State of California
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS

California State Transportation Agency

Memorandum

To:

BLAIR THOMPSON Chief,
Director's Office of Risk and Strategic Management

From:

WILLAM E. LEWIS, CPA
Assistant Director
Independent Office of Audits and Investigations

Date:
May 15, 2019

File:
P3010-0645

Subject: FINAL AUDIT REPORT FOR EFFECTIVENESS OF CALTRANS ENTERPRISE RISK MANAGEMENT PROGRAM

Attached is the Independent Office of Audits and Investigations' final audit report on the effectiveness of the Department of Transportation (Caltrans) Enterprise Risk Management Program. Your response has been included as part of the final report. This report is intended for your information and for Department Management.

Please provide our office with status reports on the implementation of your audit finding dispositions 60-, 180-, and 360-days subsequent to the transmittal date of this memorandum. If all findings have not been corrected within 360-days, please continue to provide status reports every 180-days until the audit findings are fully resolved.

Senate Bill 1 requires the Inspector General to report at least annually, or upon request, to the Governor, the Legislature, and the California Transportation Commission with a summary of audit findings and recommendations. The summary along with this report and the status reports will be posted on the Independent Office of Audits and Investigations' Internet Web site.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please contact Kevin Yee, Chief, Finance & Operations, at (916) 323-7929, or me at (916) 323-7122.

Attachment

c: Susan Bransen, Executive Director, California Transportation Commission
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Michael R. Tritz, Deputy Secretary, California State Transportation Agency
Laurie Berman, Director, Caltrans
James E. Davis, Special Advisor to the Director, Caltrans
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FACT SHEET

REPORT DATE: MAY 15, 2019
REPORT: P3010-0645

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INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS

LAURIE BERMAN, Director
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EFFECTIVENESS OF CALTRANS ENTERPRISE RISK MANAGEMENT PROGRAM AUDIT

BACKGROUND

The Independent Office of Audits and Investigations (IOAI) completed an audit on the effectiveness of the Department of Transportations (Caltrans) Enterprise Risk Management (ERM) Program. Senate Bill 1 directed IOAI to determine whether Caltrans is administrating an effective ERM Program.

KEY FINDINGS

Our audit concluded Caltrans has made significant progress toward the implementation of an effective ERM Program. However, the ERM Program could not provide reasonable assurance that ERM efforts helped reduce Caltrans-wide risks because the following characteristics of an effective ERM were not fully implemented: Some policies, procedures, forms, and guidelines related to the type of travel status and related expenditures need improvements.

- The ERM Program's authority and responsibility are not clearly defined.
- The ERM Program did not ensure risks were managed within Caltrans' risk appetite.
- The ERM Program did not adopt and implement the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) ERM Integrated Framework.
- The ERM Program did not ensure risks were assessed frequently.
- Risks assessed by the Caltrans Executive Board (Board) may only contain a top-down view of critical risk exposures.
- The risk assessment process was not monitored to ensure full participation from the Board due to time management concerns.
- The ERM Program did not retain adequate risk assessment documentation.
- The ERM Program did not ensure the risk response and treatment were within Caltrans' risk appetite.

KEY RECOMMENDATIONS

The following are key recommendations made in the audit report:

- Develop and implement a Director's Policy to define the authority, role, and responsibility of the ERM Program.
- Establish a Delegation of Authority for the Chief Risk Officer.
- Facilitate the development of risk appetite statements and obtain approval from the Board.
- Adopt and implement the COSO ERM Integrated Framework to improve consistency between ERM and internal control frameworks.
- Coordinate efforts with the strategic planning and management function to identify internal and external factors on an ongoing basis that impact strategy implementation and achievement of Caltrans' mission, goals, and objectives.
- Facilitate the establishment of an ERM Committee to submit a Caltrans-wide risk report to the Board to enhance the strategic and risk management decision-making process.
- Develop and implement a mechanism to track and monitor risk assessment participation to ensure complete and timely responses are obtained from management.
- Develop procedures in accordance with Caltrans Deputy Directive No.DD-101-RI.
- Ensure the Board provides oversight of the development and implementation of Caltrans' risk response and that it aligns with Caltrans' vision and mission and within its risk appetite.

