EXECUTIVE SUMMARY

We found that the capital construction contract expenditures were reasonable, in compliance with the terms and conditions of the contract, and in compliance with ARRA requirements, where applicable. We also found adequate controls were in place over the change order process. In making these determinations, we have identified areas where improvements can be made in the design review process, contract line item analysis, renegotiations, subcontractor cost evaluations, and overtime which should be considered by management.

AUDIT HIGHLIGHTS

- Without a thorough design review, change orders will follow that result in the department losing its ability to competitively bid the new work. We identified 105 of 728 contract line items tested potentially had foreseeable field conditions totaling $11 million in costs. The cost of these items could likely have been reduced if included in the original request for proposal to the contractors.

- The department performs a bid line item pricing analysis on the contractor who submits the lowest bid to determine if it is acceptable. The department’s analysis focuses on line items that were significantly lower than the engineer’s pricing estimate. No emphasis is placed on line items that are higher. We reviewed 112 line items that were greater than the engineer’s estimate and determined none were reviewed in the department’s bid analysis. The pricing of these items can have an effect if change orders become necessary.

- The department’s standard specifications allow the resident engineers to renegotiate the price for any increase in quantity greater than 125 percent of the original quantity that might create at least a $5,000 cost savings. We reviewed 66 line items that met these specifications and found that only one was renegotiated by the department. The additional cost for the 65 non-renegotiated line items was $3.7 million when comparing the contractors’ unit cost to the engineer’s estimate.

- When a contractor is selected for a project they often have to subcontract certain aspects of the work to specialized vendors. The department does not evaluate, monitor, or track subcontractor costs. Without a review of subcontracted costs compared to the contractor’s original bid the department is unable to identify potential areas for cost savings. We reviewed all subcontracted work for five projects and found contractors were paid a total of $32.9 million on line items that were subcontracted out for a total of $26.6 million.

AUDITEE RESPONSE

The department generally concurs with our findings and recommendations.

For the complete audit report, click here