



INSPECTOR GENERAL

California Department of Transportation

City of Sanger

Project Audit



Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Diana Antony, Chief Deputy

June 2023
22A.INCA05



For questions concerning the contents of this report, please contact (916) 323-7111 or email ioai.reports@dot.ca.gov.



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

June 30, 2023

Tony Tavares, Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report— City of Sanger, Project Audit

Dear Director Tavares:

The Independent Office of Audits and Investigations (IOAI) has completed its audit of the City of Sanger, Public Works Department (City). We audited the costs that the City incurred related to the “Sanger Active Transportation Access” and “Academy Avenue Reconstruction – 11th Street to North Avenue” projects totaling \$2,861,937, which were reimbursed by the California Department of Transportation.

Enclosed is our final report, which includes the City’s response to the draft report. Our evaluation of the response is incorporated into this final report. The final report is a matter of public record and will be posted on IOAI’s website.

A Corrective Action Plan (CAP) addressing the recommendations is due from Caltrans 60 days from receipt of this letter. Thereafter, CAP updates will be required every 6 months and 1 year from the report issuance date, until all findings have been addressed. The CAP should be sent to ioai.reports@dot.ca.gov.

If you have any questions regarding this report, please contact Fabiola Torres, Audit Chief, at (916) 704-3628.

Sincerely,

Bryan Beyer, CIG
Inspector General

Gavin Newsom, Governor

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Tony Tavares
June 30, 2023
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Terms Used in Report

Terms/Acronyms	Definition
A&E	Architectural and Engineering
ADA	Americans With Disabilities Act
ATP	Active Transportation Program
ATP Project	The “Sanger Active Transportation Access” Project
Benefits	Also known as outcomes, benefits are non-physical improvements, such as congestion reduction, air quality improvement, improved safety, or economic development ¹ .
Caltrans	California Department of Transportation
CCO	Contract Change Order
City	City of Sanger
CFR	Code of Federal Regulations
Commission	California Transportation Commission
Deliverables	Also known as outputs, deliverables are the actual infrastructure, such as buses, bike lanes, transit lanes, and HOV lanes ¹ .
IOAI	Independent Office of Audits and Investigations
LPA	Local Public Agency
Procedures Manual	Caltrans’ Local Assistance Procedures Manual
Q Sheets	Contract Item Quantity Calculation Sheets
RFP	Request for Proposal
STBG	Surface Transportation Block Grant
STBG Project	The “Academy Avenue Reconstruction – 11th Street to North Avenue” Project

¹The California Transportation Commission’s (Commission) Senate Bill 1 Accountability and Transparency Guidelines referenced these terms. We obtained the definitions from the Commission’s presentation at a Senate Bill 1 Program Benefits Workgroup held on July 19, 2019.

Summary

The purpose of this audit was to determine whether claimed and reimbursed costs for the “Sanger Active Transportation Access” and “Academy Avenue Reconstruction – 11th Street to North Avenue” projects (projects) were allowable and adequately supported in accordance with the California Department of Transportation’s (Caltrans) agreement provisions and state and federal regulations. In addition, we determined whether project deliverables and benefits reported to Caltrans were achieved and consistent with the projects’ scopes and schedules, as described in the executed agreements.

For this audit, we determined that the deliverables for the two projects, which included the reconstruction of ramps and a sidewalk; the addition of turn lanes; the construction of a curb, gutter, sidewalk, and raised median; and the modification of traffic signals, were consistent with the projects’ approved scopes. However, we were unable to obtain reasonable assurance that \$2,861,937 in total costs claimed by the City of Sanger (City) and reimbursed by Caltrans were allowable and adequately supported in accordance with Caltrans’ agreement provisions and state and federal regulations. Specifically, the City did not follow various state and federal procurement and project records retention requirements.

Furthermore, for the “Sanger Active Transportation Access” project, we found that the City did not report the project’s benefits, which included increasing pedestrian safety, mobility, and accessibility, in its Final Delivery Report submitted to Caltrans; therefore, it is unknown at this time whether the project achieved its anticipated benefits. With respect to the “Academy Avenue Reconstruction – 11th Street to North Avenue” project: the executed contract did not stipulate any benefit terms; therefore, we did not review project benefits for this project.

Table 1. Summary of Questioned Costs

Finding #	Description	Questioned Costs	
1	Questioned Construction Costs Due to Lack of Supporting Documents		\$2,381,417
2	Questioned A&E Costs Due to Noncompliance with State and Federal Procurement Requirements	\$443,609	\$480,520
3	Unallowable Consultant Costs Claimed and Reimbursed	\$36,911 ²	
Total Questioned Costs			\$ 2,861,937

Source: Analysis by the Independent Office of Audits and Investigations

²Finding 2’s questioned costs includes this amount and listed separately for presentation purposes only.

Introduction

Background

Senate Bill 1 (Chapter 5, Statutes of 2017), also known as the Road Repair and Accountability Act of 2017, provided the first significant, stable, and on-going increase in state transportation funding in more than two decades. Caltrans administers various programs that provide federal and state funds to local agencies. Included among these programs is the Active Transportation Program (ATP) and the Surface Transportation Block Grant Program (STBG). Since the California Transportation Commission (Commission) recognizes the ATP as a Senate Bill 1 program, it is subject to adhere to state guidelines, including the Senate Bill 1 Accountability and Transparency Guidelines, regardless of funding source. As the direct recipient of federal funds, Caltrans has statewide oversight responsibility of the STBG program and provides federal guidance resources on its website that the state utilizes to ensure proper administration of the STBG program³.

PROGRAM DESCRIPTIONS FROM CALTRANS' WEBSITE

ATP. The ATP consolidates existing federal and state transportation programs into a single program with a focus to make California a national leader in active transportation. The purpose of the ATP is to encourage an increased use of active modes of transportation by achieving the goals of increasing the proportion of trips accomplished by walking and biking, increasing the safety and mobility of non-motorized users, advancing efforts of regional agencies to achieve greenhouse gas reduction goals, enhancing public health, ensuring that disadvantaged communities fully share in the benefits of the program, and providing a broad spectrum of projects to benefit many types of users.

STBG. The STBG provides flexible funding that may be used by States and localities for projects to preserve and improve the conditions and performance on any Federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects, including intercity bus terminals.

Sources: Excerpts from [Caltrans' website on the ATP](#) and the [U.S. Department of Transportation, Federal Highway Administration's website on the STBG](#).

³ Excerpt obtained from [Federal Programming Branch | Caltrans](#)

In 2018 and 2020, the Commission allocated \$75,000 and \$774,000, respectively, in ATP funds for preliminary engineering and the construction of the “Sanger Active Transportation Access” project (ATP project). Completion of this project would reconstruct the City’s ADA ramps at various locations along Jensen Avenue, 7th Street, L Street, Recreation Avenue, and Faller Avenue, and benefit the most active transportation users, especially those with physical disabilities. In 2019, the Federal Highway Administration authorized \$2,204,171 in STBG funds for the construction of the “Academy Avenue Reconstruction – 11th Street to North Avenue” project (STBG project), which would improve Academy Avenue by adding turn lanes; adding a constructed curb, gutter, sidewalk, and raised median; and modifying traffic signals. Table 2 includes additional project details.

Table 2. Project Details

Program	Project Number	Funding Source	Project Status ⁴	Allocated Amounts	Reimbursed Amounts
ATP	ATPSB1L-5197(035)	State Funds	Complete and operational	\$849,000	\$711,047
STBG	STPL-5197(039)	Federal Funds	Complete and operational	\$2,204,171	\$2,150,890
Total				\$3,053,171	\$2,861,937

Source: Analysis by the Independent Office of Audits and Investigations

⁴The [Senate Bill 1 Accountability and Transparency Guidelines](#) define a project complete and operational when the project is within six months of construction contract acceptance or the project becomes operable (open to the public), whichever comes sooner. At that time, a local public agency (LPA) must submit a Completion Report to Caltrans.

Figure 1. Photo in 2018 Before Construction of the ATP Project



Source: <https://maps.google.com>

Figure 2. Photo in 2021 After Construction of the ATP Project



Source: <https://maps.google.com>

Figure 3. Photo in 2018 Before Construction of the STBG Project



Source: <https://maps.google.com>

Figure 4. Photo in 2022 After Construction of the STBG Project



Source: <https://maps.google.com>

Specific to the ATP project, although state law authorizes the Commission to allocate funding, Caltrans provides administrative oversight and ensures that funded recipients follow the terms and conditions of the Commission's Senate Bill 1 Accountability and Transparency Guidelines. These guidelines state that as a condition of receiving funds, the implementing agency must adhere to various reporting requirements. Refer to Table 3 for descriptions of key reports that the City must submit to Caltrans, such as the Completion Report and Final Delivery Report.