Director's Office of Risk and Strategic Management

Audit of the Effectiveness of Caltrans' Enterprise Risk Management Program

Independent Office of Audits and Investigations
Inspector General
California Department of Transportation

AUDIT REPORT

MAY 2019

PREPARED BY:

Independent Office of Audits and Investigations – MS 2

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P3010-0645

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BACKGROUND, ACCOMPLISHMENTS, SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSION

BACKGROUND

In April 2017, Governor Brown signed the Road Repair and Accountability Act, Chapter 5, Statutes of 2017 (SB1). In part, SB1 directed the Independent Office of Audits and Investigations (IOAI) to determine if the California Department of Transportation (Caltrans) is administering an effective Enterprise Risk Management (ERM) Program. The goal of an effective ERM Program is to help organizations identify, assess, and manage risk. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established an integrated framework to help organizations enhance their internal control systems.

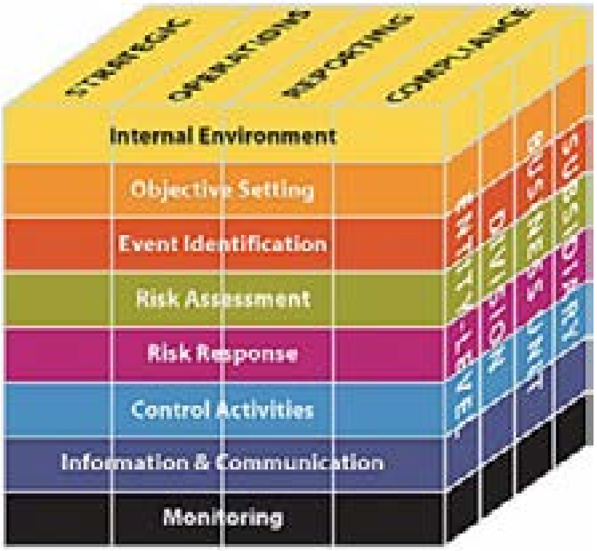
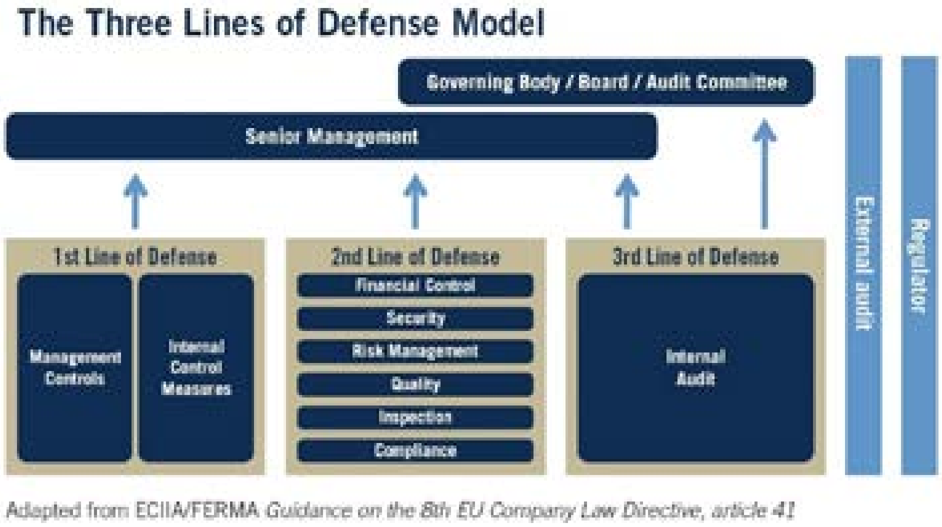


Figure 1. COSO ERM Framework

These eight components are criteria for an effective ERM (see Figure 1). The four types of organizational objectives (strategic, operations, reporting, and compliance) are represented by the cube’s top dimension. The four organization levels (entity-level, division, business unit, and subsidiary) are represented by the cube’s third dimension. Although the Director of Caltrans is ultimately responsible for ERM, everyone in Caltrans has some level of responsibility.

The Three Lines of Defense model, by the Institute of Internal Auditors (IIA), identified that management control is the first line of defense in risk management. The second line of defense is the control and oversight function established by management. The third line of defense is the independent assurance provided by internal audits.



Management supports Caltrans risk management philosophy and manages risks within its risk appetite at various organization levels. Each of the ERM components is directly related to organizational objectives.

