



# Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

July 11, 2024

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

## Management Letter - California Department of Transportation, District 4, Project Audit

Dear Director Tavares:

The Independent Office of Audits and Investigations completed its audit of costs incurred by the California Department of Transportation (Caltrans), District 4 (District). We audited the costs that the District incurred related to the "I-880 Pavement Rehabilitation" project totaling \$68,812,233.

For this audit, we obtained reasonable assurance that the costs incurred by the District were allowable and adequately supported in accordance with Caltrans' agreement provisions and state and federal regulations. We also determined that the project's deliverables were consistent with the project scope, as described in the executed agreement. Although the District did not complete the construction of the project on schedule, the District appropriately informed Caltrans of the delay, as required by the California Transportation Commission's Senate Bill 1 Accountability and Transparency Guidelines.

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 based on our audit objectives.

However, we found problems concerning the District's change order practices. Towards that end, we offer the following observations and recommended course of action to improve its compliance with Caltrans' Construction Manual and Title 23 of the Code of Federal Regulations, Part 625 (23 CFR Part 625).

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>

## Observations

- The District made significant bid item quantity changes without change orders or documenting the reasons for not issuing change orders. Caltrans' Construction Manual requires that the District prepare a change order when bid item quantities increase or decrease by more than 25 percent after contract acceptance or document the reason for not preparing a change order. The construction contract had 152 bid items and 92 had quantity changes. We found that 22 out of the 92 bid items (24 percent) had significant quantity changes of more than 25 percent and a dollar value change of \$5,000 or more.
- The District did not adequately document the reasonableness of the compensation made to the construction contractor for three change orders that the District did issue. We found that three change orders lacked adequate justification, as required by 23 CFR Part 625 and Caltrans' Construction Manual. Specifically, the District did not document its reasons to justify use of the force account payment method and it did not document its efforts to make payment adjustments or negotiate agreed-upon prices for two of the three change orders. In addition, the District did not have documentation to justify a payment that exceeded its independent cost estimate for one of the change orders. Finally, the District did not adequately document in one of the change orders its decision to pay a rejected claim.

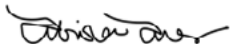
## Course of Action

To address our observations, we suggest the District should:

- Ensure change orders are prepared to make payment adjustments when bid item quantity increases or decreases by 25 percent or more, or document in the project records the reason for not preparing a change order.
- Ensure its change orders comply with federal regulations and Caltrans' policies, including maintaining complete and adequate change order documentation to support payments to its contractors.
- Provide training to ensure that the resident engineers understand the change order documentation requirements.

This management letter is for your information and use. We appreciated the assistance and cooperation of the District. If you have any questions regarding this letter, please contact Juanita Baier, Audit Chief, at (916) 764-4609.

Sincerely,



Fabiola Torres, CIGA  
Deputy Inspector General

Tony Tavares  
July 11, 2024  
Page 3

cc: Michael Keever, Chief Deputy Director, California Department of Transportation  
Dina El-Tawansy, District Director, District 4, California Department of Transportation  
Kenneth Puth, District Project Manager, District 4, California Department of Transportation  
Ben Shelton, Audit Chief, Internal Audits Office, California Department of Transportation

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