

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDIT UNIT

**EXTERNAL PEER REVIEW
CONDUCTED BY COUNTY OF PLACER
FOR THE PERIOD JULY 1, 2023,
TO JUNE 30, 2024**



Audit Committee Submittal Date: 10/16/2025

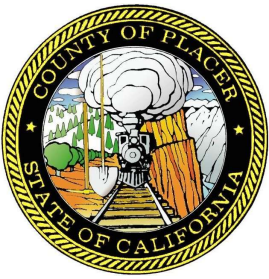
**COUNTY OF SACRAMENTO
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER DIVISION
INTERNAL AUDIT UNIT
EXTERNAL PEER REVIEW**

FOR THE PERIOD JULY 1, 2023, TO JUNE 30, 2024

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COUNTY OF PLACER

OFFICE OF THE AUDITOR-CONTROLLER

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July 8, 2025

Chad Rinde, Director of Finance
County of Sacramento
700 H Street, Room 3650
Sacramento, CA 95814

Dear Mr. Rinde:

We have reviewed the system of quality control for the Internal Audit Unit of the County of Sacramento Department of Finance (IAU) in effect for the period July 1, 2023, to June 30, 2024. A system of quality control includes the IAU's organizational structure, along with the policies and procedures established to provide reasonable assurance that it performs and reports in accordance with applicable professional standards in all material respects. The IAU is responsible for designing and complying with a system of quality control that provides reasonable assurance that its work is performed and reported in accordance with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system and the IAU's compliance with it, based on our review.

We conducted our review in accordance with *Government Auditing Standards*¹ issued by the Comptroller General of the United States, as applicable to the engagements conducted by the IAU. The nature, objectives, scope, limitations, and procedures of the review are described in the 2018 revision of *Government Auditing Standards*. In performing our review, we obtained an understanding of the IAU's system of quality control for engagements conducted in accordance with professional standards. We also tested compliance with the IAU's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of those policies and procedures on a selection of engagements that represented a reasonable cross-section of the IAU's work conducted under professional standards. We believe the procedures performed provide a reasonable basis for our opinion.

In our opinion, except for the deficiencies described in the accompanying schedule, the IAU's system of quality control for the period July 1, 2023 to June 30, 2024, has been suitably designed and complied with to provide the IAU with reasonable assurance of performing and reporting in conformity, with *Government Auditing Standards* in all material respects. An audit organization can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The IAU received an External Peer Review rating of *Pass with Deficiencies*.

Respectfully,

Andrew D. Pope, CIA
Internal Audit Manager

¹ Government Accountability Office (GAO), Government Auditing Standards: 2018 Revision Technical Update April 2021, GAO-21-368G

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Deficiency 2024-01

INDEPENDENCE AND PROFESSIONAL JUDGEMENT

Criteria:

Based on GAGAS Paragraphs §3.18–20, §3.27-3.34, §3.59–3.60, and §3.107, audit organizations must maintain both actual and perceived independence throughout the engagement, covering the period of the subject matter and the professional engagement itself. Auditors are required to apply the GAGAS conceptual framework to assess and manage threats to independence at the organizational, engagement team, and individual levels. This includes identifying, evaluating, and documenting the significance of threats, such as self-interest, self-review, bias, familiarity, undue influence, management participation, and structural threats, and implementing safeguards to eliminate or reduce these threats to an acceptable level. If threats cannot be sufficiently mitigated, auditors must decline or terminate the engagement. Independence is considered impaired when no effective safeguards exist. Auditors must use professional judgment throughout the process and document all applicable threats, safeguards, and justifications, particularly in cases involving structural independence or post-engagement threat identification that may impact previously issued reports.

Condition:

We noted that the IAU's procedures for documenting auditor independence were incomplete. In several instances, we were unable to determine that all management reviewers signed independence statements, and the statements appear to lack documentation of specific independence threats and related safeguards. This is inconsistent with GAGAS §3.18–3.34. Furthermore, documentation supporting the application of professional judgment during audits, such as the rationale for audit procedures and risk assessments, was insufficient, as required by GAGAS §3.109.

Recommendations:

We recommend enhancements to the independence documentation procedures to ensure all staff involved in audits complete statements that both assess and document potential threats. In addition, we recommend updating the internal audit manual to include clearer guidance on applying and documenting professional judgment throughout the entirety of the audit process.

