

December 30, 2025

Toks Omishakin, Secretary  
California State Transportation Agency  
400 Capitol Mall, Suite 2340  
Sacramento, CA 95814

Dear Secretary Toks Omishakin,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Independent Office of Audits and Investigations submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Matt Espenshade, Chief Deputy Inspector General, at (916) 323-7111, [Matt.Espenshade@dot.ca.gov](mailto:Matt.Espenshade@dot.ca.gov).

## **GOVERNANCE**

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### **Mission and Strategic Plan**

Pursuant to Government Code section 14460, the Independent Office of Audits and Investigations (IOAI) conducts audits and investigations to ensure the California Department of Transportation (Caltrans) and external entities that receive state and federal transportation funds from Caltrans are spending those funds efficiently, effectively, economically, and in compliance with applicable state and federal requirements. External entities include, but are not limited to, private for profit and nonprofit organizations, local transportation agencies, and other local agencies that receive transportation funds either through a contract with Caltrans or through an agreement or grant administered by Caltrans. The office produces public audits and review reports and non-public confidential investigative reports.

### **Control Environment**

IOAI's management has an effective control environment. The head of the agency, the Inspector General, works very closely with his executive team to effectuate this goal and oversees the work of the employees. Furthermore, the Inspector General maintains an open line of communication with his employees. Additionally, IOAI's executive management team has extensive experience in all areas of IOAI's work.

IOAI is organized by functional areas such as Audits, Investigations, and Administration, and has established supervisors and managers over each area. To further establish an effective control environment, the OIG places emphasis on maintaining a competent workforce. Due to

the nature of the agency's work, most IOAI employees, especially its auditors, investigators, and attorneys, join the agency with years of experience in their chosen field. IOAI conducts an extensive internal on-the-job training program and sends its employees to trainings and conferences with outside vendors to maintain and increase competency and proficiency. Through various tracking and data systems and their related dashboards maintained by IOAI's Business Intelligence Team, IOAI also has controls in place for management to track multiple compliance and performance metrics in real time. Also, IOAI supervisors and managers provide recurring assessment of employee work performance on a regular basis, including in probation reports, performance appraisal summaries, and regular meetings. IOAI supervisors and managers provide robust reviews of all significant IOAI work products to ensure the consistency, accuracy, and overall quality of those products.

Finally, IOAI follows Government Auditing Standards (commonly referred to as the "Yellow Book") produced by the United States Government Accountability Office. Those standards require periodic external peer reviews to ensure IOAI's controls and systems are appropriate and sufficient to ensure compliance with the standards.

## **Information and Communication**

In addition to an annual report, Government Code section 14460 requires the Inspector General to report all audit and confidential investigation findings to the Secretary of the California State Transportation Agency (CalSTA) and to the Director and Chief Deputy Director of Caltrans on a regular and ongoing basis. Additionally, to promote transparency and provide clear and concise information to the public, the IOAI website provides ongoing access to reports issued to the public, including final audit reports of Caltrans programs and external entities. The website also includes resources for consulting firms and local agencies.

Established Communications:

- Ongoing meetings with the Secretary of CalSTA and the Director of Caltrans.
- Monthly reports provided to CalSTA and Caltrans regarding new and ongoing audits and investigations.
- Ongoing communications with Legislative staff, CTC staff, federal agency representatives, local agency representatives, and other external entities as needed.

## **MONITORING**

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The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Independent Office of Audits and Investigations monitoring

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practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Matt Espenshade, Chief Deputy Inspector General.

To ensure internal controls are and continue to be effective, IOAI managers and supervisors routinely review staff work to ensure compliance with laws, regulations, policies, and industry best practices. Supervisors use IOAI's robust library of dashboards, which track and provide statistics and performance metrics for numerous aspects of IOAI's work. IOAI's management team uses this data and information to identify challenges and adjust work processes as needed. The executive monitoring sponsor works directly with executive staff to assess trends and identify any new or on-going risks to the office.

## **RISK ASSESSMENT PROCESS**

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The following personnel were involved in the Independent Office of Audits and Investigations risk assessment process: executive management, and middle management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

IOAI performs risk assessment measures using various methods and assessment processes. The Inspector General discusses the current transportation funding landscape and possible risks with his executive team and asks for input related to risks inherent to business objectives within their areas of responsibility. The executive monitoring sponsor asks managers and/or supervisors of each unit to classify and report existing conditions presenting potential risks that pose a threat to IOAI meeting business objectives. IOAI's Business Intelligence Team maintains a robust library of dashboards tracking multiple performance metrics, many in real time. Those dashboards provide significant aid to IOAI management to detect risks on an ongoing basis. The executive monitoring sponsor leads the executive team in discussions to evaluate new and previously reported risks to determine their relevancy to current business operations.