The ERM Program was created in 2013, and it is currently under the Director's Office of Risk and Strategic Management. The ERM Program conducts risk assessments and develops a risk profile to ensure that Caltrans' decisions are strategic, prudent, and successfully support its organizational objectives. The ERM Program is responsible for reporting Caltrans' internal controls, monitoring systems, and enterprise risks under State Leadership Accountability Act (SLAA).

ACCOMPLISHMENTS

Caltrans has successfully complied with the Department of Finance's (DOF) SLAA since it was enacted in 2015. SLAA requires a review of Caltrans' internal control system and a biennial report to DOF. As a result of the ERM Program's efforts to promote a risk-conscious culture through outreach and training, the 2018 Caltrans Organizational Health Assessment identified significant improvements in employee awareness of risk management. The ERM Program developed risk evaluation tools and provided Risk Management Strategies training to over a thousand Caltrans employees. In March 2018, the ERM Program launched an online risk submittal portal for employees to report Caltrans-wide risks.

SUMMARY

The IOAI performed an audit to determine the effectiveness of Caltrans' ERM Program.

Our audit identified that the implementation of four of the eight criteria of an effective ERM could be improved:

- Internal Environment
- Event Identification
- Risk Assessment
- Risk Response

OBJECTIVES

The objectives of this audit are to determine whether adequate internal controls are in place for the administration of Caltrans' ERM Program by assessing:

- Adequacy of Caltrans-wide risk assessment process.
- Effectiveness of Caltrans-wide risk evaluation and response.
- Sufficiency of risk reporting and monitoring.

The audit covered the period of July 1, 2016, through June 30, 2018. We conducted our audit from July 17, 2018, through December 6, 2018. Changes after these dates were not tested, and accordingly, our conclusions do not pertain to changes arising after December 6, 2018.

SCOPE AND METHODOLOGY

We conducted interviews with key personnel within the Director's Office of Risk and Strategic Management and examined pertinent records to satisfy the audit objectives. The audit was performed in accordance with the International Standards for Professional Practice of Internal Auditing and the Process Elements Approach[1] endorsed by the IIA.

CONCLUSION

We determined Caltrans has made significant progress toward the implementation of an effective ERM Program. However, the ERM Program could not provide reasonable assurance that ERM efforts helped reduce Caltrans-wide risks because some characteristics of an effective ERM were not fully implemented. In this report, we provide recommendations to strengthen the ERM Program. The report is a matter of public record and will be placed on the IOAI's website, which can be viewed at ig.dot.ca.gov.

[1] IIA's International Professional Practices Framework – Assessing the Adequacy of Risk Management Using ISO 31000 (December 2010)

VIEWS OF RESPONSIBLE OFFICIALS

We requested and received a written response to our findings from the Director’s Office of Risk and Strategic Management. Please see Attachment 1 for their response.

Findings and Recommendations

INTERNAL ENVIRONMENT

An organization's internal environment provides discipline and structure and is the foundation for all other ERM components. The internal environment starts with the tone-at-the-top that sets the premise for how risk is viewed and managed by Caltrans staff and management. Key elements of an organization's internal environment are the Board of Directors or other governing body, clear statements of integrity and ethical values, assignment of authority and responsibility, and identification of risk appetite. The internal environment has a significant impact on how ERM is implemented and functions within an organization on a continuous basis. A positive example of Caltrans' internal environment is its demonstrated commitment to fostering a culture of integrity and ethical value as stated in Director's Policy No. DP-02-R2 which conveys the standards, responsibilities, and expectations for all Caltrans staff.

- The ERM Program did not fully implement the following characteristics of an effective internal environment:
- The ERM Program's authority and responsibility are not clearly defined. An executive document provided justification to establish an ERM Program but fell short of defining its authority, role, and responsibility. It would be difficult to evaluate the ERM Program's ability to meet its performance measures when the direction, definition, and objectives are not formally established.
- The ERM Program did not ensure risks were managed within Caltrans' risk appetite because a risk appetite was not formally approved by the Caltrans Executive Board to define the level of risk acceptable to achieve its mission, goals, and objectives. Risk appetite sets the boundary around the amount of risk Caltrans might pursue. For example, Caltrans seeks to make transportation decisions that support a vibrant economy and build communities rather than sprawl. Director's Policy No. DP-33 not only defines the long-term sustainability principles guiding Caltrans' decisions and business practices, but also identifies management responsibility. This policy revealed important insights on management's philosophy and attitude towards sustainability. If the goals and standards established in the policy are not accomplished or trending significantly in the right direction, a different set of strategies will be required to address risks associated with the missed goals. Caltrans should formally establish its risk appetite and adopt alternatives to match.
- The ERM Program did not adopt and implement COSO ERM Integrated Framework, but rather utilized the International Organization for Standardization (ISO) 31000[2] for the risk assessment process. Although there are no requirements to utilize any particular risk management framework, it is our view that COSO is a more suitable option for Caltrans. The State Administrative Manual 20060 requires the adoption of the Standards for Internal Control in the Federal Government (Green Book) as an internal control framework. Since the Green Book adapted the internal control principals from COSO Internal Control

