

Yolo County
Division of Internal Audit



Annual Report
Fiscal Year 2025-26

Message from the Audit Manager

Building a Stronger Internal Audit Function

Fiscal Year 2025–26 represented an important period of transition and development for the Yolo County Division of Internal Audit. During the year, we continued a multi-year effort to strengthen the governance, processes, and capabilities needed to support an independent, risk-based internal audit function.

A significant focus was strengthening Internal Audit's governance and organizational foundation. The County established a standalone Audit Committee, replacing the former Audit Subcommittee of the Financial Oversight Committee. We also advanced updated governing charters and established a formal framework for communicating audit results to the Board of Supervisors and the public.

We made significant progress in strengthening how Internal Audit identifies and responds to County risk. The Division completed a countywide risk assessment and developed an 18-month risk-based audit plan, advanced a standardized performance audit methodology, substantially developed its first three-year strategic plan, and continued building the policies, technology, and contracted resources needed to support consistent audit delivery.

At the same time, Internal Audit continued delivering audit and assurance work, recommendation follow-up, treasury cash counts, and Whistleblower Hotline activities while adapting to constrained County resources and reduced staffing.

As we enter FY 2026–27, our focus is increasingly shifting from building the foundation to applying it. Our priorities are to complete the remaining elements of the audit framework, advance the approved risk-based audit plan, strengthen accountability reporting, and continue developing Internal Audit as a trusted source of independent assurance and insight for the Audit Committee, Board of Supervisors, County leadership, and the public.

Respectfully,

A handwritten signature in black ink, appearing to read 'N. Lugo', with a stylized flourish at the end.

Nathan Lugo, CPA, CIA, CFE

Audit Manager

Division of Internal Audit

About Internal Audit

Independent Oversight, Assurance, and Advisory Services

The Yolo County Division of Internal Audit provides independent and objective oversight to strengthen accountability, improve County operations, and support responsible stewardship of public resources. Internal Audit serves the Audit Committee, Board of Supervisors, County leadership, and the public.

What We Do

- **Performance Audits**
Evaluate whether County programs and operations are economical, efficient, effective, and equitable, and identify opportunities to improve performance and service delivery.
- **Compliance, Financial & Internal Control Reviews**
Evaluate compliance with applicable requirements, reliability of financial and operational information, and controls designed to safeguard public resources and support County operations.
- **Advisory Services**
Provide independent analysis and advice related to governance, risk management, internal controls, and operations without assuming management responsibilities.
- **Investigations & Special Reviews**
Review allegations involving potential fraud, waste, abuse, and other concerns. Internal Audit also administers the County's Whistleblower Hotline.

Independent by Design

The Audit Manager reports functionally to the Audit Committee and administratively to the Chief Financial Officer. Internal Audit works collaboratively with County management while remaining independent from the activities it evaluates.

Supporting Board Oversight

Internal Audit serves as an independent oversight resource to the Audit Committee and Board of Supervisors. Board and Audit Committee priorities, together with County risks and stakeholder input, inform the Division's risk-based audit planning.

Professional Standards

Audit work is conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), commonly known as the Yellow Book.

Strengthening Internal Audit Governance

Building a Stronger Framework for Independent Oversight

During FY 2025–26, Yolo County continued a multi-year effort to strengthen the governance framework supporting Internal Audit. These efforts focused on strengthening independence, clarifying oversight responsibilities, and increasing transparency and visibility of audit activities and results.

Independent Audit Committee

The Board of Supervisors established a standalone Yolo County Audit Committee, replacing the former Audit Subcommittee of the Financial Oversight Committee. The dedicated Committee provides focused oversight of Internal Audit's independence, audit planning, reporting, resources, and performance.



Modernized Internal Audit Charter

Internal Audit substantially revised its Charter to reflect the Division's countywide, risk-based role, performance audit capabilities, and alignment with GAGAS. The revised Charter further clarifies Internal Audit's authority, independence, reporting relationships, and responsibilities.

The Audit Committee approved the revised Charter on July 9, 2026, following substantial development during FY 2025–26.

Formalized Audit Reporting

Internal Audit established a formal framework for communicating final audit reports to the Audit Committee, Board of Supervisors, and public, including processes for Audit Committee review, legal review, Board agenda placement, and public reporting.

Audit Committee Charter

Internal Audit developed the County's first Audit Committee Charter to define the Committee's purpose, authority, responsibilities, and oversight relationship with Internal Audit. The Audit Committee recommended the Charter on July 9, 2026, and the Board of Supervisors approved it on August 25, 2026.

Building a Risk-Based Audit Function

Strengthening How Internal Audit Plans and Prioritizes Its Work

During FY 2025–26, Internal Audit strengthened how it identifies County risks, prioritizes audit resources, and plans its work.

Countywide Risk Assessment & Audit Planning

Internal Audit completed a formal countywide risk assessment incorporating:

- **Stakeholder Input** — Board members, executive leadership, and department heads
- **Department Risk Survey** — 22 responses representing 15 departments across 10 risk categories
- **Risk Data** — budgets, staffing, program complexity, and other risk indicators
- **Oversight Information** — prior audits, recommendations, Grand Jury findings, and other sources

The results informed an 18-month risk-based audit plan covering January 2026 through June 2027.

Risk-Based Audit Methodology

Internal Audit began implementing a standardized methodology that connects identified risks directly to audit scope and procedures:



Building the Foundation

- **Strategic Plan** — Developed the Division's first three-year roadmap for organizational development and audit delivery.
- **Policies & Procedures** — Developed a comprehensive manual to standardize audit practices and support quality management.
- **Audit Technology** — Initiated implementation of MissionMark audit management software to improve audit workflow, documentation, and recommendation tracking.
- **Audit Capacity** — Established on-call audit contracts to supplement the Division's two-person internal team with additional capacity and specialized expertise.