Management's Response:

The peer review identified the audit executive management did not sign independence statements, while the peer review did not identify audit staff who failed to document their independence. The IAU approach is not to require the audit executive management who only review draft audit reports to sign audit independence statements as their roles do not change the audits' procedures and results. Language about independence as it respects a particular audit is disclosed in the final report per applicable audit standards.

IAU does acknowledge that there is an opportunity to further improve the documentation around independence of audit executive management. IAU's audit manual includes an independence section for audit staff and management to follow according to GAGAS. IAU will update the internal audit manual to include independence documentation requirement for audit executive management who review the draft

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report but do not perform audit fieldwork to document their independence to the audit engagement and document the professional judgement used to provide safeguards when needed to eliminate or reduce these independence threats to an acceptable level. The IAU manual independence section and independence documentation forms will be implemented by September 30, 2025.

Deficiency 2024-02

QUALITY CONTROL AND PEER REVIEW

Criteria:

Per GAGAS §5.12, §5.23, §5.24, §5.44–5.45, §5.84 and §5.77–5.78, Audit organizations must maintain a system of quality control that includes annual written affirmations of independence from all personnel, as well as documented policies governing the initiation, acceptance, and continuation of engagements to ensure compliance with professional standards, legal requirements, and ethical principles. Engagements must only be undertaken if the organization has legal authority and sufficient resources. Any changes to engagement objectives must be documented with justification. The organization must also ensure that appropriate consultation occurs on complex issues, with documentation and mutual understanding of the conclusions. Audit organizations are required to conduct ongoing monitoring of quality, summarize results annually, and communicate any deficiencies and corrective actions to relevant personnel. Additionally, audit organizations must undergo an external peer review at least every three years, beginning no later than three years after their first GAGAS engagement, to determine whether their quality control system is suitably designed and effectively implemented in conformance with professional standards and applicable legal and regulatory requirements.

Condition:

We identified that insufficient formal written procedures were in place for engagement acceptance and continuance, documenting changes in engagement scope, and the internal consultation process. We were also unable to observe evidence of annual internal quality control reviews as required by GAGAS. Additionally, the IAU did not complete a peer review within the required three-year interval, nor did it specify how peer review results would be distributed.

Recommendations:

We recommend that the audit manual be updated to include comprehensive policies for engagement acceptance, internal consultation, internal monitoring, and the timely scheduling of peer review. The manual should also include guidance for the public disclosure of peer review results in accordance with GAGAS.

Management's Response:

IAU documents client acceptance, continuation, change in engagement scope and its internal consultation review in the audit workpapers. IAU's audit manual includes procedures on client acceptance, internal consultation, internal monitoring, and timing of peer review, however IAU agrees that they could be further enhanced. IAU will update the internal audit manual to enhance written procedures by September 30, 2025.

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IAU agrees that it has not completed its peer review timely within the three-year interval. Originally, IAU included the FY 2021/22 peer review in the contract with the County's external audit contact, however it was determined after multiple efforts to schedule that the firm could not perform the peer review in accordance with GAGAS. Once known, IAU coordinated with the peer review program through the California State Association of County Auditors (Cal SACA). The IAU is now current with the peer review requirement with the completion of this review, which will be communicated to the Sacramento County Audit Committee, and posted on the County's website. IAU agrees with the importance of timely scheduling future reviews to remain compliant.

Deficiency 2024-03

ATTESTATION—COMPLIANCE WITH STANDARDS, ENGAGEMENT TERMS, AND REPORTING

Criteria:

In accordance with the 2018 Yellow Book and applicable AICPA auditing standards (AT-C §215.12–.34), auditors conducting agreed-upon procedures (AUP) engagements must comply with both GAGAS and the AICPA's Statements on Standards for Attestation Engagements (SSAEs) when referencing GAGAS in their reports. The auditor must establish a clear understanding with the engaging party regarding the engagement's purpose, intended users, any legal or contractual basis, and whether additional parties will acknowledge the appropriateness of the procedures. Engagement terms must include the nature and scope of the work, a written agreement that the procedures are appropriate for their intended purpose, and a representation letter at the conclusion. The date of the written representations must align with the date of the practitioner's report, which cannot precede completion of the procedures and review of documentation. The final AUP report must include essential elements such as the report date, confirmation that the procedures were completed, and findings determined, ensuring full compliance with both GAGAS and AICPA attestation requirements.

