurement officers must be encouraged to think strategically about each procurement and ensure that they have the right tools and data to make strategic decisions."
- Contractor Performance
    - "Assess contract performance both during and at the end of the contract"
    - "Policies should be in place up front to insulate performance evaluations and contract disagreements from undue political influence. The contract should clearly identify milestones, expectations for service levels, output measures, and standards."
    - Monitoring performance is an iterative process. Periodic reviews for high-value procurements foster collaboration, addressing challenges and identifying cost-saving opportunities.
    - Optimize with frequent technology-driven monitoring using diverse feedback sources, including contractors, citizens, consultants, and community groups.
    - Collect meaningful performance data, share it with stakeholders, and leverage information technology for efficient data collection and evaluation.
    - Finally, take advantage of less adversarial approaches to resolving disputes and handling performance issues, like mediation or arbitration.

Auditing Procurement in the Public Sector - Post Award[2]

To maximize the effectiveness of post-award contract administration, it is pivotal to clearly define the roles and responsibilities of contract managers and administrators, detailing their involvement in performance oversight, change management, document upkeep, dispute resolution, and contract finalization. Implementing robust monitoring systems with specific Key Performance Indicators (KPIs), fostering proactive adaptation to changes, maintaining centralized and accessible document repositories, establishing structured dispute resolution protocols, and outlining systematic contract closure processes are vital steps towards

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[1] https://www.naspo.org/

[2] The Institute of the Internal Auditors, Auditing Procurement in the Public Sector, Practice Guide, (November 2021)

enhancing efficiency and ensuring compliance. Embracing these strategic measures will fortify the organization's ability to navigate post-award contract administration seamlessly. Implementation of the above and following can foster more favorable and successful contract outcomes:

- Developing a contract administration plan containing operational details of the contract to monitor contract performance.
- Segregating duties of individuals who are responsible for receiving, paying or providing program expertise.

Auditing Procurement in the Public Sector - The Organization for Economic Co-operation and Development (OECD) Issued Guidance[2]

The OECD serves as a forum for governments worldwide to collaborate on economic policies and address global challenges. The OECD aims to promote economic growth, prosperity, and sustainable development through research, policy analysis, and the exchange of best practices. The OECD contains the following recommendations:

- Developing performance measurement systems with KPIs focused on the outcomes of procurement processes.
- Using the performance data to inform strategic policy-making and to develop strategic plans that articulate expectations and responsibilities.

2014 Vendor Risk Management Benchmark Study – Vendor Risk Identification and Analysis; Program Governance; and Contracts[3]

The Vendor Risk Management Survey was conducted by the Shared Assessments Program and Protiviti. The Shared Assessments Program is a trusted source in third-party risk management, with resources to effectively manage the critical component of the vendor risk management lifecycle, creating efficiencies, and lowering costs for all participants. Using governance as the foundational element, this survey is designed to review the components of a comprehensive vendor risk management program. The study contains the following recommendations and observations:

- Organizations have well-defined and established recordkeeping procedures and approval processes for vendors that take the needs of stakeholders in the organization into account.
- Organizations have measurable assessment of vendor performance, as well as disseminating and discussing these assessment metrics with management and other stakeholders in the organization to ensure targets for vendor performance are met.
- Organizations are not allocating enough resources to ensure key risk and performance targets are met.
- Management must communicate the importance of risk-based vendor management to the organization and the importance of using key risk and performance metrics to inform decision-making.
- Many organizations have yet to define or establish a process for embedding performance-based provisions in contracts – including contract review criteria and schedules consistent with these indicators.

