



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Matt Espenshade, Chief Deputy

November 21, 2025

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

Final Report – California Department of Transportation, District 8, Project Compliance Audit

Dear Ms. El-Tawansy:

The Independent Office of Audits and Investigations (IOAI) completed its audit of the California Department of Transportation (Caltrans), District 8 (District). We audited the costs the District incurred related to the San Bernardino/Riverside State Route 62 Mill and Overlay project, totaling \$38,243,478. We also audited the project's deliverables and benefits.

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 ongoing increase in state transportation funding in more than two decades. Caltrans administers various programs that receive federal and state funds. Among these programs are the State Highway Operation and Protection Program (SHOPP) and the National Highway Performance Program (NHPP). Projects included in SHOPP are limited to capital improvements involving the maintenance, safety, operation, and rehabilitation of the state highway system that do not add new capacity to the system. NHPP provides support for the condition and performance of the National Highway System (NHS) and the construction of new facilities on the NHS. NHPP also ensures that federal funds invested in highway construction support a state's progress toward achieving the performance targets that the state's asset management plan establishes for the NHS. State transportation agencies make NHPP funding available.

For this audit, we selected the San Bernardino/Riverside State Route 62 Mill and Overlay project. The purpose of this project is the rehabilitation of 85.3 lane miles of pavement to address infrastructure needs in the Riverside and San Bernardino counties on State Route 62.

Gavin Newsom, Governor

Independent Office of Audits and Investigations
P.O. Box 942874, MS-2 (916) 323-7111
Sacramento, CA 94274-0001 <https://oig.dot.ca.gov>

AUDIT RESULTS

For this audit, we obtained reasonable assurance that the costs the District incurred were allowable and adequately supported in accordance with Caltrans' agreement provisions and state and federal regulations, except for \$910,714, as noted below. We also determined that the project's deliverables were consistent with the project's scope as described in the executed agreement. Appendix A includes a summary of the methods we used to address the audit objectives.

However, we found issues related to the District's practices involving change orders and reporting project benefits. We offer the following findings and recommendations to improve the District's compliance with Title 23 Code of Federal Regulations (23 CFR), Caltrans' Construction Manual, California Transportation Commission's (Commission) Senate Bill 1 (SB 1) Accountability and Transparency Guidelines, and SHOPP Guidelines.

- The District did not adequately document the reasonableness of the compensation that Caltrans made to the construction contractor for three change orders that the District issued. We found that two of the three change orders lacked adequate and sufficient documentation, as required by Caltrans' Construction Manual. Specifically, the District was unable to provide detailed daily reports or other records that clearly specify the corresponding work and/or bid item number to substantiate the force account analyses that the District prepared as justification for two lump sum payments that Caltrans made to the contractor totaling \$570,022. The District did provide some daily reports; however, our review shows that the daily reports did not identify the appropriate bid item number and the contractor's labor, equipment, and materials used. According to the District, work documented in the daily reports lumped work from multiple bid items instead of reporting the work performed separately by bid item. For the third change order, we found that the District did not prepare a cost analysis, to compare with the contractor's estimated cost, before the District accepted and Caltrans paid the contractor's estimated cost of \$340,692. District staff explained that the resident engineer did not prepare an independent force account or bid item cost analysis because of the work's urgency. Specifically, Caltrans was under pressure from the local community to change the work from day shift to night shift because of traffic delays that construction caused during the day. District staff also stated that the resident engineer reviewed the contractor's cost estimate and determined it to be reasonable before approving it. Caltrans paid the contractor on a reimbursement basis, using rates defined in the project financial documents. Of the \$910,714 it paid to the construction contractor, Caltrans reimbursed the contractor with federal funds at a rate of 88.53 percent and with state funds at a rate of 11.47 percent, or \$806,255 and \$104,459, respectively.

23 CFR 635.120(e) requires Caltrans to "perform and adequately document a cost analysis of each negotiated contract change order or negotiated extra work order." Further, 23 CFR 635.121 requires Caltrans to retain source documents pertaining to the determination of pay quantities. Caltrans' Construction Manual requires the preparation of "an independent force account or bid item cost analysis for comparison with the contractor's estimated cost," and each change order must be carefully considered, analyzed, and documented in the project records. Additionally, the manual requires sufficient documentation of the scope and the reasons for the change to be included with

all change orders, and the change order memorandum must be sufficiently complete to enable a person unfamiliar with the details of the project to review the change order and understand the justification for the reasonableness of the compensation. Further, Caltrans' Construction Manual requires resident engineers to record observations and inspections of extra work in progress in sufficient detail on daily reports to provide a reasonable basis for agreement on payment. Description of work performed, types of labor, equipment, and materials used should be included in the daily report. The description must be consistent with the description of extra work authorized by the change order.

