



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Matt Espenshade, Chief Deputy

December 18, 2025

Dina El-Tawansy
Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report – City of Modesto, Project Compliance Audit

Dear Ms. El-Tawansy:

The Independent Office of Audits and Investigations (IOAI) completed its project compliance audit of the City of Modesto (City). We audited the costs that the City incurred and the California Department of Transportation (Caltrans) reimbursed related to the City's State Route 132 West Freeway/Expressway – Phase 1 Project and its Crows Landing Road Pavement Rehabilitation Project, totaling \$91,472,748. We also audited the project deliverables and benefits.

BACKGROUND

Caltrans' Local Assistance Program oversees more than \$1 billion annually available to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various state and federal programs specifically designed to assist the transportation needs of local agencies. Included among these programs are the Regional Surface Transportation Block Grant Program and Highway Infrastructure Program, the Congestion Mitigation and Air Quality Improvement Program, and Earmark Projects.

Caltrans' Division of Project Management helps facilitate the delivery of Caltrans' capital projects, including Local Capital Outlay projects, on the State Highway System. Local Capital Outlay is funding for local agencies' right of way capital and construction capital costs for the rehabilitation, operational improvement, and construction of new facilities within the state right of way limits. Caltrans' district project management offices manage the delivery of the Local Capital Outlay projects through cooperative agreements per California Streets and Highways Code sections 114 and 130. The funding for these projects comes from various state and

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federal programs. Included among these programs are the State Transportation Improvement Program, the State Highway Operation and Protection Program, and the Trade Corridor Enhancement Program.

For our audit, we selected two projects for which the City received funding from Caltrans under these programs:

- **State Route 132 West Freeway/Expressway - Phase 1 Project:** Construction of a 2-lane expressway, improvement of SR 132/99 interchange, and encapsulation of three stockpiles of barium-contaminated soil existing within the 2-lane expressway project limits.
- **Crows Landing Road Pavement Rehabilitation Project:** Pavement rehabilitation and installation of class II bicycle lanes on Crows Landing Road, from Pecos Avenue to Hatch Road.

Caltrans reimbursed the City a total of \$91,472,748 for these projects as of November 26, 2024. See Appendix A for further details on the City projects we audited.

AUDIT RESULTS

For this audit, we obtained reasonable assurance that the costs the City incurred were allowable and adequately supported in accordance with Caltrans' agreement provisions, federal regulations, and state requirements. We also determined that the projects' deliverables were consistent with each project's scope as described in the executed agreements. Appendix B includes a summary of the methods we used to address the audit objectives.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact our office at (916) 323-7111.

Sincerely,



Bryan Beyer, CIG
Inspector General
Independent Office of Audits and Investigations

Enclosures:

Appendix A

Appendix B

cc: Dave Moore, Acting Chief Deputy Director, Caltrans
Grace Magsayo, District Director, District 10, Caltrans
Anton Kismetian, Central Region Services, Design Office Chief, District 6, Caltrans
Corey Casey, Acting Program Project Manager Office Chief, District 10, Caltrans
Ben Shelton, Audit Chief, Internal Audits Office, Caltrans
Joseph Lopez, City Manager, City of Modesto
Toby Wells, Director, Engineering Services Department, City of Modesto
Antonio Johnson, Director, Planning, Environment, Air Quality, and Right of Way, Federal
Highway Administration
Grace Regidor, Transportation Finance Specialist, Financial Services, Federal Highway
Administration

25.PJCT04

APPENDIX A. Details on City Projects as of November 26, 2024

Project Name	Project Number	Project Code	Project Status	Funding Program	Funding Source	Allocated Amount	Reimbursed Amount
SR 132 Expressway Project	ST-X099(645)	1000000424	Complete ¹	State Transportation Improvement Program Trade Corridor Enhancement Program	Federal and State	\$65,462,100	\$65,377,473
	TGHPLUL-5059(230)	1018000222		Earmarks Projects Regional Surface Transportation Block Grant Program and Highway Infrastructure Program	Federal	\$22,101,971	\$20,959,151
	NH-X099(646)	1015000115		State Highway Operation and Protection Program	Federal and State	\$3,299,400	\$2,339,683
Crows Landing Project	STPCML-5059(208)	1015000095	Complete ²	Regional Surface Transportation Block Grant Program and Highway Infrastructure Program Congestion Mitigation and Air Quality Improvement Program	Federal	\$3,053,708	\$2,796,441
					Total	\$93,917,179	\$91,472,748

Source: IOAI analysis of Caltrans' accounting records.

¹The Council of the City of Modesto accepted the project as complete on June 24, 2025. The City recorded the project with the Stanislaus County recorder on July 2, 2025.

²The Council of the City of Modesto accepted the project as complete on January 24, 2023. The City recorded the project with the Stanislaus County recorder on January 25, 2023.

APPENDIX B. Scope and Methodology

Audit Objective

We conducted this audit to determine if the project costs that the City claimed and Caltrans reimbursed were allowable and adequately supported in compliance with Caltrans' agreement provisions, federal regulations, and state requirements. Additionally, we conducted this audit to determine if project deliverables were consistent with the project scope and schedule and if project benefits were achieved and reported in accordance with applicable requirements.