Third-Party Risk Management Lifecycle Guide[4]

Third parties are extensions of an organization and their actions can have a direct impact on compliance efforts and brand reputation. This requires companies to survey, assess, and follow-up with dozens, hundreds, or even thousands of third parties, and take action against those not in compliance. The lifecycle model contains the following components: Planning, Due Diligence, Assess & Monitor, and Remediate. Within the paper, each component has a plethora of relevant information and considerations related to the vendor performance monitoring process. Several of these recommendations and considerations include the following:

- Creating an evaluation plan prior to signing contracts will help mitigate risks before the relationship is established. Do not rely solely on experience or prior knowledge before committing to a contract.
- Once a third party is selected and contracted, it is important to ensure it is meeting or exceeding expectations. Ongoing monitoring of a third party's performance, as well as periodic assessments, is a great way to warrant quality work while remaining compliant.

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[3] Shared Assessments & Protiviti, 2014 Vendor Risk Management Benchmark Study (2014)

[4] Lockpath, Third-Party Risk Management Lifecycle Guide

- Issue and incident remediation is a key part of sustaining the risk management lifecycle. Without remediation, processes quickly break down, creating inefficiencies and increasing risk and noncompliance. Having a plan in place will help speed the remediation process and maintain compliance.

Risk Management Guidance[5]

This bulletin provides guidance for assessing and managing risks associated with third-party relationships. The bulletin contains the following recommendations about an effective risk management process:
- Proper due diligence in selecting a third party
- Written contracts that outline the rights and responsibilities of all parties
- Ongoing monitoring of the third party's activities and performance
- Contingency plans for terminating the relationship in an effective manner
- Clear roles and responsibilities for overseeing and managing the relationship and risk management process
- Documentation and reporting that facilitates oversight, accountability, monitoring, and risk management.

Maximizing Subrecipient Monitoring: Best Practices and Uniform Guidance[6]

Subrecipient management is a vital aspect of managing grants and contracts effectively. As governments, local organizations, and institutions increasingly rely on subawards to achieve their mission, ensuring proper oversight of subrecipients becomes paramount. Subrecipient monitoring is important because it is federally required as codified in 2 CFR Part 200, which establishes the framework for federal grant management, including subrecipient monitoring requirements. The document contains the following recommendations:
- Implement robust processes for selecting subrecipients, including assessing organizational capacity, financial stability, and past performance.
- Conduct risk assessments to identify potential areas of non-compliance or financial risk associated with subrecipient activities.
- Formalize the relationship with a detailed subaward agreement that clearly outlines the scope of work, performance expectations, reporting requirements, and terms and conditions.
- Implement regular monitoring activities to assess subrecipient performance and compliance, including site visits, desk, reviews, and reconciliations. This also includes documenting activities, including corrective action plans.

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[5] Risk Management Guidance; http://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html

[6] EisnerAmper, Maximizing Subrecipient Monitoring: Best Practices and Uniform Guidance (February 2024); Subrecipient Monitoring Best Practices and Uniform Guidance (eisneramper.com)

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AUDIT SUBCOMMITTEE STAFF REPORT

DATE: November 14, 2024

ITEM: #8

FROM: Nathan Lugo, Internal Audit Manager

SUBJECT: Status Update on the Division of Internal Audit and Ongoing Audits

Purpose
The purpose of this staff report is to provide the Audit Subcommittee with an update on the current status of the Division of Internal Audit, including an overview of operations, staffing, resources, and the progress of audits that have been initiated to date.

Background
The Division of Internal Audit plays a critical role in ensuring that Yolo County's operations are conducted efficiently, effectively, and in compliance with applicable laws and regulations. As part of our commitment to transparency and accountability, regular updates are provided to the Financial Oversight Committee and the Audit Subcommittee.

Operational Updates

1. **Approval of FY 2024-25 Audit Plan**
   - On September 12, the Audit Subcommittee approved the Proposed FY 2024-25 Work Plan. The finalized plan was then shared with department heads, the Board of Supervisors, and the County Administrator's Office to enhance transparency and alignment with county objectives. It has also been posted on the Internal Audit Division's website, giving stakeholders and the public access to planned audit activities and focus areas for the fiscal year.

