



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Matt Espenshade, Chief Deputy

June 4, 2025

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

Michael Keever
Acting Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Special Report – California Department of Transportation's Compliance and Oversight Activities Related to the Infrastructure Investment and Jobs Act

Dear Secretary Omishakin and Acting Director Keever:

At the request of the California State Transportation Agency (CalSTA), the Independent Office of Audits and Investigations (IOAI) completed a review of the California Department of Transportation's (Caltrans') compliance and oversight activities related to federal infrastructure funding, specifically the Infrastructure Investment and Jobs Act (IIJA). The review fulfills the requirements of the 2022 Budget Act (Senate Bill 198, Chapter 71, Statutes of 2022). Our objectives included identifying federal infrastructure funding oversight and monitoring requirements and conducting a readiness review of Caltrans programs identified as receiving federal infrastructure funding.

Our assessment of IIJA-funded projects, comprehensive staff interviews, detailed system evaluations, and review of associated documentation confirms Caltrans' capability to properly utilize IIJA and other federal transportation funds. Our review indicates that Caltrans appears to have an adequate system in place to track and monitor federally funded projects. Caltrans also demonstrates readiness to manage the influx of IIJA funding. Nevertheless, we suggest Caltrans take the following steps to further strengthen its efforts:

1. Formally document its processes for determining project eligibility under federal programs and tracking funding deadlines.
2. Continue to monitor FHWA funding to ensure lapses do not occur, particularly for new programs created by IIJA.

Gavin Newsom, Governor

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BACKGROUND

The IIJA, enacted in November 2021, represents the latest in a series of federal transportation funding packages dating back to the early 1990s. IIJA will provide \$550 billion nationally between fiscal years (FY) 2022 and 2026, of which Caltrans will receive approximately \$17 billion. The Federal Highway Administration (FHWA) distributes these funds through multiple programs, such as National Highway Performance Program (NHPP), Surface Transportation Block Grant (STBG), and Highway Safety Improvement Program (HSIP). These three programs receive the bulk of the funding under IIJA. Caltrans received \$3.3 billion in federal FY 2024 for FHWA programs, with most IIJA funding supporting the State Highway Operation and Protection Program (SHOPP).

Caltrans strategically manages multiple funding programs, often combining funding sources across projects to maximize efficiency and meet program requirements. To ensure maximum utilization of federal funding, Caltrans may first use older funding sources from prior transportation acts (e.g., the Fixing America's Surface Transportation Act and the Moving Ahead for Progress in the 21st Century Act). This approach allows for optimal use of both current IIJA and previous federal transportation funding. Due to this flexibility, some projects initially identified during IIJA funding may ultimately receive funding from pre-IIJA sources, while preexisting projects may receive IIJA funding. Caltrans also has flexibility regarding which FHWA program to use to fund a project, and a project may qualify under more than one FHWA program.

WORK PERFORMED

To gain an understanding of federal infrastructure funding oversight requirements and to identify Caltrans' process for monitoring federal infrastructure funds, we performed the following:

- Conducted interviews with key Caltrans staff from Asset Management, Financial Programming, Sustainability, and the Office of Federal Resources (OFR) within the Division of Budgets to gain an understanding of their processes for identifying projects eligible for federal funding, reviewing qualifications and eligibility, and seeking reimbursement.
- Selected and analyzed two IIJA-funded projects to determine if Caltrans followed requirements regarding project amendments and approvals.
- Reviewed the FHWA Guidance for the NHPP, STBG, and HSIP and evaluated Caltrans' compliance with key requirements. As part of that review, we also:
 - Analyzed Caltrans' Federal Aid Data System to ensure Caltrans is tracking FHWA program funding requirements.
 - Evaluated three SHOPP projects to determine if they were eligible under each of the three respective federal programs and confirmed projects also met program purpose and reporting requirements.
 - Reviewed how Caltrans tracks allocations for each FHWA program to ensure annual IIJA apportionments are obligated¹ within the specified time frame.
- Selected one IIJA-funded project from each of the three FHWA programs we focused on during our review. For each of those three FHWA programs, based on our understanding of the process gained through interviews of staff, we reviewed the supporting documentation of each selected project and then compared it to FHWA requirements.

¹An obligation, as defined by FHWA, is a legal commitment where the federal government promises to pay a state for the federal share of a project's eligible cost. The commitment occurs when FHWA approves the project and executes the project agreement.

- Reviewed SHOPP Guidelines, the Caltrans' Local Assistance Procedures Manual, and Caltrans' Project Changes Handbook to identify applicable procedures and criteria.
- Interviewed Division of Project Management staff to identify their process of tracking project status milestones, specifically regarding project completion and closeout.

As part of this limited review, we did not conduct detailed evaluations of Caltrans' IIJA projects and related expenditures to determine whether the controls and processes Caltrans has implemented are operating properly and being followed consistently by Caltrans' staff. Therefore, our conclusions in this report are limited to our evaluation of the controls themselves and not whether they have been sufficiently implemented for all IIJA projects and programs.

The results in this report are based on our review performed from April 2024 through May 2025. We provided the results to relevant Caltrans staff and, as necessary, incorporated their responses.

OBSERVATIONS

Caltrans' Process for Identifying Project Eligibility Is Multidimensional and Has Several Decision Points

Caltrans uses a collaborative approach involving Asset Management, Financial Programming, and the OFR within Caltrans, as well as the California Transportation Commission (Commission), to identify, review, and approve expansion of federal transportation funding for projects created by the influx of IIJA funding.

Due to funding deadlines, Asset Management staff worked together with a steering committee to prioritize and use IIJA funds by creating funding targets focused on achieving specific outcomes. Caltrans directed additional funding made possible by IIJA primarily toward existing district-identified projects and, to a lesser degree, new projects. After the committee identified which projects could be expanded in scope, Caltrans Headquarters staff collaborated with district staff to develop requests to the Commission for funding. Financial Programming staff then review the project change requests (PCR) submitted by the districts and enter the relevant project details into the California Transportation Improvement Program System database. The Commission then determines whether to allocate funds to the project. Ultimately, the OFR determines a project's eligibility for a particular FHWA program and funding source. For an overview of the process, see Appendix A.

Although Caltrans Appears to Have Sufficient Controls in Place That, If Followed, Would Ensure It Adheres to Federal Rules and Guidance for Use of the Funds, It Could Further Strengthen Its Controls to Help Meet Funding Deadlines

Generally, the requirements to use federal transportation funds are based on long-established guidance specific to FHWA programs, which the FHWA updates with each major federal funding cycle. Based on our review of FHWA guidance, we identified key program requirements: eligibility, funding requirements, program purpose, and reporting.

Although other Caltrans entities, such as Headquarters Asset Management and the Division of Financial Programming, play a role in identifying projects that can receive federal funds, it is ultimately the OFR that determines whether a specific project is eligible for reimbursement from a specific FHWA fund. To accomplish this, area engineers from the OFR review projects that district staff have indicated as potentially eligible through assigned FHWA program codes. The area engineers examine the scope of work performed, PCRs, and other documentation; compare it to the specific FHWA program

requirements; and then, using professional experience, determine if the project is eligible. This work is then reviewed and confirmed by a senior engineer, who concurs their approval by signing the project agreement with FHWA.

Table 1 below lists the key FHWA program requirements we identified and whether Caltrans fully or partially complied with the requirements and depicts whether Caltrans met monitoring and oversight requirements for the FHWA programs we selected for review.

Table 1. Summary of Caltrans' FHWA Program Compliance

FHWA Compliance

Key Requirements	NHPP	STBG	HSIP
Eligibility	Full	Full	Full
Funding Requirements	Full	Full	Full
Program Purpose	Full	NA	Full
Reporting	Full	NA	Full
Authorization	Full	Full	Full

Monitoring and Oversight

Key Requirements	Program-Wide
IJJA-Funded Projects Properly Amended and Approved	Full
Track Obligation/Allocation	Full
SHOPP Quarterly Reports	Partial
Project Completion/Closeout	Full

Note: NA stands for "not applicable."

Source: Analysis by IOAI.

Although we did not identify any significant concerns during our review, we did note areas in which Caltrans could improve. Specifically, the OFR lacks formal documentation of its procedures for identifying IIJA-eligible projects and formal guidance for tracking funding availability. Federal requirements stipulate annual apportionments must be obligated within four fiscal years or the state risks losing the funding. For example, Caltrans must obligate the IIJA funds for federal FY 2022 by September 30, 2025 (the end of federal fiscal year 2025). We confirmed that the OFR tracks those obligations using a FHWA-created spreadsheet that it reviews to ensure federal funds are obligated timely and do not lapse. However, this review is primarily done by OFR managers, and the office does not have formal guidance specifying roles and responsibilities regarding review of funding deadlines. Without documented procedures that include various levels of review, Caltrans may become vulnerable to various types of risks if staff depart, which could potentially increase the risk of the state losing out on federal funding opportunities. Therefore, we recommended Caltrans consider formalizing its process in this area.

Given Caltrans' regular review of federal funding, the risk of lapsed funds appears low, but remains possible. The FHWA tracking spreadsheet shows that a funding lapse is not immediately anticipated for the three preexisting FHWA programs we reviewed.

Caltrans Should Continue to Monitor FHWA Funding to Ensure Lapses Do Not Occur, Particularly in Programs Created by IIJA

During our review, we examined Caltrans' October 2022 Carbon Reduction Program (CRP) Action Plan which listed "identifying eligible projects or project components ready to obligate funds" as a potential threat that may limit availability or accessibility of IIJA funding. This new IIJA program funds projects that reduce transportation emissions, defined as carbon dioxide emissions from on-road highway sources. In October 2024, we inquired with the Deputy Director of the Director's Office of Sustainability about the status of CRP projects and learned that Caltrans has selected three projects to fund under this program. Of the three CRP projects, one has funds allocated to it and two had not yet been allocated. When we asked about the two not yet allocated projects, we discovered one project may face delays in funding obligation. The OFR office chief confirmed Caltrans is addressing funding lapses through their review process and taking actions, which could include transferring funds from CRP to HSIP funds and using them for HSIP projects. Our examination of the FHWA-created spreadsheet from May 8, 2025, shows CRP program funds are not expected to lapse until the end of federal FY 2027. Since new programs may impose additional eligibility requirements for funding, Caltrans should continue to monitor FHWA funding availability and ensure that projects meeting those requirements are ready in time to secure available funding.

Caltrans Has Controls in Place to Monitor Individual Projects

Based on interviews with staff within the Division of Project Management, a review of applicable program guidelines and Caltrans' Project Delivery Directives (as well as the most recently available Project Delivery Report), Caltrans appears to have a system in place to sufficiently monitor the progress of individual projects. Division of Project Management staff told us that the Project Resource and Schedule Management (PRSM) database tracks project status and milestones, including project completion and that this database generates notifications to key personnel designated by project managers when important milestones are achieved. We reviewed along with Division of Project Management staff a PRSM report that tracks milestones, and observed how the system displays those milestones. Division of Project Management staff also stated that district project managers maintain responsibility for updating scope, schedule, and cost information in the database throughout the project

Lastly, we were informed during these interviews that at the district level, teams utilize the PRSM data to make informed decisions regarding project management.

Our review of the relevant Project Delivery Directives covering the use of the PRSM system identified critical dates for federal funding, specifically construction contract acceptance and the Agreement End Date (AED), these dates are mandatory notification dates within the PRSM system when achieved. The AED is particularly significant as it represents the final date by which Caltrans can submit vouchers to the FHWA for reimbursement. While Caltrans can request extensions to the AED, this requires notification to the FHWA and subsequent approval.

Caltrans' Quarterly Project Delivery Report Lacks Information Required by Guidelines

Although Caltrans has controls in place to monitor projects, we noted some missing fields from its Project Delivery Reports. The Project Delivery Reports are compiled by the Office of Project Delivery and Workload Development and are used to provide project status updates to the Commission. These reports include information regarding programming, allocation, and project completion. However, the report we examined for our review period did not include some elements required by the SHOPP guidelines, including narratives for projects with changes in outputs between construction allocation and completion, as well as the reason for these changes. Therefore, we recommend that Caltrans make some improvements to ensure its Project Delivery Reports include all pertinent elements.

According to staff at Caltrans' Office of Project Delivery and Workload Development, starting in FY 2024–25, they would include a narrative of project output changes in reports. When we reviewed the most current report for the second quarter of FY 2024–2025, we noted that it did include a narrative of project output changes.

Conclusion

Based on our limited review of IIJA-funded projects, discussions with multiple Caltrans staff, database system walk-throughs, and an evaluation of available documentation, overall Caltrans' ability to use IIJA funding properly and expeditiously or other federal transportation funds appears satisfactory. Caltrans appears to have an existing system in place that, if followed, ensures it properly receives, allocates, and expends federal infrastructure funds, including the influx of funding under IIJA. It also appears to have adequate processes in place to monitor the status of projects paid for by federal funds.

Although Caltrans' processes seem appropriate, we did identify some risks associated with IIJA funds. To address those risks, we recommend:

- Caltrans should formalize its process for reviewing project eligibility and assigning federal funds.
- Continue to monitor FHWA funding to ensure lapses do not occur, particularly for new programs created by IIJA.

If you have any questions regarding this report, please contact our office at (916) 323-7111.

Sincerely,



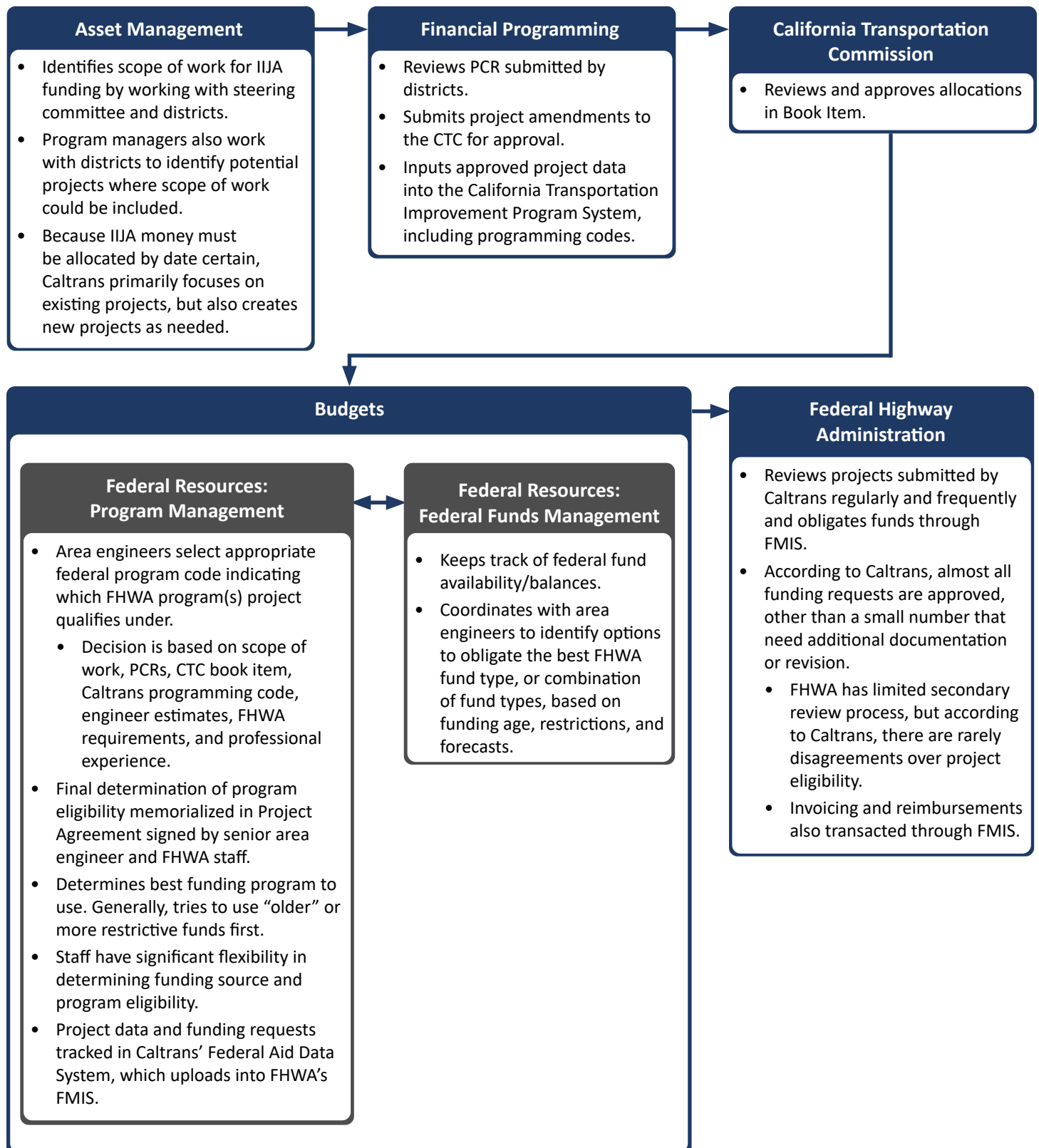
Bryan Beyer, CIG
Inspector General
Independent Office of Audits and Investigations