Audit Period

Our audit period was from December 31, 2014, through June 24, 2025.

Criteria

We gained an understanding of the projects and relevant criteria by reviewing applicable federal regulations, state requirements, Caltrans' guidelines, executed project agreements, project records, City's policies and procedures, prior audit reports, and by interviewing key personnel from the City and Caltrans.

Risk Assessment and Internal Controls

We performed a risk assessment, including by identifying and evaluating whether the City properly designed and implemented internal controls significant to our audit objectives. Our evaluation of internal controls focused on the City's construction management procedures as well as review and approval processes for construction costs, consultant costs, and procurement. We also assessed the City's processes for submitting required project reports to Caltrans and the City's process for completing and achieving project deliverables and benefits.

Assessment of Data Reliability

Generally accepted government auditing standards require that we assess the sufficiency and appropriateness of computer-processed information if it will be used to materially support our findings, conclusions, and recommendations. We assessed the reliability of data from the City's expenditure reports, which are generated from Oracle, its enterprise resource planning system. This data was used to support the project costs. Our assessment included reviewing data sources, testing transactions for completeness and accuracy, and verifying whether selected costs were supported by source documentation. We determined that the data were sufficiently reliable to meet our audit objectives.

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Based on our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives, as detailed in Table 1 on the following page.

Table 1. Objectives and Methods in the Audit Process

Audit Objective	Methods
<p>Objective 1</p> <p>To determine if project costs claimed by the City and reimbursed by Caltrans were allowable and adequately supported in accordance with Caltrans' agreement provisions, federal regulations, and state requirements.</p>	<p>Selected significant and high-risk areas to verify compliance with the project agreements, federal regulations, and state requirements. Those selected areas were:</p> <ul style="list-style-type: none"> • Construction Costs • Right of Way Costs • Consultant Costs • Procurement • Contract Change Orders <p>Construction Costs</p> <p>For the SR 132 Expressway Project, selected and tested 35 out of 428 bid items by reviewing project files, progress pay estimates, daily reports, and quantity sheets, comparing them to relevant criteria to determine if selected items were allowable, supported, authorized, project-related, and incurred within the allowable time frame. Additionally, the City identified 112 bid items subject to Buy America requirements. Selected and tested 30 bid items by reviewing certificates of compliance and certified mill test reports to determine whether the items complied with Buy America requirements.</p> <p>For the Crows Landing Project, selected two progress pay estimates and tested all 15 out of 31 bid items by reviewing project files, progress pay estimates, daily reports, and quantity sheets, comparing them to relevant criteria to determine if selected items were allowable, supported, authorized, project-related, and incurred within the allowable time frame. Additionally, Caltrans' Division of Local Assistance headquarters identified two bid items subject to Buy America requirements. Selected and tested both bid items by reviewing certificates of compliance to determine whether the items complied with Buy America requirements.</p> <p>Right of Way Costs</p> <p>For the SR 132 Expressway Project, reviewed the City's expenditure report, invoices, and agreements to determine the eligibility of right of way costs included in the City's invoice. Traced and agreed invoices to the City's expenditure report and the reimbursable costs of the Federal Highway Administration report.</p> <p>Consultant Costs</p> <p>For the SR 132 Expressway Project, selected and tested 5 out of 11 invoices from the consultant to determine whether selected consultant costs were project related, eligible based on contract scope, properly authorized, incurred within the audit period, supported, and not billed twice.</p> <p>Procurement</p> <p>For the SR 132 Expressway Project, reviewed the City's construction management contract procurement to assess compliance with state regulations, including the Mini-Brooks Act and the LAPM, by reviewing the request for proposal, executed contracts, advertisement documents, qualifications assessment documents, and indirect cost rate approvals.</p>

Audit Objective	Methods
	<p>For the SR 132 Expressway Project and the Crows Landing Project, reviewed the City's construction contract procurements to assess compliance with federal regulations and the LAPM by reviewing the invitation for bids, bid records, City bid assessments, advertisement documentation, and executed contracts.</p> <p>Contract Change Orders</p> <p>For the SR 132 Expressway Project, selected and tested 10 out of 215 contract change orders to determine whether the selected change orders were within the scope of work, not contract duplications, completed, and supported by reviewing the agreement, daily reports, and daily extra work reports.</p> <p>For the Crows Landing Project, selected and tested two out of five change orders to determine whether the selected change orders were within the scope of work, not contract duplications, completed, and supported by reviewing the agreement, daily reports, and daily extra work reports.</p>
<p>Objective 2</p> <p>To determine if project deliverables were consistent with the project scope and schedule.</p>	<p>Determined if the Project deliverables were consistent with the project scope and schedule by reviewing the project application, construction allocation memorandum, before and after photographs, notice of completion, project reports, and as-built plans, and by conducting an in-person site visit and corresponding with City personnel.</p>
<p>Objective 3</p> <p>To determine if project benefits were achieved and reported in accordance with applicable requirements.</p>	<p>For the SR 132 Expressway, we did not evaluate the project benefits because according to the project benefits form, the benefits will not be achieved until 2040. According to Caltrans, the project applicant, it will measure and report the achieved project benefits.</p> <p>For the Crows Landing Project, we did not evaluate project benefits because the funding program guidelines do not require reporting of project benefits.</p>