2. **Changes to Administrative Reporting Lines**
   Nearly all substantive changes to transition the Division of Internal Audit to report administratively to the Clerk of the Board have been completed. However, after an adequate period in this role, the Internal Audit Manager has assessed the current governance structure and noted that it does not align with best practices. These practices typically recommend that Internal Audit report directly to an executive-level position, enhancing independence and supporting more effective oversight across county operations.

- Shifting administrative reporting to the CAO could improve strategic alignment with the county's governance framework, increase visibility of audit findings, and enable quicker executive responses to cross-departmental risks. This adjustment would further reinforce Internal Audit's independence and strengthen its role as an objective assurance function.

- The Internal Audit Manager intends to bring a staff report to the Audit Subcommittee in early 2025, addressing these alignment concerns and recommending improvements to the reporting structure.

3. **Internal Audit's Management of the Whistleblower Hotline**
   - The Division of Internal Audit manages the County's whistleblower hotline, conducting investigations or referring issues to appropriate departments per the County's Whistleblower Policy. Currently, Internal Audit is handling four open cases, with plans to close them within six weeks. The hotline serves as a reporting mechanism for various complaints, including HR and personnel issues, thus functioning for both fraud-related and personnel-related concerns.

   - During the HR Director vacancy, Internal Audit temporarily managed HR and personnel-related complaints to ensure continuity. With the onboarding of a new HR Director, Internal Audit has transferred responsibility for HR-specific cases and provided guidance on hotline procedures. This collaboration aims to formalize the referral process, establishing clear guidelines for routing HR-related matters directly to HR. This delineation of responsibilities will enhance efficiency and ensure each division investigates matters within its area of expertise, supporting a cohesive approach to whistleblower and personnel issues.

4. **Initiative to Update and Report on Open Audit Recommendations**
   - The Division of Internal Audit has initiated a targeted effort to ensure County departments address open audit recommendations in a timely and effective manner. Recognizing the varying volume and complexity of recommendations across departments, Internal Audit tailored its approach, engaging in multiple communications and, where warranted, conducting in-person meetings to obtain accurate status updates. This approach was especially necessary for older recommendations, which required careful evaluation for continued relevance and feasibility. Although this collaborative process extended the timeline, it underscores Internal Audit's commitment to ensuring accountability and effective implementation of recommendations. A comprehensive report on open recommendations will be presented to the Audit Subcommittee at its first meeting in 2025, with semi-annual updates planned thereafter.

Staffing

1. **Limited Staff**

   The Division of Internal Audit is currently operating with limited staff—an Audit Manager and an Auditor III. This staffing shortage has impacted our ability to initiate new audits, resulting in delays to the planned audit schedule. Despite these challenges, the Division has prioritized ongoing audits and administrative projects to maintain continuity and support essential audit functions. To help bridge this staffing gap, we are leveraging our on-call auditors, which allows us to advance critical audits while we actively explore longer-term solutions to ensure we meet the full scope of our audit plan and make timely progress on audit objectives.

2. **Auditor III Recruitment**

   The Division of Internal Audit has been actively recruiting for an Auditor III position, which has now been open for approximately four months. While the number of applications meeting minimum qualifications has been relatively low, a recent surge in applications is promising. We are planning to interview another set of candidates in late November. To ensure we reach a suitable candidate, we intend to keep the recruitment open through the holiday season and into the new year, with the goal of filling this critical role as soon as possible.

3. **HHSA MOU for Fiscal Monitoring**
   - The Division of Internal Audit is awaiting HHSA's final review of the Memorandum of Understanding (MOU) to begin recruiting for an Auditor II position. This role will enable the Division to provide fiscal monitoring services directly to HHSA, reducing the need for outsourced auditors for subrecipient and contract monitoring. Due to recruitment timing, outsourcing will still be required for the upcoming fiscal monitoring cycle; however, we anticipate having the Auditor II in place to assume these responsibilities by FY 2025-26.

Status of Ongoing Audits

1. **Vendor Performance Monitoring Audit**
   - The Division of Internal Audit initiated a Vendor Performance Monitoring Review in May 2024 to evaluate the effectiveness of the County's vendor performance assessments and compliance with service level agreements (SLAs), focusing on third-party risk management. Completed in October 2024, the audit identified four key findings:

     A. Inadequate Vendor Performance Monitoring and Technology Utilization: The County currently lacks centralized procedures to track vendor performance and does not fully leverage available technology for vendor evaluations, limiting consistency and effectiveness in monitoring vendor relationships.

     B. Absence of Performance Metrics for Vendor Evaluations: Standardized performance metrics (KPIs) are not in place, leading to inconsistent vendor evaluations across departments.

C. <u>Lack of a Risk Monitoring Plan for Subrecipients</u>: There is no formalized plan for monitoring vendor risks, particularly concerning subrecipient monitoring, which increases the risk of unaddressed compliance and performance issues.

D. <u>Insufficient Documentation for Addressing Poor Vendor Performance</u>: The County lacks formal documentation and escalation procedures to address instances of poor vendor performance, affecting accountability and the ability to improve vendor relationships.

- To address these findings, Internal Audit has collaborated with the Procurement Division to develop management action plans that adequately address the identified risks and establish a framework for more effective vendor performance management. These plans will introduce standardized metrics, risk monitoring procedures, and documentation practices to enhance vendor oversight. A briefing on the audit findings is scheduled for the November 14, 2024, Audit Subcommittee meeting.

2. **Audit of Payroll Processing (HR)**
   - In July, the Division of Internal Audit initiated an audit of payroll, originally carried over from the FY 2023-24 audit plan. Working closely with the Interim HR Director, the audit scope was expanded to encompass a comprehensive review of internal controls over critical payroll processes, including health benefit calculations, leave balances, employee pay rates, retros/overpayments, and W-2 issuance and reporting. Planning activities are underway, with process interviews being conducted with payroll staff to gather insights and documentation. The Division anticipates conducting fieldwork and reporting on findings in early 2025, with the goal of identifying areas for improvement and strengthening payroll controls.

3. **Performance Audit of HHSA Administrative Branch**
   o In accordance with the Division of Internal Audit's FY 2024-25 approved audit plan, we are preparing to initiate a performance audit of the Health and Human Services Agency (HHSA) Administrative Branch next month. This audit aims to provide recommendations for streamlining processes, enhancing operational efficiencies, applying best practices, and improving performance monitoring within the branch. The preliminary objectives of the audit are as follows:

   A. Evaluate the current organizational structure and operations to determine whether resource levels are adequate to meet the needs of HHSA.

   B. Identify opportunities to streamline administrative services in relation to centralized County functions and enhance service delivery.

   C. Review policies, procedures, and practices to identify potential efficiencies, increased use of technology, and best practice applications.

   D. Assess departmental performance measures to ensure they effectively capture HHSA's outputs and outcomes.

COUNTY OF YOLO

CALIFORNIA

Division of Internal Audit

Nathan Lugo, Internal Audit Manager

AUDIT SUBCOMMITTEE STAFF REPORT

DATE: November 14, 2024

ITEM: #9

FROM: Nathan Lugo, Internal Audit Manager

SUBJECT: Proposal for Standardized Internal Audit Reporting Structure

Purpose

This staff report seeks the Audit Subcommittee's approval to establish a standardized reporting structure for the Division of Internal Audit's activities. The proposed structure not only formalizes a consistent approach for updating the Audit Subcommittee on key areas—such as audit reports, risk assessments, significant audit findings, the status of open audit recommendations, and whistleblower hotline activities—but also serves as a mechanism to determine when reports should be escalated to the full Board of Supervisors. This approach will support informed decision-making, enhance transparency across critical internal audit functions, and ensure alignment of Internal Audit's communications with county governance objectives.