- In its completion report dated April 5, 2023, the District did not include information on project benefits and performance metric outcomes as compared to those included in the executed project agreements, as required by SB 1 Accountability and Transparency Guidelines. This omission appears to result from Caltrans' staff's lack of familiarity with the guidelines' requirements. According to staff at Caltrans' headquarters, they only report outputs, not benefits or outcomes, for SHOPP projects. Instead, Caltrans' headquarters staff stated that they report project benefits and outcomes for State Transportation Improvement Program projects. However, the SB 1 guidelines clearly require Caltrans to provide project benefits and performance metric outcomes in its completion reports for SHOPP projects. This project's final delivery report, which should include an evaluation of the benefits, was not yet due during our audit fieldwork. According to the project manager, the project is scheduled for completion by August 3, 2026. SB 1 Accountability and Transparency Guidelines requires that the final delivery report be submitted within 180 days of the conclusion of all remaining project activities beyond the acceptance of the construction contract and to reflect final project expenditures, any changes that occurred after submitting the completion report, and an updated evaluation of the benefits.

The District incurred costs without complying with federal regulations and with Caltrans' policies on change order memorandum, substantiation, and force account records. By not following federal regulation and Caltrans' policies, the District was unable to demonstrate that the project expenditures were accurate, increasing the risk of unallowable costs. Additionally, by not including a description in the completion report of the benefits the project achieved, Caltrans cannot know whether the project has met its goals.

RECOMMENDATIONS

We recommend the following actions:

- Caltrans should coordinate with the Federal Highway Administration to develop a corrective action plan to appropriately resolve this finding. This plan should include any necessary reimbursement of \$806,255 that Caltrans paid to the contractor with federal funds.
- In accordance with the Commission's SB 1 Accountability and Transparency Guidelines' consequences for noncompliance, Caltrans should coordinate with the Commission to develop a corrective action plan to appropriately resolve this finding. This plan should include any necessary reimbursement of \$104,459 that Caltrans paid to the contractor with state funds.

- The District should take any necessary steps to ensure that its change orders comply with Caltrans' policies, including requiring its staff to prepare independent cost analysis and maintain complete and adequate change order documentation to support payments to its contractors. These steps should include providing training to ensure that the District's staff understand the change order documentation requirements.
- Caltrans should submit an updated completion report to the Commission that includes the actual benefits that the project achieved compared to the estimated benefits included in the project's executed baseline agreement.
- Caltrans should ensure that it submits the final delivery report to the Commission by the due date. This report must include an evaluation of the project benefits.

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

Sincerely,



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

Enclosure:
Appendix A

cc: Ryan Dermody, Acting Chief Deputy Director, Caltrans
Catalino Pining, District Director, District 8, Caltrans
Dalia Alarkan, District Project Manager, District 8, Caltrans
Divyesh Vora, Area Construction Manager, Division of Construction, District 8, Caltrans
Ben Shelton, Audit Chief, Internal Audits Office, Caltrans
Antonio Johnson, Director, Planning, Environment, Air Quality, and Right of Way, Federal Highway Administration
Grace Regidor, Transportation Finance Specialist, Financial Services, Federal Highway Administration

25A.PJCT01

Appendix A. Scope and Methodology

Audit Objectives

We conducted this audit to determine whether the District incurred costs for the San Bernardino/Riverside State Route 62 Mill and Overlay project that were allowable and adequately supported in accordance with Caltrans' agreement provisions, federal regulations, and state requirements. Additionally, we conducted this audit to determine whether project deliverables and benefits were consistent within the project scope and schedule, as described in the executed project agreements, and to determine if project benefits were achieved and reported in accordance with applicable requirements.

Audit Period

Our audit period was from February 2, 2014, through July 3, 2024.

Criteria

We gained an understanding of the San Bernardino/Riverside State Route 62 Mill and Overlay project and relevant criteria by reviewing applicable federal regulations, state requirements, California Transportation Commission's and Caltrans' guidelines, Caltrans' policies and procedures, executed project agreements, and project records.

Risk Assessment

We performed a risk assessment, including identifying and evaluating whether the District properly designed and implemented internal controls significant to our audit objectives. Our evaluation of internal controls focused on the District's review and approval processes of costs, contract change orders, contract procurement, and completion of deliverables.

Assessment of Data Reliability

Generally accepted government auditing standards require we assess the sufficiency and appropriateness of computer-processed information if it will be used to materially support our findings, conclusions, and recommendations. 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.

Compliance Statement

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

Methodology

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

Table 1. Objectives and Methods in the Audit Process

Audit Objective	Methods
Objective 1 To determine whether project costs incurred were allowable and adequately supported in accordance with Caltrans' project agreement provisions, federal regulations, and state requirements.	Selected significant and high-risk areas to verify compliance with the project agreements, federal regulations, state requirements, SHOPP guidelines, Caltrans' Construction Manual, and California Transportation Commission's SB 1 Accountability and Transparency Guidelines: • Direct Labor • Project Construction Costs • Contract Change Orders • Procurement Direct Labor Reviewed Caltrans' timekeeping records in InfoAdvantage and performed analytical procedures. Determined direct labor costs were project related, supported, and incurred within the allowable time frame by recalculating project labor costs, reviewing employee pay rate records, applicable overhead rates, and the project workplan in the Project Resource and Schedule Management system. Project Construction Costs Determined whether construction costs were reviewed and approved by testing 7 bid line items out of 64 total bid line items from 2 progress pay estimates (2 out of 25 progress pay estimates). Determined whether selected costs were allowable, authorized, supported, project related, and incurred within the allowable time frame by reviewing progress payments, bid item pay estimates, and daily reports, and by comparing to relevant criteria. Contract Change Orders Selected 6 contract change orders based on dollar amount and description of work (4 out of 14 contract change orders). Determined whether contract change orders were within scope of work, approved, completed, stayed within the contract scope of work, and supported by reviewing change order memorandums, contract change order descriptions, project's scope of work, construction contract, and progress payments. Procurement Selected one construction contract and reviewed Caltrans' procurement to determine compliance with federal regulations and state requirements by reviewing the invitation for bids, bid records, advertisement records, and the executed contract, and compared to relevant criteria.

Audit Objective	Methods
Objective 2 To determine whether project deliverables and outputs were consistent with the project scope and schedule as described in the executed project agreements or approved agreements.	Determined whether the project deliverables were consistent with the project scope and schedule by reviewing the workplan status from PRSM, Construction Contract Acceptance documents, before and after photographs, and by conducting an in-person site visit during fieldwork.
Objective 3 To determine whether project benefits were achieved and reported in accordance with applicable requirements.	Determined whether project benefits were adequately reported for the project by comparing benefits identified in the project baseline agreement to the Completion Report, reviewing supporting documentation, and by comparing to relevant criteria.

CALTRANS' DISTRICT 8 RESPONSE

CALIFORNIA STATE TRANSPORTATION AGENCY

GAVIN NEWSOM, GOVERNOR

California Department of Transportation

OFFICE OF THE DIRECTOR
P.O. BOX 942873, MS-49 | SACRAMENTO, CA 94273-0001
(916) 654-6130 | FAX (916) 653-5776 TTY 711
www.dot.ca.gov



October 31, 2025

Bryan Beyer
Inspector General
Independent Office of Audits and Investigations
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

Dear Mr. Beyer:

The Department of Transportation (Caltrans) is providing the response to the Independent Office of Audits and Investigations' (IOAI) District 8, Project Compliance Draft Audit Report (25A.PJCT01) dated October 24, 2025.

Caltrans acknowledges the findings and recommendations and appreciates IOAI and its team for their diligence. While the Construction Manual provides guidance on cost analysis for change orders, it does not explicitly require a separate independent force account analysis under Section 5-306C(2d) for work-character changes. In practice, resident engineers review, verify, and document contractor analyses to support change orders, as District 8 staff did in this case by confirming the reasonableness of the estimate before approval. Moving forward, Caltrans will take corrective actions to ensure accurate documentation of field reports and bid-item work and will provide clear guidance to improve consistency in reviewing and approving lump-sum price adjustments. ①

With respect to the Federal Highway Administration (FHWA), pursuant to 23 USC 106(g), the Secretary of Transportation is required to establish an oversight program to monitor the effective and efficient use of funds authorized pursuant to Title 23. Therefore, FHWA and Caltrans have entered into a Stewardship and Oversight Agreement on Project Assumption and Program Oversight (Agreement) to meet this requirement. This Agreement was most recently updated in August 2024.

Pursuant to the Agreement, FHWA has the authority to use techniques such as Program assessments, Financial Integrity Reviews, and Program Review, as well as other techniques to identify and analyze risks and develop response strategies to fulfill its oversight responsibilities. As FHWA has not employed any of these mentioned techniques or has not otherwise engaged with Caltrans on this project pursuant to the Agreement, we respectfully submit that Recommendation 1 be revised or ②

"Improving lives and communities through transportation."

Mr. Beyer, Inspector General
October 31, 2025
Page 2

removed. To the extent FHWA engages with Caltrans on this project, Caltrans will work with FHWA on whatever remedies are deemed appropriate pursuant to the Agreement and the requirements under Title 23.

The California Transportation Commission (CTC) Accountability and Transparency Guidelines are broadly written, but each program has different nuances for reporting. State Highway Operation and Protection Program (SHOPP) projects do not have outcomes/benefits like the other SB1 programs. The metric for SHOPP projects is outputs, and the District manually entered the value for the constructed output into the Completion Report, thereby fulfilling the reporting requirement. With the output at completion entered into the Completion Report, the report shows that the planned output and completion output are the same value, which is understood as the project meeting its goal/metric. ③

Based on the current Project Resource and Schedule Management schedule, the End Project milestone target is August 3, 2026. As per the CTC Accountability and Transparency Guidelines, the Final Delivery Report will be due within 180 days from August 3, 2026. Also, as stated, project benefits do not apply for this SHOPP project. ③

If you have any questions, please contact Ben Shelton at (916) 858-9694 or by email at ben.shelton@dot.ca.gov.

Sincerely,


Dina El-Tawansy (Oct 31, 2025 08:17:45 PDT)

DINA A. EL-TAWANSY
Director

c: Ryan Dermody, Acting Chief Deputy Director, Caltrans
Catalino Pining, District Director, District 8, Caltrans
Dalia Alarkan, District Project Manager, District 8, Caltrans
Divyesh Vora, Area Construction Manager, Division of Construction, District 8, Caltrans
Ben Shelton, Audit Chief, Internal Audits Office, Caltrans

COMMENTS CONCERNING THE RESPONSE RECEIVED FROM CALTRANS

To provide clarity and perspective, we are commenting on Caltrans' response to our report. The numbers below correspond to the numbers we have placed in the margins of its response.

1. Caltrans is incorrect. Caltrans' Construction Manual, section 5-312C, requires the preparation of "**an independent force account or bid item cost analysis for comparison** with the contractor's estimated cost" [emphasis added]. Further, section 5-306C(2d) of the manual states the following:

*A work-character change payment adjustment requires a force account determination of the cost of an entire item as changed and a force account estimate of the cost of the work as planned. When only a portion of the work has changed, separate the changed portion of the work from the unchanged portion. **Perform a force account analysis of the cost of the changed portion** and make payment at the contract price plus a separate payment **for the added work** or credit for any deleted work.* [emphasis added]

In addition, as we cite on page 2 of our report, Title 23 Code of Federal Regulation (23 CFR), section 635.120(e) requires Caltrans to perform and adequately document a cost analysis of each negotiated contract change order or negotiated extra work order. As we explain on page 2 of our report, a change in the work the contractor performed was processed through a change order. Caltrans compensated the contractor for additional costs incurred for extra work that the contractor performed under multiple bid items. However, Caltrans compensated the contractor according to the contractor's estimate of the price of the additional work. Caltrans' Construction Manual and 23 CFR section 635.120(e) clearly require the District to perform a separate cost analysis for the added work to compare with the contractor's estimate. Making a comparison ensures fiscal responsibility, provides an independent review of pricing adjustments, and maintains the credibility of cost estimates. Therefore, we maintain our conclusion that the District was required to follow 23 CFR 635.120(e) as well as both sections of its construction manual.

2. We stand by our recommendation. As an oversight agency, the FHWA ensures highway projects approved for federal funding are consistent with applicable laws, regulations, and policies. Ultimately, it is the FHWA that has enforcement authority with respect to federally funded projects such as the subject of this audit. Additionally, our office follows the US Government Accountability Office's government auditing standards; those audit standards require us to distribute audit reports to appropriate oversight bodies. Thus, we must include the FHWA in our distribution of this report, and as a result, the FHWA will become aware of our findings. Therefore, we stand by our recommendation that Caltrans coordinate with the FHWA to develop a corrective action plan to appropriately resolve this finding.
3. Caltrans' response is not accurate. The executed baseline agreement for this project does, in fact, require the reporting of outcomes and benefits like other SB 1 programs. Specifically, the baseline agreement includes a provision that states, "Caltrans agrees to submit a timely Completion Report and Final Delivery Report as specified in the Commission's SB 1 Accountability and Transparency Guidelines." Those guidelines state that SHOPP projects with a baseline agreement with a total project cost of \$40 million or greater (such as this project) will be subject to front-end, in-progress, and follow-up accountability requirements, which are included in the SB 1 Accountability and Transparency Guidelines. The follow-up accountability section of the SB 1 Accountability and Transparency Guidelines states the following:

*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]*

Moreover, according to the Commission's 2019 SHOPP guidelines, a "new project may only be programmed in the SHOPP with a complete Project Initiation Document that **defines and justifies ... expected outcomes and benefits including project outputs**" [emphasis added]. Therefore, the performance metrics for SHOPP projects do not consist solely of outputs. Those guidelines also state that Caltrans "shall report quarterly ... on the progress it has made in achieving the performance measures, **outcomes, benefits**, goals and overall 2027 targets/ goals set forth in SB 1 and the Commission's adopted targets" [emphasis added]. Therefore, we maintain our conclusion that Caltrans was required to include in its completion report information on project benefits and performance metric outcomes as compared to those included in the executed project agreements.