[2] International Organization for Standardization 31000: Risk Management – Principles and Guidelines (November 2009)

Integrated Framework, Caltrans would benefit from the uniformity and standardization of COSO ERM and the Green Book.

RECOMMENDATIONS

We recommend Caltrans strengthen the ERM Program as follows:

- Develop and implement a Director's Policy to define the authority, role, and responsibility of the ERM Program.
- Establish a Delegation of Authority for the Chief Risk Officer.
- Facilitate the development of risk appetite statements and obtain approval from the Caltrans Executive Board.
- Adopt and implement the COSO ERM Integrated Framework to improve consistency between ERM and internal control frameworks.

DIRECTOR'S OFFICE OF RISK AND STRATEGIC MANAGEMENT'S RESPONSE

The Director's Office of Risk and Strategic Management concurred with the findings and recommendations and will take the steps necessary to address them. Please see Attachment 1 for details of the response and action plan.

EVENT IDENTIFICATION

According to the COSO ERM Integrated Framework, management identifies internal and external events that might have a positive or negative impact on an organization's ability to successfully implement strategy and achieve objectives. Events with a negative impact represent risks that require assessment and response by management. Events with a positive impact represent opportunities that are elevated during strategy and objective setting processes.

The ERM Program did not ensure risks were assessed frequently. The frequency of risk assessment coincided with the SLAA biennial reporting requirement. The nature of risk is unpredictable and occurs on an ongoing basis. Assessing risks every two years only addresses the compliance objective of the SLAA and isolated Caltrans strategic, operations, and reporting objectives. Each internal and external event that affects the achievement of Caltrans objectives must be identified and distinguished as either risk or opportunity on an ongoing basis. Both risks and opportunities should be considered by management during strategic planning.

RECOMMENDATION

We recommend the ERM Program coordinate efforts with the strategic planning and management function to identify internal and external factors on an ongoing basis that impact strategy implementation and achievement of Caltrans' mission, goals, and objectives.

DIRECTOR'S OFFICE OF RISK AND STRATEGIC MANAGEMENT'S RESPONSE

The Director's Office of Risk and Strategic Management concurred with the finding and recommendation and will take the steps necessary to address them. Please see Attachment 1 for details of the response and action plan.

RISK ASSESSMENT

The COSO ERM Integrated Framework describes risk assessment as a process that considers the extent to which potential events have an impact on achieving objectives. Management analyzes the likelihood and impact of both risk and opportunity. The role and responsibility of the board of directors is to provide important oversight to ERM and possesses a comprehensive understanding of the organization's risk appetite.

The ERM Program did not fully implement the following characteristics of an effective risk assessment:

- Risks assessed by the Caltrans Executive Board (Board) may only contain a top-down view of critical risk exposures. Organizations vary in size and complexity of operation. There is more than one methodology to conduct a risk assessment. Caltrans' current use of the top-down approach to risk assessment may be more suitable at the early stages of adopting and implementing ERM. As the ERM Program matures, it will be advantageous to assess risks across functional areas to improve the understanding of risk from diverse perspectives. Front-line management is positioned to recognize and communicate critical risk-based information. The quality of the information improves from the bottom-up approach. Risk assessment techniques should evolve over time from qualitative to a more quantitative analysis. Qualitative techniques consist of using a point scale to represent the impact and likelihood of the risk. Quantitative techniques require numerical values supported by data on events, processes, and measures developed for evaluating performance. It makes sense for an organization to transition to quantitative analysis if it enhances their decision-making process.
- The risk assessment process was not monitored to ensure full participation from the Board due to time management concerns. Since the result of the risk assessment was not monitored to ensure full participation, it is uncertain whether all relevant risks were identified that would impact the achievement of Caltrans vision, mission, and goals.
- The ERM Program did not retain adequate risk assessment documentation. The ERM Program lacked policy and procedures for records retention. Risks that were identified in isolation may evolve over time to affect Caltrans-wide operations and functions. Adequate documentation provides historical context related to the response and treatment of risk.