Enclosures:
Appendix A
Caltrans' IJJA Review Response

cc: Eric Sundquist, Deputy Director, Sustainability, Caltrans
Steven Keck, Chief Financial Officer, Caltrans
Keith Duncan, Division Chief, Budgets, Caltrans
James Anderson, Division Chief, Financial Programming, Caltrans
Michael Johnson, State Asset Management Engineer, Headquarters Asset Management,
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Fardad Falakfarsa, Office Chief, Federal Resources, Caltrans
Richard Stone, Office Chief, State Highway Operation and Protection Program, Caltrans
Sunil Gandrathi, Office Chief, Project Delivery and Workload Development, Caltrans
Ben Shelton, Audit Chief, Internal Audits Office, Caltrans
Alicia Fowler, Acting Undersecretary, General Counsel, CalSTA
Carlos Quant, Deputy Secretary, Budget and Administration, CalSTA

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Appendix A. Overview of Process for Identifying and Approving Projects Eligible for FHWA Funding Under IIJA According to Caltrans



Caltrans' IIJA Review Response

CALIFORNIA STATE TRANSPORTATION AGENCY

GAVIN NEWSOM, GOVERNOR

California Department of Transportation

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June 2, 2025

Mr. Bryan Beyer
Inspector General
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Dear Inspector General Beyer

Thank you for the opportunity to respond to the observations contained in your *Confidential Draft Special Report – California Department of Transportation's Compliance and Oversight Activities Related to the Infrastructure Investment and Jobs Act*. We are pleased that your review confirms the California Department of Transportation's (Caltrans) capability to properly utilize IIJA and other federal transportation funds, and that we have adequate systems in place to track and monitor federally funded projects.

With regard to the recommendation to more formally document our comprehensive processes, we agree that expanding formal documentation will further strengthen our capacity to manage federal transportation funding effectively. We also support your second recommendation to "continue to monitor FHWA funding to ensure lapses do not occur, particularly for new programs created by IIJA." This is a central priority of our Office of Federal Resources and will remain our focus with all federal funding.

Caltrans is quite proud of what it has accomplished in the delivery of federal funding received through the passage of the IIJA, and we look forward to continued collaboration with your office to further enhance our practices.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Steven D. Keck'.

STEVEN D KECK
Chief Financial Officer

c: Michael Keever, Acting Director, Caltrans
Ben Shelton, Audit Chief, Internal Audits Office, Caltrans
Keith Duncan, Division Chief, Budgets, Caltrans

"Improving lives and communities through transportation."