Condition:

We identified instances where, for AUP engagements, the IAU followed outdated SSAE No. 18 guidance instead of SSAE No. 19. Furthermore, engagement letters omitted required elements, including acknowledgment of appropriate procedures and representation letters. We also noted instances where final reports were missing certain disclosures, including the auditor's independence and limitations of procedures.

Recommendations:

We recommend that the IAU adopt applicable SSAE standards for AUP engagements and revise templates and policies to ensure inclusion of all required elements in engagement letters, representation letters, and reports.

Management's Response:

IAU has already partially implemented the recommendation by updating its templates for engagement letters and reports that were completed in May and June 2025 and as a result the current engagement letters and reports meet the current standards.

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IAU will update the internal audit manual and templates annually to meet the applicable standards in the future.

Deficiency 2024-04

PERFORMANCE AUDIT—PLANNING

Criteria:

Per GAGAS §8.03–8.06, §8.27, and §8.33, auditors must develop and document a written audit plan that is continuously updated and designed to reduce audit risk to an acceptably low level while addressing the audit objectives. The planning process should include assessing significance and risk, determining the scope and methodology, and ensuring sufficient, appropriate evidence is obtained to support findings. Additionally, auditors must inquire about any relevant investigations or legal proceedings and evaluate their impact on the audit.

Condition:

We identified instances where planning was not always completed prior to the entrance conference, and planning documentation often lacked assessments of risk, significance, or updates to audit programs. In certain circumstances, there was insufficient inquiry or documentation regarding ongoing investigations or legal matters. In addition, workpapers sometimes lacked evidence of sufficient, appropriate audit evidence or the rationale behind the audit methodology.

Recommendations:

In an effort to strengthen audit planning procedures, we recommend that risk assessments, legal inquiries, and updates to audit programs be consistently documented before fieldwork begins. This would also include updates to the audit manual for obtaining and evaluating audit evidence.

Management's Response:

IAU performs risk assessments and legal inquiries for all performance audits; however, it recognizes that those procedures were not documented consistently. IAU has started to update the internal audit manual and templates to ensure that risk assessments, legal enquiries, sufficient audit evidence, and rational behind the audit methodology are consistently documented and plan to complete the update by September 30, 2025. In addition, IAU will provide training to staff for audit documentation applying updated audit manual and templates.

Deficiency 2024-05

PERFORMANCE AUDIT—CONDUCTING THE ENGAGEMENT

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Criteria:

Auditors must gain a comprehensive understanding of the audited program's nature, risks, visibility, size, strategic goals, and external influences to effectively plan a performance audit and anticipate how the audit results will be used, GAGAS §8.39–8.49. When internal control is significant to the audit objectives, auditors are required to understand, assess, and document both the internal controls and any related information systems controls to ensure they gather sufficient and appropriate evidence (§8.59–8.62, §8.68, and §8.71–8.72). Additionally, auditors must identify and assess the risk of noncompliance with laws, regulations, contracts, and grant agreements, and evaluate fraud risks throughout the audit, extending procedures when indications of significant fraud arise to determine its occurrence and impact on audit findings.

Condition:

We identified instances where the IAU did not consistently determine or document the significance of internal controls or evaluate information systems controls. Furthermore, audits did not consistently document consideration of fraud risk or provisions of laws and contracts relevant to audit objectives.

Recommendations:

We recommend that the IAU provide updated guidance on internal control assessments, including when and how to evaluate system controls and fraud risks. Additionally, the IAU should consider revisions to the planning checklists and templates to address legal compliance procedures.

Management's Response:

IAU evaluates relevant internal controls and information systems controls and considers fraud risk or provisions of laws and contracts relevant to audit objectives for all performance audits; however, it recognizes that those procedures were not documented consistently. IAU will update the internal audit manual and templates by September 30, 2025, to provide updated guidance on properly documenting internal control assessment, evaluation of system controls, fraud risk, and provisions of laws and contracts relevant to audit objectives. In addition, IAU will provide training to staff for audit documentation applying updated audit manual and templates.