Background

The Division of Internal Audit currently lacks a standardized reporting structure to ensure that audit findings, activities, and other relevant information are communicated consistently and comprehensively to stakeholders. This gap has led to variations in the quality and frequency of updates provided, which can limit the ability of county management, the Audit Subcommittee, and the Board of Supervisors to maintain effective oversight. Stakeholder feedback has indicated a need for a structured approach to reporting, as the current ad hoc process can cause delays or inconsistencies in communication.

A standardized reporting approach would address these issues by providing a clear, recurring overview of critical areas, including annual risk assessments and work plans, issued audits with significant findings, the status of open audit recommendations, and whistleblower hotline activities. By establishing a consistent, structured framework, the Division aims to enhance transparency, improve accountability, and support timely actions on audit-related issues across the county. This approach ensures that all stakeholders remain well-informed and equipped to respond promptly to areas of concern.

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Best Practices of Internal Audit Reporting

Industry standards emphasize the importance of a clear, structured, and consistent approach to internal audit reporting. These practices not only enhance transparency and accountability but also ensure that stakeholders, including senior management and governing bodies, are kept informed of audit activities and findings. Best practices from the Government Accountability Office (GAO) and the Institute of Internal Auditors (IIA) offer frameworks that guide internal audit functions in developing effective reporting systems.

The Government Accountability Office's (GAO) Yellow Book Standards and the Institute of Internal Auditors' (IIA) Red Book Standards both underscore the importance of clear, timely, and comprehensive reporting in audits. GAO standards require that performance audit reports communicate objectives, scope, methodology, findings, and recommendations concisely, providing stakeholders with actionable insights and ensuring that findings remain relevant for prompt corrective action. Similarly, the IIA's International Professional Practices Framework (IPPF) outlines standards for effective communication with senior management and the board. IIA Standard 2440 mandates timely, objective reporting of audit results, while Standard 2060 requires regular updates on audit progress, risks, and control issues. Standard 2410 further specifies that reports should clearly convey audit objectives, scope, results, and recommendations. Both frameworks emphasize the importance of follow-up to ensure management addresses findings, promoting accountability and continuous improvement within the organization.

Recommendation

It is recommended that the audit function adopt a structured reporting framework to ensure consistent, clear, and timely communication of work plans, audit findings and recommendations, and whistleblower hotline activities. This framework should align with industry standards, such as those from the GAO and IIA, to enhance transparency, support accountability, and provide stakeholders—including senior management and governing bodies—with the information needed to make informed decisions and address areas of concern effectively.

The table below outlines the proposed reporting structure, which organizes how and to whom key reports are communicated. This structure ensures comprehensive oversight while keeping both the Audit Subcommittee and the Board of Supervisors informed of critical audit developments. Each report type is suitable for the specific needs of these governing bodies, fostering transparency, and supporting accountability at each oversight level.

Type of Report	Frequency	Audit Subcommittee	Board of Supervisors
Annual Risk Assessment and Audit Plan	Annual	✓	✓
Audit Reports (as completed)	As completed	✓	✓
Open Audit Recommendation Reports	Semi-annual	✓	
Whistleblower Hotline Activity Reports	Semi-annual	✓	
Annual Internal Audit Activity Report	Annual		✓
Independence and Quality Assessment Reports	Annual	✓	
Other Report (Special investigations, AUPs, etc.)	As requested	✓	TBD

All Division of Internal Audit reports will be presented to the Audit Subcommittee as part of the quarterly subcommittee meetings, except for the annual Internal Audit Activity Report, which will be provided directly to the Board of Supervisors. This annual report will summarize key activities and developments

throughout the year, highlighting the most significant audit activities already presented to the Audit Subcommittee, including updates on open audit recommendations, whistleblower hotline activities, and other pertinent audit functions.

For the annual risk assessment and audit plan, as well as completed audit reports, the Audit Subcommittee will first review and approve these items before they are submitted to the full Board of Supervisors. This process allows the Audit Subcommittee to exercise its review function, ensuring that audit priorities and completed audits align with countywide risk management and performance objectives before elevating them to the Board.

The structured reporting framework also grants the Audit Subcommittee the discretion to escalate any additional reports or significant findings to the Board of Supervisors, as needed. This flexibility enables the Audit Subcommittee to bring critical issues to the Board's attention promptly, should any significant risks, findings, or recommendations require broader awareness or further action at the highest level of county governance.

Implementation

To establish the structured reporting framework, the Division of Internal Audit will develop standardized report templates and schedules to ensure consistent and clear communication. Initial steps include finalizing reporting protocols and templates for each report type. Quarterly reporting to the Audit Subcommittee will begin immediately upon adoption, with the first annual Internal Audit Activity Report to the Board of Supervisors scheduled for January 2025. Regular feedback from the Audit Subcommittee and Board will be gathered through surveys and stakeholder meetings to refine and enhance the framework, ensuring it continues to meet stakeholders' needs effectively.

Conclusion

Establishing a structured reporting framework for the Division of Internal Audit represents a critical step toward enhancing transparency, accountability, and alignment with county governance objectives. By implementing a consistent and comprehensive approach to reporting audit activities, the framework will provide county management, the Audit Subcommittee, and the Board of Supervisors with timely and actionable insights into key risk areas and audit outcomes. This structured communication will support informed decision-making at all levels, ensuring that the Division of Internal Audit continues to contribute effectively to the county's mission of good governance and operational excellence, while also positioning Internal Audit as a vital resource for oversight and improvement across all departments.

COUNTY OF YOLO   Division of Internal Audit

CALIFORNIA   Nathan Lugo, Internal Audit Manager

AUDIT SUBCOMMITTEE STAFF REPORT

DATE: November 14, 2024

ITEM: #10

FROM: Nathan Lugo, Internal Audit Manager

SUBJECT: Request to Extend Contracts with On-Call auditors for Additional 12 Months

Purpose

To request a 12-month extension of existing contracts with on-call audit firms to ensure the Division of Internal Audit maintains critical audit support in specialized areas and has resources available during times of limited internal staffing. This extension is the second and final one permitted under these agreements.

Background

In March 2022, the Division of Internal Audit entered into contracts with Moss Adams, Eide Bailly, and Baker Tilly to secure on-call auditing support. The purpose of these agreements was to supplement the Division's expertise in specialized audit areas, such as IT governance and federal subrecipient monitoring, as well as to ensure continuity in audit coverage during periods of reduced staffing.

Since implementation, the availability of these on-call services has proven essential for Yolo County, enhancing audit capacity and responsiveness to evolving risks. These firms have consistently met the Division's needs, contributing to Yolo County's effective audit coverage and risk management.

Reason for Recommendation

The on-call audit services provided by Moss Adams, Eide Bailly, and Baker Tilly have been crucial over several fiscal years, allowing the Division of Internal Audit to address specialized and high-risk audit areas and provide consistent support across various County functions. Extending these contracts for an additional 12 months will ensure Yolo County's audit needs are met effectively in the following ways:

1. **Consistency in Audit Coverage**: This extension ensures uninterrupted support for ongoing and planned audits, allowing the Division to address risks promptly without disruption due to internal resource limitations.
2. **Specialized Expertise**: These firms bring essential expertise in complex areas such as IT audits, federal compliance, and subrecipient monitoring, filling critical gaps in the Division's in-house capabilities. Their specialized knowledge is vital for high-risk and complex audits.

3. **Flexibility in Resource Allocation**: The on-call contracts have been essential in managing periods of low staffing, ensuring that audit projects continue as scheduled without compromising scope or effectiveness.

Recommendation

The Division of Internal Audit requests that the Audit Subcommittee approve a 12-month extension of the following on-call audit service agreements:

- Agreement PO4236 with Moss Adams for Internal Auditing Services
- Agreement PO4237 with Eide Bailly for Internal Auditing Services
- Agreement PO4209 with Baker Tilly for Internal Auditing Services

This extension will allow the Division to continue addressing audit needs effectively and responsively in high-risk areas.