RECOMMENDATION

We recommend the ERM Program:

- Facilitate the establishment of an ERM Committee to submit a Caltrans-wide risk report to the Board to enhance the strategic and risk management decision-making process.
- Develop and implement a mechanism to track and monitor risk assessment participation to ensure complete and timely responses are obtained from management.
- Develop procedures for the inventory, tracking, storage, and destruction of records in accordance with Caltrans Deputy Directive No. DD-101-R1.

ASSET MANAGEMENT'S RESPONSE

The Office of Asset Management concurs with the finding and recommendations. Please see Attachment I for details of the response and action plan.

DIRECTOR'S OFFICE OF RISK AND STRATEGIC MANAGEMENT'S RESPONSE

The Director's Office of Risk and Strategic Management concurred with the findings and recommendations and will take the steps necessary to address them. Please see Attachment 1 for details of the response and action plan.

RISK RESPONSE

The COSO ERM Integrated Framework states management determines how to respond to the risks identified from risk assessment. Responses include risk avoidance, reduction, sharing, and acceptance. Management considers the outcomes and likely impact of risk when selecting the appropriate risk response to manage risk within Caltrans' risk appetite.

The ERM Program did not ensure the risk response and treatment were within Caltrans' risk appetite. Risk response is currently executed at the district and/or program level, but not at the Board level. The ERM Program would be unable to determine whether an appropriate risk response was selected without a defined risk appetite.

RECOMMENDATION

We recommend the ERM Program ensure the Board provides oversight of the development and implementation of Caltrans' risk response and that it aligns with Caltrans' vision and mission and within its risk appetite.

DIRECTOR'S OFFICE OF RISK AND STRATEGIC MANAGEMENT'S RESPONSE

The Director's Office of Risk and Strategic Management concurred with the finding and recommendations and will take the steps necessary to address them. Please see Attachment 1 for details of the response and action plan.

ATTACHMENT 1

AUDIT RESPONSE FROM THE DIRECTOR’S OFFICE OF RISK AND STRATEGIC MANAGEMENT

State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

***Making Conservation
a California Way of Life***

To:
WILLIAM E. LEWIS, CPA
Assistant Director
Independent Office of Audits and Investigations

Date: November 19, 2018

From:
BLAIR THOMPSON Chief Risk Officer,
Office of Risk and Strategic Management

Subject: Response to 2019 Audit Report on Effectiveness of ERM Program (P3010- 0645)

Attached is the Office of Risk and Strategic Management response to Audit No. P3010 - 0645 Effectiveness of ERM Program Audit Report. The Office of Risk and Strategic Management intends to address all findings and recommendations in the Effectiveness of ERM Program Audit Report.

Progress reports providing feedback on the status of the work plan items will be provided at 60-day, 180-day and 360-day milestones.

If you have any questions or need additional information, please contact Blair Thompson, Chief Risk Officer at (916) 651-8649.

Independent Office of Audits and Investigations - Response to Draft Report

Audit Response from Director's Office of Risk and Strategic Management

Audit Name: Effectiveness of ERM Program

Auditee: Director's Office of Risk and Strategic Management

Audit Number: P3010-0645

Audit Finding #1

The ERM Program's authority and responsibility is not clearly defined. An executive document provided justification to establish an ERM Program but fell short of defining its authority, role, and responsibility. It would be difficult to evaluate the ERM Program's ability to meet its performance measures when the direction, definition, and objectives are not formally established.

1.1 IOAI Audit Recommendation

Develop and implement a Director's Policy to define the authority, role, and responsibility of the ERM Program.

Auditee Response to Draft Report

The development and implementation of a Director's Policy DOT #2016005037 to define the authority, role, and responsibility of the ERM Program has been routed to all Divisions and Districts for comment. ERM is in the process of incorporating the edits into the policy. Once edits are completed, ERM will submit for final routing to the Union for review and the Directorate for signature.

