



CASA Officers

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December 10, 2021

Diana Antony, Inspector General, (Acting)
Independent Office of Audits and Investigations
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Diana Antony:

We have completed a peer review of the California Department of Transportation, Independent Office of Audits and Investigations (IOAI) for the period July 1, 2017 through June 30, 2020. In conducting our review, we followed the standards and guidelines contained in the *CASA Peer Review Guidelines*.

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States, during the period of July 1, 2017 through June 30, 2020.

Our procedures included:

- Reviewing IOAI's written policies and procedures.
- Reviewing IOAI's monitoring procedures and reported results.
- Reviewing a sample of audit and nonaudit engagements and working papers.
- Reviewing documents related to independence, training, and development of audit staff.
- Interviewing audit staff and management to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that, except for the deficiencies noted below, the IOAI's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for audits and nonaudit engagements during the period of July 1, 2017 through June 30, 2020.

Deficiencies found in your internal quality control system included a lack of process to assess the effect of nonaudit services on auditor independence for GAGAS engagements and inconsistent auditor independence verification. These control deficiencies resulted in a lack of reasonable assurance that IOAI consistently complied with GAGAS standards 3.20 and 3.64.

We offer the following observations and suggestions to help your organization achieve full compliance with the GAGAS.

- Standard 3.20 requires auditors and audit organizations to be independent from an audited entity during (a) any period of time that falls within the period covered by the financial statements or subject matter of the engagement and (b) the period of professional engagement. Standard 3.64 requires that before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct.

In reviewing IOAI's working papers, we observed that IOAI audit staff complete a Statement of Independence (SOI) prior to starting an audit engagement to confirm their independence. However, for two of the six sampled engagements, staff added to the audit team after the start of an engagement did not complete an SOI. Additionally, IOAI did not have a documented process or assessment to provide reasonable assurance that auditor independence was not impaired by IOAI's nonaudit services.

We recommend that IOAI perform and document an assessment of their non-audit work to determine which activities constitute a nonaudit service, determine if those nonaudit services create a threat to independence with respect to any GAGAS engagement IOAI conducts, and if a threat to independence exists, document implemented safeguards. Additionally, we recommend that IOAI develop a process to ensure that all audit team members confirm their independence and that the confirmation is included in audit engagement working papers.

Sincerely,

Laura
Langston
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Langston
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Laura Langston
Assistant Director
CA Department of
Education

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Deering-Volz
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Lisa Negri
Chief Auditor
CA Energy Commission



Independent Office of Audits and Investigations

December 6, 2021

Cheryl L. McCormick, President
California Association of State Auditors

Response to Draft Report - CASA Peer Review 2021

Thank you for the opportunity to respond to the California Association of State Auditor's draft peer review report of the Independent Office of Audits and Investigations (IOAI) received on November 18, 2021. We provide the following response to the deficiencies and observations noted in the draft peer review report.

As recommended, we will assess our nonaudit work and determine which activities constitute a nonaudit service and if those nonaudit services create a threat to independence for engagements conducted under Generally Accepted Government Auditing Standards. We will also document a process to assess the effect of IOAI's nonaudit services on auditor independence. This process will include identifying and documenting safeguards to mitigate threats to independence. If safeguards do not bring threats to an acceptable level, we will consider other actions. Additionally, we will remind all audit team members to confirm their independence and appropriately document it in the audit working papers.

We thank the team of Laura Langston, Michele Deering-Voltz, Noemi Lopez, and Lisa Negri for their participation and professionalism on this review.

If you have any questions, please contact Frances Parmelee, Acting Chief Deputy Inspector General at frances.parmelee@dot.ca.gov or (916) 764-4168.

Sincerely,

Original Signed By

Diana C. Antony, CPA
Acting Inspector General

December 6, 2021
Cheryl L. McCormick

c: Frances Parmelee, Acting Chief Deputy Inspector General, Independent
Office of Audits and Investigations