Fiscal Impact

The costs associated with the proposed 12-month contract extensions are accounted for within the Division's existing budget for contracted audit services. No additional funding is required, as the current budget allocations for the fiscal year 2024-25 are sufficient to cover the extension of these agreements. Approval of this extension will ensure the Division of Internal Audit can continue leveraging on-call services without impacting other budgeted programs or initiatives.

Conclusion

The Division of Internal Audit recommends that the Audit Subcommittee approve the final 12-month extension of on-call audit service agreements with Moss Adams (PO4236), Eide Bailly (PO4237), and Baker Tilly (PO4209) to ensure robust and flexible audit capacity. This extension is essential for meeting Yolo County's audit needs and managing risks effectively over the coming year.

Meeting of the Yolo County Audit Subcommittee

November 14, 2024, 11:30am
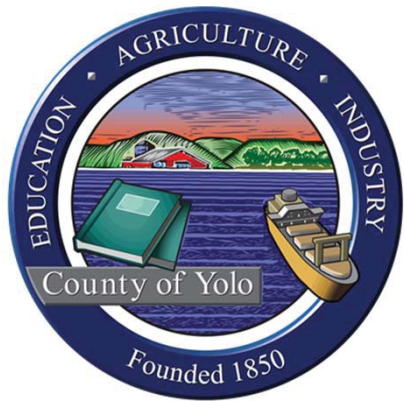
Nathan Lugo, CPA, CIA, CFE, Audit Manager
Noemy Mora-Beltran, Senior Internal Auditor

Division of Internal Audit
County of Yolo

Agenda

8. Status Update on Division of Internal Audit and Ongoing Audits (Lugo/Mora-Beltran)

9. Proposal for Standardized Internal Audit Reporting Structure(Lugo)

10. Request to Extend Contracts with On-Call Auditors for Additional 12 Months(Lugo)

Item #8 – Status Update on Division of Internal Audit and Ongoing Audits

Background

▶ The Division of Internal Audit works to help ensure Yolo County's operations are efficient, effective, and compliant with laws, while providing regular updates to the Audit Subcommittee to support transparency and accountability.

▶ **Operational Updates**

   o **FY2024-25 Audit Plan:** The Audit Subcommittee approved the FY 2024-25 Audit Plan, which has been distributed to county stakeholders and made public on the Internal Audit Division's website.

   o **Administrative Reporting Lines:** The Division of Internal Audit has completed most changes to report administratively to the Clerk of the Board; however, to better align with best practices for independence and effectiveness, the potential of reporting administratively to the CAO is being considered, with a staff report on recommended improvements planned for early 2025.

   o **Whistleblower Hotline**: The Division of Internal Audit manages the county's whistleblower hotline, with four open cases expected to close within six weeks; HR-related cases have now been redirected to the new HR Director, establishing a clear referral process between Internal Audit and HR.

Item #8 – Status Update on Division of Internal Audit and Ongoing Audits (cont.)

▶ **Operational Updates**

- **Open Audit Recommendations**: Internal Audit has undertaken an initiative to ensure timely departmental responses to open audit recommendations, with a comprehensive report scheduled for early 2025 and semi-annual updates planned.

▶ **Staffing and Resources**

- **Limited Staff:** Limited staffing has delayed the initiation of new audits, but on-call auditors are being utilized to maintain critical audit functions.

- **Auditor III Recruitment**: The recruitment for an Auditor III has been open for four months, with recent promising applications and interviews scheduled for late November, while keeping recruitment open into the new year.

- **HHSA MOU for Fiscal Monitoring**: An MOU with HHSA will allow Internal Audit to recruit an Auditor II to perform fiscal monitoring for HHSA, with outsourcing continuing until FY 2025-26.

Item #8 – Status Update on Division of Internal Audit and Ongoing Audits (cont.)