Estimated Completion Date

8/12/2019

Staff Responsible

Silvia Russell

1.2 IOAI Audit Recommendation

Establish a Delegation of Authority for the Chief Risk Officer.

Auditee Response to Draft Report

The establishment of a Delegation of Authority for Chief, Office of Risk and Strategic Managment has been written and is pending submittal to the Statewide Policy Coordinator for processing.

Estimated Completion Date

7/2/2019

Staff Responsible

Silvia Russell

Audit Report Finding #2

The ERM Program did not ensure risks were managed within Caltrans' risk appetite because a risk appetite was not formally approved by the Caltrans Executive Board to define the level of risk acceptable to achieve its mission, goals, and objectives. Risk appetite sets the boundary around the amount of risk Caltrans might pursue. For example, Caltrans seeks to make transportation decisions that support a vibrant economy and build communities rather than sprawl. The Director's Policy No. DP-33 not only defines the long-term sustainability principles guiding Caltrans' decisions and business practices, but also identifies management responsibility. This policy revealed important insights on management's philosophy and attitude towards sustainability. If the goals and standards established in the policy are not accomplished or trending significantly in the right direction, a different set of strategies will be required to address risk associated with the missed goals. Caltrans should formally establish its risk appetite and adopt alternatives to match.

2.1 IOAI Audit Recommendation

Facilitate the development of risk appetite statements and obtain approval from the Caltrans Executive Board.

Auditee Response to Draft Report

Once Caltrans' Executive Board has identified the most important risks that Caltrans faces, the ERM Program can facilitate the development of risk appetite statements with the Board and obtain their approval. We seek to have the Executive Board identify these most important risks this Fall as part of our preparation for completing the 2019 State Leadership Accountability Act (SLAA) report in December. We will seek to facilitate the development of risk appetite statements with the Executive Board at the first available Executive Board meeting after we have submitted the SLAA report.

Estimated Completion Date

2/15/2020

Staff Responsible

Nate Lyday

Audit Report Finding #3

The ERM Program did not adopt and implement COSO ERM Integrated Framework, but rather utilized the International Organization for Standardization (ISO) 31000 for the risk assessment process. Although there are no requirements to utilize any particular risk management framework, it is our view that COSO is a more suitable option for Caltrans. The State Administrative Manual 20060 requires the adoption of the Standards for Internal Control in the Federal Government (Green Book) as an internal control framework. Since the Green Book adapted the internal control principals from COSO Internal Control Integrated Framework, Caltrans would benefit from the uniformity and standardization of COSO ERM and the Green Book.

3.1 IOAI Audit Recommendation

Adopt and implement the COSO ERM Integrated Framework to improve consistency between ERM and internal control frameworks.

Auditee Response to Draft Report

The ERM Program has been increasingly adopting and implementing the COSO ERM Integrated Framework since 2016. As the Department of Finance finishes their efforts to make the SLAA report match the COSO framework this year, and we meet our SLAA reporting compliance, we will have adopted and implemented COSO.

Estimated Completion Date

12/31/2019

Staff Responsible

Nate Lyday

Audit Report Finding #4

The ERM Program did not ensure risks were assessed frequently. The frequency of risk assessment coincided with the SLAA biennial reporting requirement. The nature of risk is unpredictable and occurs on an ongoing basis. Assessing risks every two years only addresses the compliance objective of the SLAA and isolated Caltrans strategic, operations and reporting objectives. Each internal and external event that affects the achievement of Caltrans objectives must be identified and distinguished as either risk or opportunity on an ongoing basis. Both risks and opportunities should be considered by management during strategic planning.

4.1 IOAI Audit Recommendation

We recommend the ERM Program coordinate efforts with the strategic planning and management function to identify internal and external factors on an ongoing basis that impact strategy implementation and achievement of Caltrans' mission, goals, and objectives.

Auditee Response to Draft Report

The ERM Program has been working closely with the Strategic Management unit since October 2018 to determine how risk-based analysis of internal and external factors can impact strategy implementation and achievement of Caltrans' mission, goals, and objectives. We have established, and had approved by the Executive Board, a process integrating enterprise-level risk data and analysis as inputs to Caltrans' 2020 Strategic Management Plan (SMP).This data is being gathered in our 28 Organizational Assessments of Opportunities and Threats with the leaders of all Districts, Programs, and Offices represented at Executive Board meetings. Once we have all the data it will be analyzed and consolidated, and both data and analysis will be a contextual resource for those creating the next SMP. We intend for the ERM Committee to be the mechanism by which internal and external risk factors are identified on an ongoing basis.