Audit & Assurance Activities

Delivering Independent Assurance and Oversight

While advancing governance and organizational improvements, Internal Audit continued delivering audit, assurance, and monitoring activities during FY 2025–26.

- **Payroll Internal Controls Review - August 2025**

Evaluated controls over key payroll processes, including pay rates, benefits, retroactive payments, and payroll tax reporting. The audit identified opportunities to strengthen segregation of duties, documented procedures, error monitoring, and supervisory oversight.

- **IT Disaster Recovery & Emergency Preparedness Assessment - December 2025**

A co-sourced assessment evaluated the County's preparedness for technology disruptions and emergencies affecting critical operations and identified opportunities to strengthen disaster recovery and organizational resilience.

- **Purchase Card Program Audit - Fieldwork Completed FY 2025–26**

Evaluated governance, administration, account controls, transaction compliance, and monitoring over approximately 165 active cards and \$3.45 million in expenditures. The audit identified opportunities to strengthen program governance, access controls, documentation, and compliance monitoring.

Final report issued August 2026.

Other Audit Activities

In addition to the major engagements above, Internal Audit performed recurring and specialized assurance work during the year, including:

- **HHSA Contract Monitoring**

Coordinated 16 monitoring reviews, consisting of 8 subrecipient monitoring reviews and 8 substance use disorder contract monitoring reviews.

- **Treasury Cash Counts**

Performed four quarterly cash counts of the County Treasury in support of statutory and financial oversight requirements.

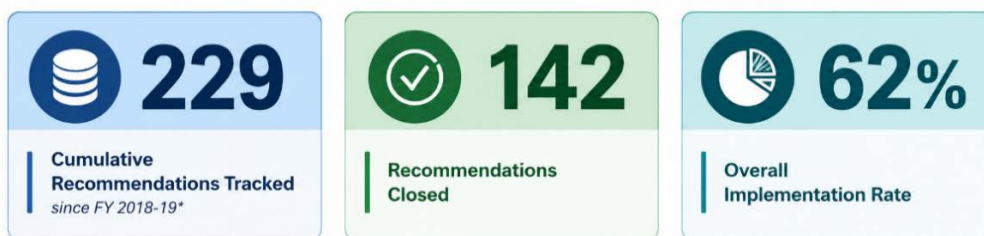
Strengthening Accountability

Following Through on Audit Results and Supporting Confidential Reporting

Internal Audit continued strengthening processes that promote accountability after audits are completed and provide employees and the public with a confidential mechanism for reporting concerns.

Recommendation Follow-Up

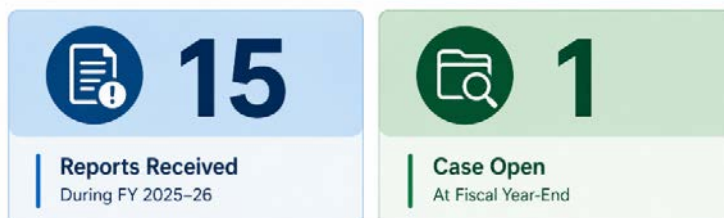
Internal Audit completed its annual follow-up of outstanding recommendations from prior audits, working with departments to obtain updates, review supporting documentation, and validate implementation progress.



During the year, Internal Audit also strengthened its follow-up procedures and transitioned from semiannual to annual reporting to align the process with available resources while maintaining appropriate oversight. Results reflect the recommendation follow-up reported in November 2025, including updates validated through September 30, 2025.

Whistleblower Hotline

Internal Audit administers the County's Whistleblower Hotline, providing employees and members of the public with a confidential mechanism for reporting¹ suspected fraud, waste, abuse, conflicts of interest, policy violations, and other concerns.



During the year, Internal Audit continued strengthening Hotline administration by designating a Whistleblower Hotline Manager, refining case intake and documentation procedures, developing investigative capabilities, and expanding awareness of the Hotline.

¹ Reports represent allegations received and do not indicate that misconduct occurred or that an allegation was substantiated.

Looking Ahead: FY 2026–27

From Foundation to Execution

With a stronger governance structure and core audit processes taking shape, Internal Audit's focus in FY 2026–27 is increasingly shifting toward execution of the risk-based audit plan and completion of the Division's foundational initiatives.

Complete Foundational Initiatives

- Finalize the policies and procedures manual
- Implement a GAGAS-aligned quality management system
- Complete implementation of MissionMark
- Finalize the three-year strategic plan
- Continue refining the Division's risk-based audit methodology

Execute the Risk-Based Audit Plan

Planned and ongoing work includes:

- HHS Targeted Risk Assessment & Audit
- County Risk Management Review
- GSD Work Order & Preventive Maintenance Review
- Countywide Administrative Policy Maintenance Review

Additional audit work will be undertaken as resources and emerging priorities allow.

Strengthen Accountability & Transparency

Continue enhancing recommendation follow-up, Whistleblower Hotline administration and reporting, and communication of audit results to the Audit Committee, Board of Supervisors, and public.

Prepare for Long-Term Sustainability

Continue strengthening audit quality and resource utilization while preparing for the Division's anticipated 2027 external peer review.



OUR DIRECTION

Build a **sustainable, independent,** and **risk-based** audit function that provides **reliable assurance, useful insight,** and greater **visibility** into the risks and performance of County government.