## RISKS AND CONTROLS

### Risk: Independence

The statutory independence of the Inspector General is essential to ensure objective, impartial, and effective oversight. However, the current structure of the Independent Office of Audits and Investigations (IOAI) presents a potential threat to that independence. Although IOAI was established as a statutorily independent entity, it originated from an internal Caltrans office and continues to operate within the department's framework. This arrangement means IOAI and the Inspector General rely on Caltrans for critical shared services—including information technology, human resources, and facilities management—and its budget is a subcomponent of Caltrans' overall budget. This structural dependence significantly elevates the risk to the office's ability to maintain its independence.

#### Control: Relationships with stakeholders

The Inspector General and his executive team make significant efforts to communicate with stakeholders inside and outside of Caltrans to ensure we maintain the integrity of IOAI's work. Specifically, the Inspector General meets regularly with the Director of Caltrans, executives from the California State Transportation Agency, and the Governor's Office to keep them apprised of our work, including identifying any arising threats to IOAI's independence that could impact the effectiveness of our oversight. Additionally, the Inspector General will work with stakeholders to determine ways to enhance IOAI's independence.

### Risk: Staffing - Available Resources

IOAI has limited resources to oversee the activities paid for by state and federal transportation funds. Caltrans' 2025-26 budget includes over 22,600 positions and has

increased by nearly 21 percent within the last six years—from \$15.5 billion in 2020-21 to over \$18.7 billion in 2025-26. According to the United States Department of Transportation, Office of Inspector General, federal programs face an increased risk of fraud when they experience unusually rapid growth and/or a large influx of funds to existing and new programs. These additional investments create new oversight challenges.

In contrast to Caltrans' significantly increased budget, IOAI's budget has increased by approximately 4 percent since fiscal year 2020-21. With limited resources, it is a challenge for IOAI to ensure it provides effective oversight of a department of Caltrans' size to ensure Caltrans spends transportation funds effectively, economically, and in compliance with applicable state and federal requirements.

#### **Control: Improve operational efficiency**

IOAI management is continuously reviewing its operations to increase efficiency to reduce the resources necessary to complete its oversight while still targeting high-risk areas in Caltrans and local transportation agencies. Additionally, IOAI created a Business Intelligence Team to utilize data analytics to improve our internal operations and to broaden and enhance our oversight of state and federal transportation funds.

#### **Control: Pursue additional staffing resources**

IOAI management annually reviews its staffing resources to determine if it is necessary to explore obtaining additional funding to enhance its oversight activities.

### **Risk: Staffing - Retention**

IOAI faces a growing challenge in retaining experienced and qualified personnel. High turnover rates among auditors and investigators can lead to diminished institutional

knowledge, reduced operational efficiency, and delays in completing critical oversight activities. This risk is exacerbated by the specialized nature of IOAI's work, which requires extensive training and subject matter expertise. Failure to retain key staff poses challenges to the office's oversight efforts to ensure Caltrans and external entities that receive state and federal transportation funds from Caltrans are spending those funds efficiently, effectively, economically, and in compliance with applicable state and federal requirements.

**Control: Enhance the office's recruitment efforts by hiring a talent management and administration supervisor**

In 2024, IOAI reclassified a position to create a talent management and administration supervisor who is responsible for planning, developing, and implementing innovative recruitment and retention strategies to attract applicants to IOAI; representing IOAI at outreach forums and events; and consulting with IOAI management regarding recruitment needs and strategies.

**Control: Enhance workplace culture**

IOAI recently created a committee comprised of staff at multiple levels to increase employee engagement. The committee is charged with improving team building, providing feedback channels for staff, fostering an inclusive environment, and coordinating employee recognition and appreciation.

When practical, to enhance work/life balance, IOAI management strives to offer staff flexibility via telework and flexible schedules. IOAI's work is especially conducive to telework. Therefore, management allows staff to work a telework, enhancing employees' work/life balance. IOAI management also offers staff the opportunity to work alternate work week schedules.

### **Control: Explore external solutions**

If retention issues persist despite IOAI's internal solutions, we will explore working with the California Department of Human Resources on other solutions that will allow the office to recruit and retain staff qualified to conduct our office's complex oversight work.

## **CONCLUSION**

The Independent Office of Audits and Investigations strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

### **Bryan Beyer, Inspector General**

CC: California Legislature [Senate, Assembly]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency