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## Memorandum

Date: March 18, 2020

Subject: INFORMATION: Audit Announcement | FHWA's Oversight of Project Change Orders |  
Project No. 20S3002S000  
Federal Highway Administration

From: David Pouliott   
Assistant Inspector General for Surface Transportation Audits

To: Federal Highway Administrator

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In fiscal year 2019, the Federal Highway Administration (FHWA) received about \$45 billion for its Federal-aid highways program to support State and local Governments in the design, construction, and maintenance of the Nation's highway system. While FHWA may delegate responsibility for project oversight to State Departments of Transportation, the Agency is ultimately accountable for ensuring projects meet Federal requirements.

Modifications to a project's contract specifications are frequently done through change orders,<sup>1</sup> which can impact project cost and schedule. We have previously reported<sup>2</sup> on a lack of cost analysis documentation for change orders that should serve as the basis for negotiating fair and reasonable prices. Price negotiations without such bases can adversely impact Federal funding amounts provided.

Given the large Federal investment in highway projects and the possible effects of change orders on projects' Federal costs, we are initiating this audit. Our objective will be to assess FHWA's oversight of project change orders.

We plan to begin the audit this month and will contact your audit liaison to schedule an entrance conference. We will conduct the audit at FHWA Headquarters and other locations that we will determine during the audit. If you have any questions, please contact me at (202) 366-5630, or Tony Wysocki, Program Director, at (202) 493-0223.

cc: DOT Audit Liaison, M-1  
FHWA Audit Liaison, HAIM-13

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<sup>1</sup> A change order is a negotiated agreement between the public agency and its contractor that affects the cost, schedule, design details or specification requirements, or any combination of these.

<sup>2</sup> *Federal Highway Administration's Oversight of Federal-Aid and Recovery Act Projects Administered by Local Public Agencies Needs Strengthening* (OIG Report No. MH-2011-146), July 15, 2011. OIG audit reports are available at [www.oig.dot.gov](http://www.oig.dot.gov).