Deficiency 2024-06

PERFORMANCE AUDIT—SUPERVISION, EVIDENCE, AND DOCUMENTATION

Criteria:

Per GAGAS §8.87, §8.90–8.110, §8.116 and §8.132-8.135. Auditors must ensure proper supervision of audit staff by providing guidance, addressing challenges, reviewing work, and offering on-the-job training based on staff experience and audit complexity. They are required to obtain sufficient, appropriate, and reliable evidence to support findings and conclusions, including evaluating the credibility of information from audited entity officials and conducting an overall assessment of the collective evidence to determine its adequacy in addressing audit objectives. Additionally, auditors must fully document the audit process—including planning, methodology, findings (with criteria, condition, cause, and effect), and supervisory reviews—such that an experienced auditor with no prior involvement could understand the procedures

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performed, evidence obtained, and conclusions reached, ensuring all documentation is complete prior to report issuance.

Condition:

In some instances, we identified evidence and documentation of audit supervision occurred late in the audit process, and assessments of supervision were not fully documented. Further, we identified some instances where the IAU did not document an overall assessment of evidence sufficiency or review management-provided information for objectivity and credibility. Elements of findings, including cause and effect, were not always present. Additionally, audit documentation and supervisory review in some cases occurred after report issuance.

Recommendations:

We recommend that the IAU consider reviewing and, as necessary, updating procedures for timely supervision, review, and documentation of findings. We would also recommend that procedures include a requirement that all key documentation be completed and reviewed before issuing reports.

Management's Response:

IAU management provides audit supervision and review workpapers throughout the audit process. Audit executive management reviews draft audit reports before the reports are issued.

IAU management reviews each audit workpaper and approves the workpaper and/or provides review notes to update audit workpaper or perform additional procedures as necessary. IAU uses electronic Audit software to maintain audit documentation. IAU recognize that due to limited resources, workload, priority, some audit procedures in the Audit Software were not signed off timely after the workpapers were updated, reviewed and approved. In addition, when an audit is completed and closed, the software automatically deletes the audit supervision review notes. By September 30, 2025, IAU will update the audit checklist and manual to ensure that the internal audit staff and management sign off and close all audits procedures in Audit Software within 10 days after the audit is completed.

Deficiency 2024-07

PERFORMANCE AUDIT-REPORTING

Criteria:

Auditors must report their compliance with GAGAS §9.13, §9.21–9.23, including any departures from applicable requirements, using modified compliance language when necessary. Audit reports must describe the objectives, scope, methodology, sources of evidence, and any limitations affecting the findings, while placing findings in context by explaining their extent, relevance to the tested population, and quantifying results when appropriate. Auditors should provide well-supported, actionable recommendations that address the root causes of deficiencies, and when the audited entity's responses conflict with the findings or recommendations, auditors must assess their validity, adjusting the report or explaining any disagreements accordingly.

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Condition:

During our procedures, we identified some instances where Reports did not consistently disclose the relationship between the population and items tested, had limitations in evidence, or omitted the cause of findings. Additionally, some audits we sampled lacked appropriate recommendations or did not address conflicting management responses (§9.52).

Recommendations:

We recommend the IAU update reporting templates and guidance to require clear descriptions of scope, findings, and limitations. Furthermore, the IAU should ensure recommendations address root causes and include procedures to evaluate and respond to management comments.

Management's Response:

IAU's reports disclose the cause of findings when feasible; however, it recognizes that some reports did not disclose the relationship between the population and items tested and the cause of findings.

IAU reviews all management responses to the findings and recommendations and exercises professional judgement to determine whether there is a need to perform additional procedures or update the reports. The three sample audits reported a total of eleven findings and management responses. Nine of the eleven management responses were in agreement with the audit recommendations, while two of the eleven management responses indicated partial agreement with IAU's recommendations. IAU reviewed the instances in which management responses indicated "partially agree" which could be perceived as a conflict with the audit recommendations. These two responses did not indicate expressive disagreements with IAU's findings and recommendations presented in the audit reports, and thus IAU still consider it is appropriate not to address the partially agreed responses or perform any additional procedures. Nevertheless, Internal Audit will consider in the future when auditees disagree or partially agree with audit results whether a response from the auditor or additional procedures are necessary and document our considerations.

By September 30, 2025, IAU will update the internal audit manual and templates to ensure that internal audit report discloses relationship between population and sample tested and the root cause of findings consistently.