Estimated Completion Date

This coordination is already in progress.

Staff Responsible

Nate Lyday

Audit Report Finding #5

Risks assessed by the Caltrans Executive Board (Board) may only contain a top-down view of critical risk exposures. Organizations vary in size and complexity of operation. There is no best way and there is more than one methodology to conduct a risk assessment. Caltrans current use of the top-down approach to risk assessment may be more suitable at the early stages of adopting and implementing ERM. As ERM model matures, it will be advantageous to assess risks across functional areas to improve the understanding of risk from diverse perspectives. Front-line management are positioned to recognize and communicate critical risk-based information. The quality of the information improves from the bottom-up approach. Risk assessment techniques should evolve over time from qualitative to a more quantitative analysis. Qualitative techniques consist of using a point scale to represent the impact and likelihood of the risk. Quantitative techniques require numerical values supported by data on events, processes, and measures developed for evaluating performance. It would make sense for an organization to transition to quantitative analysis if it enhances their decision-making process.

5.1 IOAI Audit Recommendation

Facilitate the establishment of an ERM Committee to submit a Caltrans-wide risk report to the Caltrans Executive Board to enhance the strategic and risk management decision-making process.

Auditee Response to Draft Report

The ERM Program already has some of the documentation and executive support necessary to establish an ERM Committee that would report to the Executive Board enterprise risks of the highest importance, although those documents envisioned a larger committee, and will need to be updated. We plan on asking the Executive Board to establish an ERM Committee—and approve the process by which it vets and recommends enterprise risk response—at the Executive Board meeting in September.

Estimated Completion Date

9/30/2019

Staff Responsible

Nate Lyday

Audit Report Finding #6

The risk assessment process was not monitored to ensure full participation from the Board due to time management concerns. Since the result of the risk assessment was not monitored to ensure full participation, it is uncertain whether all relevant risks were identified that would impact the achievement of Caltrans vision, mission, and goals.

6.1 IOAI Audit Recommendation

Develop and implement a mechanism to track and monitor risk assessment participation to ensure complete and timely responses are obtained from management.

Auditee Response to Draft Report

The ERM Program has developed and implemented a mechanism to track and monitor risk assessment participation to ensure complete and timely responses are obtained from management. This system has been working effectively, but is currently incompletely documented.

Estimated Completion Date

Developed January 2019; implemented February-May 2019; final documentation expected July 15, 2019

Staff Responsible

Nate Lyday

Audit Report Finding #7

The ERM Program did not retain adequate risk assessment documentation. The ERM Program lacked policy and procedure for records retention. Risks that were identified in isolation may evolve over time to affect Caltrans-wide operations and functions. Adequate documentation provides historical context related to the response and treatment of risk.

7.1 IOAI Audit Recommendation

Develop procedures for the inventory, tracking, storage, and destruction of records in accordance with Caltrans Deputy Directive No. DD-101-R1.

Auditee Response to Draft Report

Procedures for inventory, tracking, storage, and destruction of records have been established and have been partially documented, but require further documentation.

Estimated Completion Date

Developed January 2019; final documentation expected July 15, 2019

Staff Responsible

Nate Lyday

Audit Report Finding #8

The ERM Program did not ensure the risk response and treatment are within Caltrans' risk appetite. Risk response is currently executed at the district and or program level, but not at the Caltrans Executive Board level. The ERM Program would be unable to determine whether an appropriate risk response was selected without a defined risk appetite.

8.1 IOAI Audit Recommendation

We recommend the ERM Program ensure the Caltrans Executive Board provides oversight of the development and implementation of Caltrans' risk response and that it aligns with Caltrans' vision and mission, and within its risk appetite.

Auditee Response to Draft Report

The ERM Program intends to use the ERM Committee as a mechanism by which recommendations for Caltrans' enterprise risk response are developed, and for the Executive Board to provide oversight of Caltrans' enterprise risk response by approving, denying, or adjusting those recommendations and implementing their selected recommendations. The ERM Program will make sure that the context of Caltrans' mission and vision, as well as it's risk appetite statements, are considered during this response development, implementation, and oversight.

Estimated Completion Date

2/15/2019

Staff Responsible

Nate Lyday