Table 3. Definitions from the California Transportation Commission's Senate Bill 1 Accountability and Transparency Guidelines

Completion Report

Within six months of construction contract acceptance or the project becoming operable (open to the public), whichever comes sooner, the Implementing Agency shall provide a Completion Report to the Department on the scope of the completed project, its estimated final cost, estimated schedule, and project benefits as compared to those included in the executed project agreements. Additionally, the Completion Report shall describe the methodologies and assumptions used to evaluate how the project benefits were calculated as compared to the methodologies and assumptions used in the executed project agreements. In the event the project benefits identified in the Completion Report differ from those identified in the executed program agreements (cooperative, funding, or baseline), the difference must be noted, quantified, and explained. Documentation used for the benefit evaluation shall be preserved and made available for review by the Department, the Commission, the Transportation Inspector General, Department of Finance, and/or the California State Auditor, if requested. The Completion Report should not be delayed due to claims, plant establishment periods, ongoing environmental mitigation monitoring, or other reasons.

Final Delivery Report

A Final Delivery Report must be submitted within 180 days of the conclusion of all remaining project activities beyond the acceptance of the construction contract to reflect final project expenditures, any changes that occurred after submittal of the Completion Report and an updated evaluation of the benefits. The Commission may include this information in its annual reports to the Legislature.

Source: The California Transportation Commission's Senate Bill 1 Accountability and Transparency Guidelines

Scope and Methodology

For this audit, our objectives were to determine whether Caltrans reimbursed the City for costs that were allowable and adequately supported in accordance with Caltrans' agreement provisions, and applicable federal and state regulations. In addition, we determined whether the City came through with its deliverables and achieved the benefits reported to Caltrans within the projects' scopes, as described in the executed agreements. The executed agreements for the STBG project did not stipulate project benefit terms; therefore, we did not test benefits for the STBG project.

We gained an understanding of the projects and identified relevant criteria by reviewing the applicable federal and state regulations, the Commission's and Caltrans' guidelines, executed project agreements, project records, the City's policies and procedures, and the construction oversight review performed by Caltrans. Specifically, we reviewed the following:

- 2021 ATP Guidelines
- 2021 STBG Guidelines
- Commission's Senate Bill 1 Accountability and Transparency Guidelines
- 2012 and 2019 Caltrans' Local Assistance Procedures Manual
- City's ATP project application⁵

We performed a risk assessment, including 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 review and approval processes of costs and contract procurement, contract change orders (CCOs), and deliverables completion. As part of our audit work, we identified significant deficiencies related to the City's internal control environment.

We identified computer-processed data and determined the data was not related to our audit objectives and to significant areas identified in our audit. As a result, we did not perform a data reliability assessment.

Based on our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methodology included conducting interviews with key personnel, analyzing relevant documentation, and testing transactions related to claimed and reimbursed costs. Appendix A details our methods.

⁵The 2021 Active Transportation Program Guidelines (page 44) describes the project selection process, which requires an agency to submit an application for consideration in the statewide competition.

We conducted this audit according to 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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Results

Based on this audit, we determined that the deliverables for the two projects, including the reconstruction of accessibility ramps and a sidewalk and various improvements of Academy Avenue, were consistent with the approved scopes. However, we also concluded that the costs claimed by the City and reimbursed by Caltrans for the two projects did not comply with the executed project agreements and state and federal regulations, as noted in Findings 1, 2, and 3.

As described in Finding 4, the City did not report whether it achieved the project benefits for the “Sanger Active Transportation Access” Project (ATP project) in the Final Delivery Report submitted to Caltrans. The “Academy Avenue Reconstruction – 11th Street to North Avenue” Project (STBG project) did not have any approved benefit terms; therefore, we could not review benefits for this project. Appendix B includes a summary of the project details, including audit results.

Finding 1. The City did not Provide Adequate Documentation to Support its Construction Costs, Causing us to Question the Total Amount of Construction Costs Reimbursed by Caltrans.

Condition

For both projects, the City was unable to provide evidence to support \$2,381,417⁶ of reimbursed construction costs. Specifically, the City did not prepare source documents, such as Contract Item Quantity Calculation Sheets (known as “Q Sheets”), detailed daily reports to support actual item payments made to the contractor (i.e., daily reports did not clearly specify the corresponding work or bid item number), and Weekly Statements of Working Days. Specific to contract change orders (CCO), the City did not prepare memorandums to explain and justify them and the City did not prepare its own cost estimate calculation to support agreed-upon prices. In addition, while the City provided weight tickets for some bid items, some weight tickets did not include required signatures or initials by City staff validating material quantities received.

Due to these significant deficiencies, we are questioning the entire amount of \$2,381,417 that Caltrans reimbursed the City for construction costs. See Table 4 for a breakdown of the missing or inadequate documentation for the sample items we selected for testing.

⁶Caltrans reimbursed the City \$533,723 and \$1,847,694 for the ATP project and the STBG project, respectively, for a total of \$2,381,417.

Table 4. Unsupported Reimbursed Construction Costs for Sample Items Tested

Project Name/ Number	Progress Payment #	Bid Item/ CCO #	Bid Item Description	Missing/ Inadequate Documentation	Unsupported Reimbursed Costs
ATP Project ATPSB1L-5197(035)	1	8	Remove and Replace Concrete Curb	D, Q	\$690
		15	Concrete Curb Ramp Type I	D, Q	\$1,546
	2	18	Modified Curb Ramp 'B'	D, Q	\$1,496
		19	Truncated Domes Only	D, Q	\$23,341
	3	3	Clearing and Grubbing	D, Q	\$17,140
		4	HMA Type "A"	D, W, Q	\$6,047
	4	5	Remove and Replace Concrete Curb & Gutter	D, Q	\$1,470
		22	Remove and Replace APS System	D, Q	\$118,723
STBG Project STPL-5197(039)	5	2	Traffic and Dust Control	D, Q	\$7,855
		13	Aggregate Base	D, W, Q	\$10,275
		14	HMA, Type "A"	D, W, Q	\$140,800
		19	Type 1 Curb Ramp	D, Q	\$18,768
		47	Street Light	D, Q	\$7,998
		CCO 1	Valve box replacement, special signage, side street compaction, conductor, install pedestrian barricade, abandon existing fire hydrant, install sidewalk drains, lower existing fire hydrant.	D, Q, M, C	\$12,891
	8	22	Modify Ramp at Station 30+65	D, Q, WSWD	\$675
	9	32	Remove/Replace Concrete Sidewalk	D, Q, WSWD	\$2,274
	10	52	Landscape Plantings	D, Q, WSWD	\$3,555
	11	6	Pavement Striping, Stenciling & Markers	D, Q, WSWD	\$25,592
		CCO 5	Furnish and install handrail work at the AutoZone.	D, Q, M, C	\$2,640
	13	57	Modify North Avenue Traffic Signal	D, Q, WSWD	\$11,019
		CCO 6	Extend wire for railroad preemption, relocate advance detection loops, replace signal pole, replace existing traffic controller cabinet, remove and seal temporary double yellow striping.	D, Q, M, C	\$49,394
Total Unsupported Reimbursed Costs for Sample Items Tested					\$464,189

Legend

D= Daily Reports

Q= Contract Item Quantity Calculation Sheet

W= Weight Tickets

M= Memorandum Justifying the Change Order

C= Cost Estimate Calculation

WSWD= Weekly Statement of Working Days

Source: Analysis by the Independent Office of Audits and Investigations.

Cause

Although City management designated one of its own employees as the “person in responsible charge”, the City relied on Consultant A to provide construction oversight and inspection services, which included on-site inspection with contractors to confirm quantity measurements. However, the City did not ensure that Consultant A prepared or maintained the appropriate documentation to support contract bid item payments, which is the responsibility of the “person in responsible charge,” as we describe in the *Criteria* section below.

When we asked City management whether they could provide Q Sheets or any other detailed daily reports to support contract bid items for any of the costs associated with both projects, the City’s Public Works Director stated that such evidence did not exist and that the City did not prepare Q Sheets prior to the summer of 2021. For both projects, the City submitted final invoices to Caltrans which indicated work was performed through April 2021.

Criteria

For both projects, the 2019 procedures manual, Sections 5.5 and 5.8 state:

Local agencies must maintain all supporting backup documentation for costs incurred and claimed for reimbursement in their project files (made available to District Local Assistance Engineers only upon request).

The local agency shall maintain written source document records that account for agency costs and payments made to consultants, vendors, and contractors. Contract records must be retained by the local agency for a minimum of three years from the date of the final payment by the state.

For the STBG project, the 2019 procedures manual, Section 16.13 states:

Source documents are the original documents, data, and records containing the details to substantiate a transaction entered in an accounting system. Source documents are the permanent record sheets that create a clear and easily followed accounting trail from the total pay quantities in the proposal final estimate, back to the first measurement or calculation for each bid item. The most common source documents are:

- **Q Sheets.** A Q sheet supports and documents item payments made to the contractor each month. A separate Q sheet must be prepared for each contract item being paid for each progress payment.

- **Daily Reports.** These reports are required to support Q sheets. Section 16.8 of the procedures manual requires that the local agencies maintain daily reports to document the work in progress and must document what work was performed, where and how it was performed, and who performed it. The daily reports should record the hours worked, broken down by contract item and/or contract change work and quantitate measurements of contract item (i.e., measurements, tonnage, waste).
- **Weight Tickets.** These tickets, sometimes referred to as load slips are used to support both item quantity payments made by weight and extra work paid at force account. Weight tickets must be collected at the point of delivery and validated by a representative of the administering local agency. This is accomplished by a local agency employee signing or initialing the load slip upon delivery to indicate the represented material was used in the work.
- **Weekly Statement of Working Days.** These written records must be maintained to support project progress. Section 16.6 of the procedures manual states contract time is the maximum time allowed in the contract for completion of all work contained in the contract documents. The local agency must maintain a written record of contract time, often called the Weekly Statement of Working Days (WSWD) or Weekly Project Progress Record. The local agency is responsible for reviewing the contract time requirements, determining the controlling operation, determining if each day is a working day or non-working day, and supporting time extensions.

For the STBG project, the 2019 procedures manual, Section 16.10 states:

For each change order, the following documents must be prepared:

- The change order
- A memorandum explaining and justifying the change order

For many change orders, the following documents must also be prepared:

- PE stamped, signed, and dated revised plan sheets and Specifications
- **Cost estimate calculations performed by the**

Local Public Agency (LPA), not the Contractor, supporting any agreed prices (emphasis and acronym added)

- A time impact analysis justifying any time extensions

For the ATP project, State Master Agreement No. 00199S, Article I, Section 17 requires the City to provide or arrange for adequate supervision and inspection of each project. This section also states that while consultants may perform supervision and inspection work for the project with a fully qualified and licensed engineer, the City shall provide a full-time employee to be responsible charge of each project.

For the STBG project, the 2019 procedures manual, Section 16.2 and Section 16.13 state:

Federal statutes require that the LPA must provide a full time employee of the LPA who is accountable for the project. This individual is the person in responsible charge of the project. For projects administered by an LPA, the person in responsible charge does not need to be an engineer. The regulations allow one employee to have responsible charge over multiple projects at the same time.

The person designated responsible in charge must be a public employee. This requirement applies even in the following cases:

- a. A consultant is performing the construction engineering services
- b. A consultant has been hired as the City Engineer or Public Works Director

The person in responsible charge performs the following duties:

- Administers inherently governmental project activities including those dealing with cost, time, adherence to contract requirements, construction quality and scope,
- Maintains familiarity of the day to day project operations, including project safety issues,
- Makes or participates in decisions about changed conditions or scope changes that require change orders or supplemental agreements,
- Visits and reviews the project on a frequency that is commensurate with the magnitude and complexity of the project,
- Reviews financial processes, transactions and documentation to ensure that safeguards are in place

to minimize fraud, waste, and abuse,

- **Directs project staff, local agencies or consultants, to carry out project administration and contract oversight, including proper documentation,** and
- Maintains awareness of the qualification assignments and on-the-job performance of local agencies and consultant staff at all stages of the project.

An LPA must establish a separate record file for each federal-aid highway project. The project file must contain all data pertinent to the work and to the requirements of the specifications. In general, project records must support the adequacy of the field supervision, inspection and testing; conformance to contract specifications; and payments to the contractor. **Generally, whenever the LPA is unable to produce requested records, it shall be assumed by reviewing personnel the required actions were never performed.** Organized project files can minimize these negative assumptions. (Emphasis added)

Effect

By not maintaining its records and adhering to various state and federal requirements, the County cannot demonstrate that it performed the required actions, such as adequate field supervision, inspection and testing, and conformance to contract specifications.

Recommendations

1. Caltrans should coordinate with the Federal Highway Administration and the City to develop a corrective action plan to appropriately resolve this finding. This includes recovering \$2,381,417 in questioned costs identified in this audit.
2. The City should design and implement a review process to ensure project files include all relevant source documents, including but not limited to Q Sheets, weight tickets, detailed daily reports, and CCO memorandums. This process should ensure that the City maintains a clear audit trail to support project costs and to facilitate the tracing of incurred costs to source documents.
3. The City should ensure the designated “person in responsible charge” performs all the duties as required by state and federal requirements.

Finding 2. The City did not Comply with Various State and Federal Procurement Requirements, Causing us to Question the Validity of One Contract.

Condition

For one architectural and engineering (A&E) contract, the City's awarding process did not comply with state and federal requirements and with Caltrans' agreement provisions. Specifically, in April 2013, the City awarded a professional services contract to Consultant A to perform general and project management services, such as:

- Serve as the City's Engineer.
- Manage all aspects of civil engineering.
- Develop and recommend policies and procedures for effective operation of the City.
- Provide engineering services on projects and overseeing project management for the construction of municipal public works projects.
- Prepare capital improvement projects, improvement plans, specifications, bid documents, and public improvement project design work.
- Solicit proposals for capital improvement project design work.
- Review and evaluation of bid submittals.
- Provide construction observation and management during the course of City Projects.
- Act as Resident Engineer.
- Assist with inspection, approval of payments, cost estimating, filing of notices and other related tasks.

However, the City did not retain documentation to demonstrate that it provided fair and open competition, obtained a fair and reasonable price, and verified the awarded consultant's eligibility. Our testing identified procurement deficiencies that we determined ultimately compromised the integrity of the City's procurement practices, calling into question whether it properly awarded this contract. Due to these significant deficiencies, we question the entire amount of \$480,520 that Caltrans reimbursed the City for consultant costs. See Table 5 for a breakdown of the amounts awarded and reimbursed, by project and Table 6 on the following pages for the identified deficiencies.

Table 5. Total Amounts Reimbursed to Consultant A, by Project

Contract #	Contract Description	Project Name	Contract Award Amount Between the City and the Consultant	Amount Reimbursed by Caltrans
1	Professional Engineering Services	ATP Project	unknown	\$177,324
		STBG Project		\$303,196
Total				\$480,520

Source: Analysis by the Independent Office of Audits and Investigations.

Table 6. Summary of Procurement Requirements for Sample Items Tested

#	Criteria	Result
1	Did the City appoint a consultant selection committee with a minimum of three members at the beginning of the consultant selection process? 2012 Procedures Manual 10.4	√
2	Did the City include technical criteria and relative weights for proposal evaluations in the RFP? 2012 Procedures Manual 10.4 23 CFR 172.7(a)(1)(ii)(C)	X
3	Did the City advertise the initial RFP publicly? 2012 Procedures Manual 10.4 23 CFR 172.7(a)(1)(i)	X
4	Did the City maintain adequate project records (i.e., evaluation and ranking records) for proposal evaluations? 2012 Procedures Manual 10.4 and 10.7 23 CFR 172.7(a)(1)(iv)(F)	X
5	Did the City maintain documentation that bidders submitted proposals by the established deadlines? 2012 Procedures Manual 10.4 23 CFR 172.7(a)(1)(ii)(G)	X
6	Did panel members sign Conflict-of-Interest and Confidentiality Statement forms? 2012 Procedures Manual 10.8 23 CFR 172.7(b)(4)(ii)	X
7	Did the City prepare Independent Cost Estimates? 2012 Procedures Manual 10.2 23 CFR 172.7(a)(1)(v)(B)	X
8	Did the City perform profit negotiation? 2012 Procedures Manual 10.4 and 10.7 23 CFR 172.7(a)(1)(v)(E)	X
9	Did the City perform a pre-award audit of the consultant (for consultant contracts \$1 million or more)? 2012 Procedures Manual 10.1, 10.7, and 20.2 State Master Agreement No. 00199S, Article V, section 9 Federal Master Agreement No. 06-5197R, Article V, section 9	X

Source: Analysis by the Independent Office of Audits and Investigations.

Legend: √-Yes X-No

Below, we offer further explanation to the numbered items marked with a **X** presented in Table 6.

2. The City issued a Request for Proposal (RFP), but it only included the technical criteria without also including the relative weights that the City planned to use to score and rank the proposals submitted by the consultants.
3. The City could not provide documentation that supports that the City publicly advertised the RFP.
4. The City could not provide pertinent project records that supports that the City obtained, evaluated, and ranked at least three bid proposals.
5. The City could not provide documentation that supports that the consultants submitted their proposals within the established deadlines.
6. The City did not retain documentation that supports that the consultant selection committee members completed the Conflict of Interest and Confidentiality Statement (Exhibit 10-T in the procedures manual) prior to the initiation of the procurement process to ensure all panel members were free of potential conflicts of interest.
7. The City did not prepare the independent cost estimate. The independent cost estimate serves as the basis for price negotiations and ensures that the City obtains consultant services at a fair and reasonable price.
8. The City did not retain documentation that supports that the City performed profit negotiations as a separate element of the price to obtain a fair and reasonable price.
9. The City did not perform a pre-award audit of Consultant A before awarding the contract.

Moreover, the professional services contract between the City and Consultant A (which is in its 10th year and still effective) did not specify certain contract provisions required by federal regulations, as summarized in Table 7.

Table 7. Summary of Contact Management Requirements for Sample Items Tested

#	Criteria	Result
1	Did the City verify Certification of Consultant and Certification of Local Agency forms (Exhibits 10-F and 10-G) were executed and incorporated into the contract before approving contract with the consultant? 2012 Procedures Manual 10.7	X
2	Did the City specify a reasonable maximum length of contract period (not to exceed 5 years) and a maximum total contract dollar amount for the awarded contract? 23 CFR 172.9(a)(3)(i) and (ii)	X
3	Did the City provide prior written approval for subcontractors used by the consultant? 2012 Procedures Manual 10.1 23 CFR 172.7(a)(1)(iv)(B)	X

Source: Analysis by the Independent Office of Audits and Investigations.

Below, we offer further explanation to the numbered deficiencies presented in Table 7.

1. The City did not verify that the Certification of Consultant and Certification of Local Agency forms (Exhibits 10-F and 10-G) were executed and incorporated into the contract before approving the contract with the consultant.
2. The City did not specify a maximum length of contract period (i.e., a start and end date which shall not exceed 5 years) and a maximum total contract dollar amount. Based on our review of the executed contract and information provided by the City staff, we found that the City has not changed its City Engineer (Consultant A) since 2013 and the City has reimbursed Consultant A over \$2.6 million for services performed during the period January 2017 through December 2021. Documents were not readily available from April 2013 through December 2016. Therefore, the City could not provide a total amount reimbursed to Consultant A during this period.
3. The City could not provide documentation that supports that the City provided written approval for the subcontractors used by Consultant A.

Criteria

In Appendix C, we provide criteria applicable to each deficiency noted in Tables 6 and 7. Below, we highlight Section 20.2 of the 2012 procedures manual, which is a significant criteria that defines unrecoverable project deficiencies.

An Unrecoverable Project Deficiency is defined as a “deficiency of such magnitude as to create doubt that the policies and objectives of Title 23 of the United States Code (or other applicable federal codes) will be accomplished by the project,” and the project has proceeded to the point that the deficiency cannot be corrected. This level of deficiency shall result in the withdrawal of all or a portion of the federal and/or state funds from the project. Examples of the most common (found by Caltrans and FHWA) Unrecoverable Project Deficiencies (Federal) are:

- No pre-award audit for consultant contracts of \$1 million or more.
- Consultant contract awarded, but not through competitive negotiations, when a noncompetitive negotiated contract is not warranted
- Failure to open the bids publicly, failure to read the bids aloud, or failure to discuss reason(s) for not reading bid(s) aloud shall make the construction phase ineligible.

Cause

According to the City, procurement records could not be located because the previous Finance Director (who managed the procurement of this contract) no longer works for the City. The City also stated that it followed the Secretary of State’s 2006 Local Government Records Management Guidelines which indicates a document retention period of four years for state records and seven years for federal records for purchase request/order related administrative records. However, these guidelines were inconsistent with Caltrans’ 2012 procedures manual which required project records and documentation be kept for three years after payment of the final federal and/or state voucher for audit purposes.

As noted in Finding 1 above, although the City designated one of its own employees as the “person in responsible charge”, it relied on Consultant A to perform the duties of the “person in responsible charge” because of limited resources. However, the City did not ensure that Consultant A carried out project administration and contract oversight, including proper documentation, as required by federal and state regulations.

Effect

By not maintaining its procurement records and adhering to various state and federal requirements, the City cannot demonstrate that it provided fair and open competition, that it selected the most qualified consultant at a fair and reasonable price, and that it selected the consultant who was eligible for federal and state awards.

Lack of adequate supervision and inspection of projects by a public employee increased the risk that the City may encounter legal and compliance issues, safety and quality concerns, project delays and cost overruns, and lack of accountability over public funds.

Recommendations

1. Caltrans should coordinate with the Federal Highway Administration and the City to develop a corrective action plan to appropriately resolve this finding. This includes recovering \$480,520 in questioned costs identified in this audit. These questioned costs are separate from Finding 1.
2. The City should design and implement a process to ensure compliance with state and federal requirements and Caltrans agreement provisions, including updating its retention policy. This process should ensure that the City maintains a clear audit trail to support the solicitation, proposal, evaluation, and selection of consultants and to facilitate the tracing of negotiation activities to source documents.
3. The City should provide training to staff on all applicable state and federal procurement requirements, including all applicable procurement and record retention requirements.

Finding 3. The City Claimed and was Later Reimbursed for Consultant Costs that did not Comply with State and Federal Requirements and with the Terms in its Executed Contract.

Condition

Caltrans reimbursed the City for \$36,911 in consultant costs that we determined were unallowable. We found that the contract between the City and Consultant A did not include subconsultant costs as an allowable cost. However, the City claimed \$36,911 for subconsultant costs and was later reimbursed for them by Caltrans. In addition, Consultant A did not identify the subcontractors at the time of the proposal or obtain prior written approval from the City to use subcontractors. We include these costs as part of Finding 2.

Criteria

Consultant A's contract with the City states that the Consultant A is authorized to subcontract any specialized work, provided that the City Manager or designee has given its written approval of each subcontractor in advance of the engagement of the subcontractor.

The 2012 procedures manual, Section 10.1 states:

The consultant's organization and all associated consultants and subcontractors must be identified at the time of the proposal. If the consultant wishes to use a firm not specified in the proposal, prior written approval must be obtained from the local agency.

Title 23, Code of Federal Regulations, Part 172.7(a)(1)(iv)(B) requires subconsultants to be identified within the proposal with respect to the scope of work and established criteria.

Cause

The City stated that the subcontractors have worked on many projects and stated that "the Public Works Director and Engineer have constant communication about these projects, and they were unaware of any reason why these subconsultants wouldn't be approved." When we asked the City for written documentation approving the use of the subcontractors on both projects, City staff stated that they did not have written documentation.

Effect

Lack of adequate contract management oversight resulted in claiming costs that may be unallowable.

Recommendations

1. Caltrans should recover the \$36,911 costs that we determined were unallowable. For clarity, we included these costs as part of Finding 2.
2. The City should design and implement a process to ensure the City obtains written approvals when its consultants utilize subcontractors.

Finding 4. The City did not Report Whether it Achieved the Project's Benefits in Key Reports that it Submitted to Caltrans.

Condition

In 2018 and 2020, the Commission allocated \$849,000 to the City to construct access improvements to bring the City's infrastructure into compliance with the Americans with Disabilities Act (ADA) at various locations. According to the City's application, "the improvements will do more than make facilities ADA compliant, they will make access possible for some, and easier for all, resulting in safer, more attractive facilities being utilized more frequently to the benefit of users." The City also indicated in its Completion and Final Delivery Reports that the approved project benefits were "1,160 feet of reconstructed/enhanced sidewalks at numerous locations in the City *to increase pedestrian safety, mobility, and accessibility.*"

The City did not include any information in the Outcomes section of the Completion Report that it submitted to Caltrans in April 2021 (see Appendix D). In addition, the City's May 2022 Final Delivery Report did not include any information in the Outcomes section of the report, either, where we would have expected to find the City's description of what the ATP project had actually accomplished relative to what it had anticipated it would accomplish in its application. Instead, the City left this key field of the report blank (see Appendix E). However, as noted in the *Cause* section below, Caltrans staff stated it was not requiring this information at the time the City submitted the reports. Nevertheless, the criteria outlined below requires entities to report project benefits in both the Completion Reports and Final Delivery Reports.

Criteria

As referenced in the *Background* section of this report, the Commission's Senate Bill 1 Accountability and Transparency Guidelines require the project's benefits to be reported in a Completion Report and the Final Delivery Report. Specifically:

Within six months of construction contract acceptance or the project becoming operable (open to the public), whichever comes sooner, the Implementing Agency shall provide a Completion Report to the Department on the scope of the completed project, its estimated final cost, estimated schedule, and project benefits as compared to those included in the executed project agreements. Additionally, the Completion Report shall describe the methodologies and assumptions used to evaluate how the project benefits were calculated as compared to the methodologies and assumptions used in the executed project agreements. **In the event the project benefits identified in the Completion report differ from those**

identified in the executed program agreements (cooperative, funding, or baseline), the difference must be noted, quantified, and explained. Documentation used for the benefit evaluation shall be preserved and made available for review by the Department, the Commission, the Transportation Inspector General, Department of Finance and/or the California State Auditor, if requested. (Emphasis added)

The Final Delivery Report must be submitted within 180 days of the conclusion of all remaining project activities beyond the acceptance of the construction contract to reflect final project expenditures, **any changes that occurred after submittal of the Completion Report, and an updated evaluation of the benefits.** The Commission may include this information in its annual reports to the Legislature. (Emphasis added)

Effect

By not including a description in the Completion and Final Delivery Reports of the benefits the ATP project actually achieved, Caltrans (or anyone else reviewing these reports) would not know whether the project had met its goals of increasing pedestrian safety, mobility, and accessibility.

Cause

When we asked why the Completion and Final Delivery Reports did not include any information in the Outcomes section, the City staff stated they did not consider that information to be required since they were unable to enter that information in CalSMART⁷ (i.e., the input fields were non-editable). City staff also stated that since CalSMART notified the City that Caltrans approved its Completion Report and that the City successfully submitted its Final Delivery Report, the City presumed that the submitted reports did not contain errors.

When we asked Caltrans staff why the City was not required to report the outcomes information in its Completion and Final Delivery Reports, Caltrans staff confirmed it was not requiring this information at the time. Caltrans staff indicated that at the time, Caltrans and the Commission were still in discussions on how outcomes information should be reported for the ATP program.

⁷CalSMART is an online project reporting tool to meet the Commission's reporting requirements. A local agency enters project information into the system and once Caltrans reviews and approves the project information, a report is generated.

Recommendations

1. Caltrans should align its ATP program guidelines and its direction on how to report outcomes information with the Commission's expectations as described in the Senate Bill 1 Accountability and Transparency Guidelines.
2. The City should submit an updated Completion Report that includes the actual benefits achieved compared to the estimated benefits included in the executed project agreements. Additionally, if the benefits achieved differ from the estimated benefits identified in the project agreements, the difference should be noted, quantified, and explained.
3. The City should submit an updated Final Delivery Report that includes an evaluation of the benefits achieved. As part of this effort, the City should maintain a clear audit trail to document methodologies and assumptions used for the project's benefit evaluation.

Appendix A. Table of Methodologies

Audit Objectives	Methods
<p>Objective 1 To determine whether project costs were claimed and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state and federal regulations cited in the executed project agreements.</p>	<p>Selected significant and high-risk areas to verify compliance with the requirements of Local Assistance Procedures Manual (procedures manual), Surface Transportation Block Grant Program, and the Active Transportation Program guidelines. Those areas were:</p> <ul style="list-style-type: none"> • Project costs • Procurement • Contract change orders <p>Project Costs</p> <p>Determined whether construction costs were reviewed and approved by testing 8 bid line items out of 23 total bid items from 2 billings (2 out of 8 billings) for the ATP project, and 10 bid items out of 57 total bid items from 3 billings (3 out of 7 billings) for the STBG project. Determined whether selected costs were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing project files, progress payments, daily reports, weight tickets, and comparing to relevant criteria.</p> <p>Determined whether consultant engineering costs were reviewed and approved by testing 5 consultant invoices out of total 32 invoices from 3 billings (3 out of 8 billings) for the ATP project, and 4 consultant invoices out of 20 invoices from 3 billings (3 out of 7 billings) for the STBG project. Determined whether selected costs were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing project files, consultant fee schedules, and comparing to relevant criteria.</p> <p>Procurement</p> <p>Reviewed the one consultant contract that billed to both projects, and one construction contract that billed to the STBG project. Determined whether the invitations for bids and request for proposal were appropriately advertised, evaluated, and awarded by reviewing construction contractor and consultant engineering procurement records, such as project advertisements, contractor bid proposals, consultant proposals, scoring sheets, bidding documents, contract agreements, the City’s procurement policies, and relevant criteria.</p> <p>Contract Change Orders</p> <p>Selected 15 contract change orders (CCO) out of 18 CCOs from 2 billings (2 out of 7 billings) for the STBG project. Determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported by reviewing the CCO memorandums, descriptions, project scope of work, construction contract, daily reports, progress payments, and accounting records.</p>

Audit Objectives	Methods
<p>Objective 2</p> <p>To determine whether project deliverables were consistent with the project scope as described in the executed project agreements or approved amendments.</p>	<p>Determined whether selected project deliverables for the ATP project were consistent with the project scope as described in the project agreements by reviewing as built plans signed by the registered professional engineer, comparing project deliverables identified in the project agreements to the Completion Report and Final Delivery Report, and comparing before and after photographs of the project site.</p> <p>Determined whether selected project deliverables for the STBG project were consistent with the project scope as described in the project agreements by reviewing as built plans signed by registered professional engineer and comparing before and after photos of the project site.</p>
<p>Objective 3</p> <p>To determine whether benefits were consistent with the project scope as described in the executed project agreements or approved amendments.</p>	<p>Determined whether project benefits were adequately reported for the ATP project by comparing benefits identified in the project application to the Completion Report and Final Delivery Reports, interviewing City staff, and reviewing supporting documentation.</p> <p>We did not evaluate project benefits for the STBG project because this project did not have any approved benefit terms and the Surface Transportation Block Grant Program guidelines did not address reporting requirements for project benefits.</p>

Source: Analysis by the Independent Office of Audits and Investigations.

Appendix B. Summary of The Project Details, Including Audit Results

Project Details

Project Name

Sanger Active Transportation Access (ATP Project)

Project Number

ATPSB1L-5197(035)

Program

ATP - Active Transportation Program

Funding Source(s)

State funds (including Senate Bill 1)

Project Description

Access improvements in Sanger and bringing City infrastructure into compliance with American with Disabilities Act (ADA) standards.

Audit Period

May 16, 2018, through April 16, 2021, for objective 1⁸

May 16, 2018, through May 19, 2022, for objective 2⁹

Project Status

Construction is complete and operational.

Audit Results

Project Costs

Project costs incurred and reimbursed were not in compliance with the executed project agreements, Caltrans program guidelines, and applicable state and federal regulations resulting in questioned costs totaling \$711,047 (\$533,723 for Finding 1 and \$177,324 for Finding 2). Questioned costs of \$36,911 for Finding 3 are included in questioned costs reported in Finding 2.

⁸The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁹The audit period end date reflects the Final Delivery Report submission date.

Table 8. Schedule of Allocated, Reimbursed and Questioned Costs for the ATP Project

Category	Allocated Amounts	Reimbursed Costs	Questioned Costs
Construction	\$671,000	\$533,723	\$533,723
Consultant/ Engineering	\$178,000	\$177,324	\$177,327
Total Costs	\$849,000	\$711,047	\$711,047

Source: Analysis by the Independent Office of Audits and Investigations.

Project Deliverables

The construction phase of the project was completed on March 29, 2021. The project deliverables, including the reconstruction of ADA ramps, were consistent with the approved scope.

Project Benefits

Actual project benefits were not reported in the Final Delivery Report submitted to Caltrans. However, as reported in Finding 4, when we asked Caltrans staff why the City was not required to report the outcomes information in its Completion and Final Delivery Reports, Caltrans staff confirmed it was not requiring this information at the time.

Project Details

Project Name

Academy Avenue Reconstruction – 11th Street to North Avenue (STBG Project)

Project Number

STPL-5197(039)

Program

STBG – Surface Transportation Block Grant Program

Funding Sources

Federal funds

Project Description

Reconstruction of the existing pavement located on Academy Avenue between North Avenue and 11th Street, widening to add turn lanes, construction of curb, gutter, sidewalk, and raised median, and modified the existing traffic signals.

Audit Period

April 18, 2019, through April 22, 2021, for objective 1 and 2¹⁰

Project Status

Construction is complete and operational.

Audit Results

Project Costs

Project costs incurred and reimbursed were not in compliance with the executed project agreements, Caltrans program guidelines, and applicable federal regulations resulting in questioned costs totaling \$2,150,890 (\$1,847,694 for Finding 1 and \$303,196 for Finding 2). Questioned costs of \$36,911 for Finding 3 are included in questioned costs reported in Finding 2.

¹⁰The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

Table 9. Schedule of Allocated, Reimbursed and Questioned Costs for the STBG Project

Cost Category	Allocated Amount	Reimbursed Costs	Questioned Costs
Construction	\$1,882,208	\$1,847,694	\$1,847,694
Consultant/Engineering	\$321,963	\$303,196	\$303,196
Total Costs	\$2,204,171	\$2,150,890	\$2,150,890

Source: Analysis by the Independent Office of Audits and Investigations.

Project Deliverables

The construction phase of the project was completed on February 4, 2021. Project deliverables, including the various improvements of Academy Avenue, were consistent with the approved scope.

Project Benefits

Project benefits were not reported because this project did not have any approved project benefits. The STBG guidelines do not address reporting requirements for project benefits.

Appendix C. Criteria Related to Finding 2

# As noted in Table 6	Criteria Section	Criteria
All	<p>Brooks Act (Title 40 of the United States Code, 1101 – 1104)</p> <p>Mini-Brooks Act (Government Code, 4525 – 4529.5)</p>	<p>Section 1101. The policy of the Federal Government is to publicly announce all requirements for architectural and engineering services and to negotiate contracts for architectural and engineering services on the basis of demonstrated competence and qualification for the type of professional services required and at fair and reasonable prices.</p> <p>Section 4525. Notwithstanding any other provision of law, selection by a state or local agency head for professional services of private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms shall be on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required.</p>
All	<p>Federal Master Agreement No. 06-5197R, Article I #9</p> <p>Program Supplement No.00-199S-R25- R1 (for State Funded Projects), Special Covenants or Remarks #1</p>	<p>The administering agency shall conform to all state statutes, regulations and procedures (including those set forth in the Local Assistance Procedures Manual (LAPM) and the Local Assistance Program Guidelines (LAPG), hereafter collectively referred to as “Local Assistance Procedures”) relating to the federal-aid program, all Title 23 Code of Federal Regulations (CFR) and 2 CFR Part 200 federal requirements, and all applicable federal laws, regulations, and policy and procedural or instructional memoranda, unless otherwise specifically waived as designated in the executed project-specific Program Supplement.</p> <p>This project will be administered in accordance with the applicable California Transportation Commission, State Transportation Improvement Program guidelines and the Active Transportation Program guidelines as adopted or amended, the LAPM, the LAPG, and this Program Supplement.</p>
All	<p>2012 Procedures Manual 10.7</p>	<p>Project Records. For audit purposes, project records and documentation shall be kept for three (3) years after payment of the final federal and/or state voucher. Among the records to be retained as follows:</p> <ul style="list-style-type: none"> • Copies of RFPs and RFQs • Solicitation/advertisement records • Identification of selection committee members • Evaluation and ranking records • Independent cost estimate • Record of negotiations • Pre-award audit when applicable

# As noted in Table 6	Criteria Section	Criteria
1	2012 Procedures Manual 10.4	A consultant selection committee with a minimum of three members is appointed at the beginning of the consultant selection process. The committee reviews materials submitted by consultants, develops a shortlist of qualified consultants, and develops a final ranking of the most qualified proposals. Representation on the committee includes the Contract Administrator and a representative from the project's functional area. The members should be familiar with the project/segment to be contracted out and with the local agency standards that will be used in the contract. Participation by a Caltrans district representative is at the option of the agency and subject to availability of the DLAE staff.
2	2012 Procedures Manual 10.4	The Contract Administrator is responsible for developing the technical criteria, and their relative weights which are used to evaluate and rank the consultant proposals. The criteria and relative weights must be included in the Request for Proposal (RFP).
	23 CFR 172.7 (a)(1)(ii)(C)	The RFP shall provide all information and requirements necessary for interested consultants to provide a response to the RFP and compete for the solicited services. The RFP shall: identify evaluation factors including their relative weight of importance in accordance with paragraph (a)(1)(iii) of this section.
3	2012 Procedures Manual 10.4	The local agency advertises the availability of the RFP in a major newspaper of general or technical publication of widespread circulation. The local agency shall send the RFPs to organizations qualified to do the specified work, as well as professional societies, and recognized Disadvantaged Business Enterprise organizations (if federal-aid funds are being used).
	23 CFR 172.7(a) (1)(i)	Solicitation. The solicitation process shall be by public announcement, public advertisement, or any other public forum or method that assures qualified in-State and out-of-State consultants are given a fair opportunity to be considered for award of the contract.
4	2012 Procedures Manual 10.4	Receive and Evaluate Technical Proposals. The members of the consultant selection committee must evaluate each proposal in terms of the technical criteria listed in the RFP.
	23 CFR 172.7 (a) (1)(iv)(F)	The contracting agency shall retain supporting documentation of the solicitation, proposal, evaluation, and selection of the consultant in accordance with this section and the provisions of 2 CFR 200.333.

# As noted in Table 6	Criteria Section	Criteria
5	2012 Procedures Manual 10.4	Receive and Evaluate Technical Proposals. Late submittals, submittals to the wrong location, or submittal with inadequate copies are considered nonresponsive and shall be rejected. Submittal of additional information after the due date shall not be allowed.
	23 CFR 172.7 (a)(1)(ii)(G)	Provide an estimated schedule for the procurement process and establish a submittal deadline for responses to the RFP that provides sufficient time for interested consultants to receive notice, prepare, and submit a proposal, which except in unusual circumstances shall be not less than 14 calendar days from the date of issuance of the RFP.
6	2012 Procedures Manual 10.8	<p>Eligibility for federal and/or state reimbursement for local agency engineering (or equivalent) services requires the following:</p> <p>For a state funded or federal-aid project, completion of an “Exhibit 10-T Panel Member Conflict of Interest and Confidentiality Statement” form by all members (both consultants and employees) prior to participating in the Architect & Engineering (A&E) Selection Panel pertaining to the specific selection process and the firms being considered.</p>
	23 CFR 172.7 (b) (4)(ii)	No employee, officer, or agent of the contracting agency shall participate in selection, or in the award or administration of a contract supported by Federal-aid funds if a conflict of interest, real or apparent, would be involved. Such a conflict arises when there is a financial or other interest in the consultant selected for award by: (A) The employee, officer, or agent (B) Any member of his or her immediate family.
7	2012 Procedures Manual 10.2	Estimated Cost of Consultant Work. An independent cost estimate is needed for consultant contracts (required for contracts over \$100,000) to ensure that consultant services are obtained at a <u>fair and reasonable</u> price. The estimate is prepared in advance, so the local agency’s negotiating team has a detailed cost analysis of the project to evaluate the reasonableness of the consultant’s cost proposal. The estimate, which is specifically for the use of the local agency’s negotiating team, is to be kept confidential.
	23 CFR 172.7 (a)(1)(v)(B)	Independent estimate. Prior to receipt or review of the most highly qualified consultant’s cost proposal, the contracting agency shall prepare a detailed independent estimate with an appropriate breakdown of the work or labor hours, types or classifications of labor required, other direct costs, and consultant’s fixed fee for the defined scope of work. The independent estimate shall serve as the basis for negotiation.

# As noted in Table 6	Criteria Section	Criteria
8	2012 Procedures Manual 10.4	Negotiate Contract with Top-Ranked Consultant. The top-ranked consultant is requested to submit a cost proposal. After review of the cost proposal, the local agency begins the negotiations with the most qualified consultant. If agreement cannot be reached, then negotiations proceeds to the next most qualified consultant. Each consultant's cost proposal must remain sealed until negotiations commence with that particular consultant. The goal of negotiations is to agree on a final contract that delivers the services, or products required at a fair and reasonable cost to the local agency.
	23 CFR 172.7 (a)(1)(v)(E)	The contracting agency shall retain documentation of negotiation activities and resources used in the analysis of costs to establish elements of the contract in accordance with the provisions of 2 CFR 200.333. This documentation shall include the consultant cost certification and documentation supporting the acceptance of the indirect cost rate to be applied to the contract.
9	2012 Procedures Manual 10.1	<p>Pre-Award Audit. A pre-award audit is required for consultant contracts with state or federal-aid highway funds in the contract as outlined below.</p> <ul style="list-style-type: none"> • Consultant contracts \$1 million or more require a pre-award audit. The pre-award audit examines the consultant's accounting, estimating, administrative systems, proposed costs, financial condition, and the proposed contract language.
	2012 Procedures Manual 20.2	<p>Unrecoverable Project Deficiency. An Unrecoverable Project Deficiency is defined as "a deficiency of such magnitude as to create doubt that the policies and objectives of Title 23 of the USC (or other applicable federal codes) will be accomplished by the project," (quote from "PS&E Certification") and the project has proceeded to the point that the deficiency cannot be corrected. <u>This level of deficiency shall result in the withdrawal of all or a portion of the federal and/or state funds from the project.</u></p> <p>Examples of some of the most common (found by Caltrans and FHWA) Unrecoverable Project Deficiencies (Federal) are:</p> <ul style="list-style-type: none"> • No pre-award audit for consultant contracts of \$1 million or more. • Consultant contract awarded, but not through competitive negotiations, when a noncompetitive negotiated contract is not warranted • Failure to open the bids publicly, failure to read the bids aloud, or failure to discuss reason(s) for not reading bid(s) aloud shall make the construction phase ineligible.
	State Master Agreement No. 00199S, Article V #9	In addition to the above, the pre-award requirements of third-party contractor/consultants with administering agency should be consistent with Local Assistance Procedures.
	Federal Master Agreement No. 06-5197R, Article V #9	In addition to the above, the pre-award requirements of third-party contractor/consultants with administering agency should be consistent with Local Assistance Procedures.

# As noted in Table 6	Criteria Section	Criteria
1	2012 Procedures Manual 10.7	<p>Contracts with consultants covered by this manual must not be approved by the local agency until the certifications shown in Exhibits 10-F, "Certification of Consultant," and 10-G, "Certification of Local Agency" in this chapter are executed and incorporated into the agreement. The certifications shall be executed by a principal or authorized corporate official of the consultant, and by a principal administrative officer of the governmental agency responsible for the selection of the consultant. It is essential that these certifications be preserved in the project files.</p>
2	23 CFR 172.9(a) (3)(i) and (ii)	<p>On-call or indefinite delivery/indefinite quantity (ID/IQ). A contract for the performance of services for a number of projects, under task or work orders issued on an as-needed or on-call basis, for an established contract period. The procurement of services to be performed under on-call or ID/IQ contracts shall follow either competitive negotiation or small purchase procurement procedures, as specified in § 172.7. The solicitation and contract provisions shall address the following requirements:</p> <p>(i) Specify a reasonable maximum length of contract period, including the number and period of any allowable contract extensions, which shall not exceed 5 years.</p> <p>(ii) Specify a maximum total contract dollar amount that may be awarded under a contract.</p>
3	2012 Procedures Manual 10.1	<p>Subcontracted Services. The consultant is responsible for performing the work required under the agreement in a manner acceptable to the local agency. The consultant's organization and all associated consultants and subcontractors must be identified at the time of the proposal. If the consultant wishes to use a subcontractor not specified in the proposal, prior written approval must be obtained from the local agency. If a subcontract for work, or services to be performed by such firms exceeds \$25,000, the subcontract shall contain all required provisions of the prime contract.</p>
	<p>23 CFR 172.7(a) (1)(iv) (B)</p> <p>Agreement for Professional Engineering Services between the City and Consultant A, #6.</p>	<p>Evaluation, ranking, and selection. Although the contract will be with the consultant, proposal evaluations shall consider the qualifications of the consultant and any subconsultants identified within the proposal with respect to the scope of work and established criteria.</p> <p>Subcontractors. Consultant is authorized to subcontract any specialized work, provided that the City Manager or designee has given its written approval of each subcontractor in advance of the engagement of the subcontractor. Consultant shall be responsible for payment of subcontractor and shall require subcontractor to comply with this Agreement.</p>

Appendix D. The City's Completion Report Submitted on April 13, 2021

COMPLETION REPORT - FY 20/21 Q3															
GENERAL INFORMATION															
Report ID	PRG-9-387-0001			Prepared By	Josh Rogers				Date Submitted	04/13/2021					
Agency	City of Sanger														
Project Contact	John F. Mulligan				Email	jmulligan@ci.sanger.ca.us				Phone	(559) 876-8300				
Contact Title	Project Manager				Program	ATP									
Project Title	Sanger Active Transportation Access														
Implementing Agency	PA&ED	City of Sanger													
	PS&E	City of Sanger													
	Right of Way	City of Sanger													
	Construction	City of Sanger													
District	06	EA	PPNO	6914	Project ID	0618000163		Predecessor PPNO(s)							
Approved Locations	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd			
	FRE														
Approved Project Description															
Numerous locations in central Sanger, all within City limits.															
Approved Project Scope															
This project will build upon a comprehensive process of evaluation, public input and planning to make access improvements that will benefit most active transportation users in Sanger. Especially those with physical disabilities, while bringing City infrastructure into compliance with Americans with Disabilities Act ADA standards.															
Approved Project Benefits															
1,160' of reconstructed/enhanced sidewalk at numerous locations in central Sanger to increase pedestrian safety, mobility, and accessibility.															
MILESTONES AND TIME EXTENSIONS															
Milestone	Approved Completion Date (by CTC)	Planned Completion Date	Actual Completion Date	Approved Time Extensions (in months)	Allocation	Award	Expenditure	Completion							
Baseline Agreement			Not Required	PA&ED											
PA&ED			03/13/2018	Right of Way											
Right of Way Cert			03/13/2020	PS&E											
Ready to List			04/01/2020	Construction	12										
Begin Con (Contract Awarded)			08/06/2020												
End Construction			03/29/2021												
End Project															
Completion Report			06/30/2021												
Final Delivery Report															
FUNDING (\$1,000s)															
Phase	Approved Project Funding	SB1 Funding						Other Funding							
		SHOPP	LPP Comp	LPP Form	SCCP	TCEP	ATP	State	Federal	Local & Private					
PA&ED															
PS&E	75							75							
RW Support															
Con Support															
RW Capital															
Con Capital	774							774							
Total	849							849							
Award Amount (\$1,000s)		493													

COMPLETION REPORT - FY 20/21 Q3												
PRG-9-387-0001		District	06	EA	PPNO	6214	Project ID	0618000163	Date Submitted	04/13/2021		
EXPENDITURES (\$1,000s)												
Phase	Total	SB1 Funding Expenditures					Other Funding Expenditures				Planned Expenditure at Completion	
		SHOPP	LPP Comp	LPP Form	SCCP	TCEP	ATP	State	Federal	Local & Private		Additional Local
PA&ED	3											3
PS&E	25											25
RW Support												
Con Support												
RW Capital	2											2
Con Capital	616						432					184
Other	75						75					75
Total	721						507					214
OUTPUTS												
Output		Approved Quantity	Anticipated at Completion	Unit	Output		Approved Quantity	Anticipated at Completion	Unit			
Pedestrian Heads		29	29	Each	Reconstruct ADA Ramp to Standard		109	61	Each			
Reconstruct/Enhance Existing Sidewalk		1,160	1,990	Linear feet								
OUTCOMES												
Outcome/Benefit		Approved Quantity	Anticipated at Completion	Unit	Outcome/Benefit		Approved Quantity	Anticipated at Completion	Unit			
CORRECTIVE ACTION PLAN												
<i>If there is a change in the project cost, schedule, scope, and/or expected benefits, provide a summary describing the reason for the change and describe below the corrective action plan to manage any risk to the implementation of the project as programmed.</i>												
Cost	No corrective action plan is needed. Costs are within budget.											
Schedule												
Scope												
Benefits	The original application identified improvement locations by street segment and on a map. The original count for ramps in the application inadvertently included some that had not been scoped for improvement. Additionally, during the design phase, some that were included in the project scope were determined to either not be needed because they were already compliant with the ADA, or had been since completed by other projects (i.e. adjacent development, other CIP projects in the area, etc.). The overall benefit for the project will not change, as the accessibility improvements, were needed, will be completed by this project for the project limits identified in the funding application.											
If CTC allocation is required to implement a Corrective Action Plan, when do you anticipate submitting the request?												
COMPLETION REPORT												
Completed Location Information (if different than approved location)												
Completed Locations	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd
Completed Project Description												
For projects with funding of only pre-construction components, describe how the project will progress to construction to provide the benefits described in the executed project agreements												

Appendix E. The City’s Final Delivery Report Submitted on May 19, 2022

FINAL DELIVERY REPORT - FY 21/22 Q3															
GENERAL INFORMATION															
Report ID	PRG-13-387-0001			Prepared By	Josh Rogers				Date Submitted	05/19/2022					
Agency	City of Sanger														
Project Contact	John F. Mulligan				Email	jmulligan@ci.sanger.ca.us				Phone	(559) 876-6300				
Contact Title	Project Manager				Program	ATP									
Project Title	Sanger Active Transportation Access														
Implementing Agency	PA&ED	City of Sanger													
	PS&E	City of Sanger													
	Right of Way	City of Sanger													
	Construction	City of Sanger													
District	06	EA	PPNO	6914	Project ID	0618000163		Predecessor PPNO(s)							
Approved Locations	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd			
	FRE														
Approved Project Description															
Numerous locations in central Sanger, all within City limits.															
Approved Project Scope															
This project will build upon a comprehensive process of evaluation, public input and planning to make access improvements that will benefit most active transportation users in Sanger. Especially those with physical disabilities, while bringing City infrastructure into compliance with Americans with Disabilities Act ADA standards.															
Approved Project Benefits															
1,160' of reconstructed/enhanced sidewalk at numerous locations in central Sanger to increase pedestrian safety, mobility, and accessibility.															
MILESTONES AND TIME EXTENSIONS															
Milestone	Approved Completion Date (by CTC)	Planned Completion Date	Actual Completion Date	Approved Time Extensions (in months)	Allocation	Award	Expenditure	Completion							
Baseline Agreement			Not Required	PA&ED											
PA&ED			03/13/2018	Right of Way											
Right of Way Cert			03/13/2020	PS&E											
Ready to List			04/01/2020	Construction	12										
Begin Con (Contract Awarded)			08/06/2020												
End Construction			03/29/2021												
End Project			04/15/2021												
Completion Report			08/20/2021												
Final Delivery Report			05/19/2022												
FUNDING (\$1,000s)															
Phase	Approved Project Funding	SB1 Funding						Other Funding							
		SHOPP	LPP Comp	LPP Form	SCCP	TCEP	ATP	State	Federal	Local & Private					
PA&ED															
PS&E	75							75							
RW Support															
Con Support															
RW Capital															
Con Capital	774							774							
Total	849							849							
Award Amount (\$1,000s)		493													

FINAL DELIVERY REPORT - FY 21/22 Q3												
PRG-13-387-0001		District 06		EA		PPNO 6914		Project ID 0618000163		Date Submitted 05/19/2022		
EXPENDITURES (\$1,000s)												
Phase	Total	SB1 Funding Expenditures						Other Funding Expenditures				Planned Expenditure at Completion
		SHOPP	LPP Comp	LPP Form	SCCP	TCEP	ATP	State	Federal	Local & Private	Additional Local	
PA&ED												
PS&E	21										21	21
RW Support												
Con Support												
RW Capital												
Con Capital	636						636					636
Other	75						75					75
Total	732						711				21	732
OUTPUTS												
Output		Approved Quantity	Anticipated at Completion	Unit	Output		Approved Quantity	Anticipated at Completion	Unit			
Pedestrian Heads		29	29	Each	Reconstruct ADA Ramp to Standard		109	61	Each			
Reconstruct/Enhance Existing Sidewalk		1,160	1,990	Linear feet								
OUTCOMES												
Outcome/Benefit		Approved Quantity	Anticipated at Completion	Unit	Outcome/Benefit		Approved Quantity	Anticipated at Completion	Unit			
CORRECTIVE ACTION PLAN												
<i>If there is a change in the project cost, schedule, scope, and/or expected benefits, provide a summary describing the reason for the change and describe below the corrective action plan to manage any risk to the implementation of the project as programmed.</i>												
Cost	No corrective action plan is needed. Costs are within budget.											
Schedule												
Scope												
Benefits	The original application identified improvement locations by street segment and on a map. The original count for ramps in the application inadvertently included some that had not been scoped for improvement. Additionally, during the design phase, some that were included in the project scope were determined to either not be needed because they were already compliant with the ADA, or had been since completed by other projects (i.e. adjacent development, other CIP projects in the area, etc.). The overall benefit for the project will not change, as the accessibility improvements, were needed, will be completed by this project for the project limits identified in the funding application.											
If CTC allocation is required to implement a Corrective Action Plan, when do you anticipate submitting the request?												
FINAL DELIVERY REPORT												
Completed Location Information (if different than approved location)												
Completed Locations	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd	County	Route	PM Bk	Pm Ahd
Completed Project Description												
For projects with funding of only pre-construction components, describe how the project will progress to construction to provide the benefits described in the executed project agreements												

Auditee's Response



City of SANGER, California

1700 Seventh Street
Sanger, California 93657
(559) 876-6300
FAX (559) 875-8956

June 29, 2023

California Department of Transportation
Independent Office of Investigations
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001
Attention: Bryan Beyer, CIG

Subject: City of Sanger Project Audit

Mr. Beyer,

The City has completed its review of the Confidential Draft Report prepared by your office and dated June 21, 2023, which presents the results of the audit of the City of Sanger for two transportation projects, funded by federal and state funds, respectively. We respectfully provide this response letter for your consideration.

First, the City of Sanger is grateful for its opportunity to receive and utilize federal and state funding for these important transportation projects and, like many small to mid-size agencies, relies heavily on these outside sources of funds to maintain and expand its transportation system. With limited staff and resources, the City has done, and continues to do, its absolute best to comply with the extensive regulations and requirements that accompany this funding and to ensure that the projects are delivered successfully and in conformance to all associated guidelines.

That said, the audit report includes four findings pointing to alleged insufficiencies in the City's documentation, record-keeping and reporting on the two audited projects. We will provide a response to each finding, but an overarching response comment to this audit report is that, while there may be improvements that the City can and will make to ensure full compliance on these fronts, you can rest assured that the City of Sanger implemented these and its other projects with the highest degree of integrity, professionalism and regard for the use of public funds on its infrastructure projects.

1. Finding 1 – The City did not Provide Adequate Documentation to Support its Construction Costs...

Response: While the City did provide full construction supervision and construction management for this project, it is acknowledged that several pieces of documentation that the auditors looked for in its reviews were not able to be produced for the two projects which were audited. All of the documentation reported as missing in the audit have been compiled by the City for its projects since July 2021 in response to a Caltrans Construction Oversight Review in April of 2021. Both of the audited projects were closed out in the first quarter of 2021, and the audit commenced in the fourth quarter of 2021. So, corrective actions to the stated deficiencies were already being implemented prior to the City even being made aware that this audit was forthcoming.

During the audit process, City staff explained the processes that the City used for documentation at that time for approved quantities, change orders, daily reports, etc., but acknowledged that, at

the time of the projects in question, the methods the City was using did not align exactly with the requirements identified by the auditors. While we maintain that the City acted wholly in good faith in its project implementation, we understand that the documentation for the audited projects was not fully compliant. As such, we agree with the recommendation of Finding 1 to work with Caltrans and FHWA to develop a corrective action plan to resolve this finding. In actuality, this corrective action plan will likely be identical to that which was prepared and submitted to Caltrans in July 2021 in response to the aforementioned Construction Oversight Review for federal project number STPL-5197(037). And the results of the corrective actions taken by the City have resulted in positive findings for two subsequent Construction Oversight Reviews for federal project number CML-5197(038) in September of 2022 and federal project number STPL-5197(041) in June of 2023. Copies of all referenced documentation can be provided upon request.

While we agree with the development and formalizing of a corrective action plan, establishment of review processes for project files, and ensuring adequate oversight from designated staff in order to resolve this finding, we strongly disagree that recovery of any funds should be a consideration as part of the resolution. This seems to be an extreme measure and one that does not fit the situation, especially given the fact that the City started implementation of all the appropriate corrective actions which would resolve this finding approximately 2 years ago and have subsequent reviews by Caltrans as supporting documentation. ①

2. Finding 2 – The City did not Comply with Various State and Federal Procurement Requirements...”

Response: As was noted in the audit report, the City was not able to provide backup documentation from the 2013 A&E procurement to satisfy the auditors and, while it maintains that a fair and open competition was conducted and the most qualified consultant was selected at a fair and reasonable price, it is understood that the record-keeping has brought these items into question. It also acknowledges that the existing agreement lacks some required provisions such as a maximum term. As such, we agree with the recommendation to develop a corrective action plan with Caltrans and FHWA to resolve this finding, as well as to design and implement a process to ensure compliance with the appropriate agreement provisions, update its retention policy and provide training to staff on the applicable requirements. In fact, key City staff have already participated in recent A&E procurement training from Caltrans prior to the date of this response letter. As with Finding 1, we do strongly disagree that recovery of funds should be a consideration in response to this finding. ①

3. Finding 3 – The City Claimed and was Later Reimbursed for Consultant Costs that did not Comply with State and Federal Requirements and with the Terms in its Executed Contract.”

Response: The City’s position is that, while the subconsultants in question were actively discussed and verbally approved by the City’s designated employee in responsible charge, and the work performed by the subconsultants was eligible and necessary for the implementation of the projects in question, it is acknowledged that the approval was not memorialized in writing and saved in the file.

However, because the deficiency appears to relate solely to the lack of written approval by the City, and not with any other facet of the work performed, the relationship of the work to the approved project scope and benefits, or any other factor related to the merit or qualifications of the subconsultants utilized, the City believes that the recommendation to recover the \$36,911 costs paid is a measure that is not commensurate with the deficiency and strongly disagrees with the recommendation. We do agree and commit to designing and implementing a process to ensure written approvals are documented on future projects. ①

4. Finding 4 – The City did not Report Whether it Achieved the Project’s Benefits in Key Reports that it Submitted to Caltrans.”

Response: As was discussed at length with the auditors during the audit process, City staff had numerous discussions with, and guidance from, its colleagues with Caltrans, the CTC, local MPO, and other agency representatives about the changing and shifting reporting requirements for ATP projects. Even within a single project, each quarterly progress report could have different criteria as the reporting tools were updated and modified. Industry-wide emails were being sent out to alert project representatives to these changes and this included notifications that some reporting requirements would be suspended until future dates as the guidance was finalized. On the project in question, the City believes it fulfilled its reporting obligations to comply with the funding requirements and was given written confirmation of this by CTC staff.

While the City believes that the Finding seems to insinuate that the City was derelict in its duties on this matter, and that this is not an accurate representation of the facts, we do not oppose the recommendation that updated reports be submitted at such time as it is confirmed that the reporting tool that the City is required to use is able to accept the information that it is required to report.

The City hopes that its feedback will be taken into account with the completion of this audit report and looks forward to continuing the implementation of actions which have already been put underway to ensure that is fully compliant in its implementation of these funded transportation projects in the future.

Sincerely,

A handwritten signature in blue ink, appearing to read 'T. Chapa', written over a light blue horizontal line.

Tim Chapa
City Manager

Comments Concerning the Response Received From the City of Sanger

To provide clarity and perspective, we are commenting on the City's response to our report. The number below corresponds to the numbers we have placed in the margin of the response.

1. As a condition of receiving federal and state funds, the City is responsible for complying with many legal requirements, among them include retaining adequate supporting documentation. The City's assertion that it has made corrective actions for projects outside of our audit scope does not overcome the deficiencies we identified. Therefore, our recommendations remain unchanged.



Independent Office of Audits and Investigations

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