▶ **Ongoing Audits**

- o **Vendor Performance Monitoring Audit:** The Vendor Performance Monitoring Review identified key findings, including inadequate vendor tracking, lack of performance metrics, missing risk monitoring plans for subrecipients, and insufficient documentation for poor vendor performance; action plans are being developed with the Procurement Division to address these gaps and establish a standardized oversight framework.

- o **Payroll Processing Audit:** The Payroll Processing audit, expanded to include review of controls over critical payroll functions, is underway with the report expected in early 2025.

- o **Performance Audit of HHSA Administrative Branch:** A performance audit of HHSA's Administrative Branch will begin next month to assess operational efficiencies, resource adequacy, and process improvements in alignment with the FY 2024-25 audit plan.

Item #9 – Proposal for Standardized Internal Audit Reporting Structure

▶ **Purpose**

- o Establish a standardized reporting framework to deliver timely, consistent updates on audit activities, supporting informed decision-making and aligning with county governance objectives.

▶ **Background**

- o Current ad hoc reporting has led to inconsistencies that limit effective oversight, with stakeholder feedback highlighting the need for a structured, predictable reporting approach.

▶ **Best Practices of Internal Audit Reporting**

- o Aligns with GAO and IIA standards, ensuring that audit reporting is clear, comprehensive, and timely, with regular updates on risk assessments, findings, and recommendations.

▶ **Recommendation**

- o Implement a structured framework for reporting work plans, audit findings, and whistleblower activities using standard templates and schedules to ensure consistent, clear communication aligned with GAO and IIA best practices.

Item #9 – Proposal for Standardized Internal Audit Reporting Structure (cont.)

Type of Report	Frequency	Audit Subcommittee	Board of Supervisors
Annual Risk Assessment and Audit Plan	Annual	✓	✓
Audit Reports	As completed	✓	✓
Open Audit Recommendation Reports	Semi-annual	✓	
Whistleblower Hotline Activity Reports	Semi-annual	✓	
Annual Internal Audit Activity Report	Annual		✓
Independence and Quality Assessment Reports	Annual	✓	
Other Report (Special investigations, AUPs, etc.)	As requested	✓	TBD

Item #9 – Proposal for Standardized Internal Audit Reporting Structure (cont.)

▶ **Proposed Reporting Structure**

   o The framework includes key reports on annual risk assessments, audit plans, open audit recommendations, and whistleblower hotline activities, initially reviewed by the Audit Subcommittee, which has discretion to escalate critical findings to the Board of Supervisors.

▶ **Implementation**

   o Quarterly reporting to the Audit Subcommittee will start immediately upon adoption, with the first annual report to the Board planned for January 2025; feedback from the Audit Subcommittee and Board will be regularly gathered to refine the framework.

▶ **Conclusion**

   o Establishing this framework will strengthen the Division's role in promoting good governance, operational integrity, and oversight across county departments, positioning Internal Audit as a key resource for county leadership.

Item #10 – Request to Extend Contracts with On-Call Auditors for Additional 12 Months

▶ **Purpose & Background**

- o Request a final 12-month extension for on-call audit service contracts with Moss Adams, Eide Bailly, and Baker Tilly to ensure specialized audit support and consistent coverage during internal staffing limitations. These contracts, established in March 2022, have been crucial for maintaining audit capacity in areas like IT governance and federal compliance.

▶ **Reason for Recommendation & Recommendation**

- o Approving the extension will provide consistent audit coverage, access to specialized expertise in high-risk areas, and flexibility in resource allocation, helping the Division address evolving risks without disruptions. The specific extensions requested are for agreements PO4236 (Moss Adams), PO4237 (Eide Bailly), and PO4209 (Baker Tilly).

▶ **Fiscal Impact & Conclusion**

- o The extension is covered within the existing FY 2024-25 budget, requiring no additional funds. Final approval will ensure the Division of Internal Audit maintains robust and adaptable audit capabilities to meet Yolo County's audit needs effectively over the next year.