Department of Finance

Chad Rinde

Director

**County of Sacramento****Divisions**

Auditor-Controller

Consolidated Utilities Billing &
Service

Investments

Revenue Recovery

Tax Collection & Licensing

Treasury

Inter-Office Memorandum**Date:** October 16, 2025**To:** Sacramento County Audit Committee**From:** Chad Rinde, Director
Department of Finance**Copy:** Andy Yu, Chief of Audits
Poonam Aujla, Assistant Auditor-Controller**Subject:** ***Confirmation of Full Implementation of Internal Audit Peer Review Recommendations***

This memorandum confirms the successful implementation of all seven (7) recommendations from the internal audit peer review conducted by Placer County on July 8, 2025. The action plan, which was developed in response to the review findings, is now fully executed. A brief summary of the recommendations and the specific actions taken to address the peer review results are as follows:

Recommendation #1:

The reviewer recommended enhancements to the independence documentation to ensure all staff involved in audits complete statements that both assess and document potential threats. In addition, the reviewer recommended updating the internal audit manual to include clearer guidance on applying and documenting professional judgment throughout the entirety of the audit process.

Action Taken:

IAU updated the independence documentation procedures to ensure all staff involved in audits including audit executive management who review the draft report but do not perform audit fieldwork complete statements that both assess independence and document potential threats. IAU also updated its manual to include clearer guidance on applying and documenting professional judgment throughout the entirety of the audit process

Recommendation 2:

The reviewer recommended that IAU audit manual be updated to include comprehensive policies for engagement acceptance, internal consultation, internal monitoring, and the timely scheduling of peer review. The reviewer also recommended the IAU manual include guidance for the public disclosure of peer review results in accordance with GAGAS.

Action Taken

IAU has updated its manual as recommended by the reviewer. IAU management is participating in the California State Association of County Auditors' peer review program to ensure IAU continue to comply with peer review requirements in the future.

IAU management presented the peer review report to Sacramento County Audit Committee and will post the peer review report to its public website along with this memorandum. In addition, IAU developed an annual quality self-assessment review program and will provide quality self-assessment review report to the Audit Committee annually at the same time of its annual report.

Recommendation 3:

The reviewer recommended the IAU adopt applicable Statement on Standards for Attestation Engagement (SSAE) for Agreed-Upon Procedures (AUP) engagements and revise templates and policies to ensure inclusion of all required elements in engagement letters, representation letters, and reports.

Action Taken:

IAU adopted applicable the updated SSAE for AUP engagements and revised its templates, workpaper, and reports. IAU has updated its manual to comply with SSAE and will continue to update its manuals, templates, workpapers, and reports to meet the applicable standards annually.

Recommendation 4:

The reviewer recommended that risk assessments, legal inquiries, and updates to audit programs are consistently documented before fieldwork begins including updating the audit manual for obtaining and evaluating audit evidence.

Action Taken:

IAU updated its manual and templates to ensure that risk assessments, legal inquiries, updates to audit programs, audit evidence, and rationale behind the audit methodology are consistently documented. Also, IAU has provided staff training for audit documentation applying the updated audit manual and templates.

Recommendation 5:

The reviewer recommended that the IAU provide updated guidance on internal control assessments, including when and how to evaluate system controls and fraud risks. The reviewer also recommended IAU consider revisions to the planning checklists and templates to address legal compliance procedures.

Action Taken:

IAU updated the internal audit manual and templates to provide updated guidance on proper documentation of internal control assessment, evaluation of system controls, fraud risk, and provisions of laws and contracts relevant to audit objectives. In addition, IAU provided training to staff for audit documentation applying the updated audit manual and templates.

Recommendation 6:

The reviewer recommended that the IAU consider reviewing and updating procedures for timely supervision, review, and documentation of finding including procedures requiring all key documentation to be completed and reviewed before issuing reports.

Action Taken:

IAU updated the audit checklist and manual to ensure that the internal audit staff and management sign off and close all audits procedures in the audit software within 10 days after the audit is completed.

Recommendation 7:

The reviewer recommended the IAU update reporting templates and guidance to require clear descriptions of scope, findings, and limitations. The reviewer also recommended the IAU ensure recommendations address root causes and include procedures to evaluate and respond to management comments.

Action Taken:

IAU updated the internal audit manual and templates to ensure that internal audit report discloses relationship between population and sample tested, addresses the root cause of findings, and evaluates management comments consistently.

Next steps

With the successful implementation of the above action plan, the Internal Audit unit focus will now shift to monitoring these changes to ensure they are fully integrated into our standard operating procedures.

The internal quality control self-assessment as well as future scheduled peer reviews will ensure the long-term effectiveness of these improvements. The County's peer review is presently on a three-year cycle.