



**CALIFORNIA**  
**High-Speed Rail Authority**

# HSR06-0001 – Program Management Services

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June 2017

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## EXECUTIVE SUMMARY

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The California High Speed Rail Authority (Authority), Audit Office conducted a contract compliance audit of Agreement # HSR06-0001 between the Authority and Parsons Brinckerhoff (PB) for Program Management Services covering the term of the agreement, November 16, 2006 through June 30, 2015 in accordance with contract provisions, the Code of Federal Regulations Title 48, Chapter 1, Part 31, Code of Federal Regulations Title 49, Part 18, and other applicable federal and State rules and regulations. The objectives of the audit were to ensure compliance with the terms and conditions of the agreement and to validate whether costs billed (independent contractor costs, indirect costs, fully-burdened labor costs, direct labor costs, other direct costs, and fees) are actual cost incurred.

The Audit Office examined the accounting records maintained by PB and its subconsultants to determine whether claimed and reimbursed costs were reasonable, allowable, and appropriately supported, as well as, conducted inquiries and interviews to obtain understanding of PB's invoicing policies and procedures. Based on our examination, we noted \$1,206,691 in questioned and disallowed costs due to (1) the claimed costs were not supported by adequate documentation, or (2) the claimed costs were not in compliance with the agreement or applicable federal and State rules and regulations. Our audit identified the following overbillings, broken down by cost components:

- Independent contractor costs of \$718,079
- Indirect costs of \$247,553
- Fully burdened labor costs of \$107,927
- Direct labor costs of \$49,016
- Other direct costs of \$61,452
- Fees due to related overbillings of direct labor and indirect costs \$22,664

### Recommendation:

We recommend PB reimburse the Authority in the amount of \$1,206,691 for overbilled independent contractor costs, indirect costs, fully-burdened labor costs, direct labor costs, other direct costs, and fees.

## BACKGROUND

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The California High Speed Rail Authority (Authority) entered into a contract with PB for Program Management Services in the amount of \$295,000,000 with a term from November 16, 2006 through June 30, 2015. The Authority reimbursed PB \$291,782,400 of claimed costs to the high-speed rail project, of which \$76,736,543 was paid to its subconsultants. The Program Management Services consisted of engineering, environmental, and construction management services. Additional incidental services include public outreach, visual simulation, and right-of-way assessment. In order to provide these services, PB contracted with 51 subconsultants (commonly known as the Program Management Team or PMT) to perform the scope of work per the agreement. The purpose of the agreement was to have PB supervise the project level environmental impact assessments for the various designated corridors and system segments, all aspects necessary for the planning and engineering of the system, as well as the design, construction, and commissioning of the system. Under the provisions of the agreement, PB performed services specified by the Annual Work Programs (AWP) and the Statement of Work in Exhibit A in four phases:

- Phase I-Preliminary engineering for completion of EIR/EIS, Implementation Plan;
- Phase II- Design and Pre-Construction;
- Phase III- Construction and Preparation for operation; and
- Phase IV-System Testing and Commission

In October 2015, the Authority Audit Office initiated and performed a contract compliance audit to ensure the Authority is meeting its legal and fiduciary responsibilities, and that State and federal funds are properly expended by the private consultants/contractors with whom Authority has executed agreements.

## SCOPE AND OBJECTIVE

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The Authority's Audit Office conducted a contract compliance audit of the Program Management Services agreement covering the contract term, November 16, 2006 through June 30, 2015. The scope of the audit was limited to reviewing and performing audit procedures to obtain reasonable assurance about whether the billings were supported by the accounting records and were submitted in compliance with the State and federal requirement and guidelines. Our audit included examining, on test basis, evidence supporting the amounts billed and reimbursed, and assessing accounting principles used for significant estimates made by management. Our audit was based on selective testing of PB and its subconsultants' accounting records and related data. As we did not examine all transactions, there is a risk that not all material errors and irregularities were detected.

The audit was less in scope than an audit performed to express an opinion on financial Statements or schedule of indirect costs of PB or its subconsultants. Therefore, we did not audit and are not expressing an opinion on PB's or its subconsultants financial statements or schedule of indirect costs.

The objectives of the audit were to ensure compliance with the terms and conditions of the agreement and to validate whether costs billed (independent contractor costs, indirect costs, fully-burdened labor costs, direct labor costs, other direct costs, and fees) are actual cost incurred. Specifically, our audit focused on costs (direct labor, indirect costs, other direct costs, fees, and fully burdened labor costs) to determine and validate whether costs claimed and reimbursed were reasonable, allocable, allowable, and in compliance with the terms of the agreement, and applicable federal and State rules and regulations.

In order to achieve our audit objectives, we examined PB as well as 13 out of the 51 subconsultants' claimed costs included in the billings to Agreement # HSR 06-0001. However, PB is responsible for the claimed costs, compliance with applicable agreement provisions, State and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable and allowable costs in accordance with the cost principles.

## **METHODOLOGY**

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PB and thirteen of its subconsultants' accounting records, payroll records and other relevant documents were examined to determine whether the costs invoiced for reimbursement were properly accounted for and supported, and complied with the applicable State and federal policies, procedures, laws, rules and regulations. The following audit procedures were performed:

- Reviewed applicable policies, procedures, and financial management systems, and discussed accounting processes to obtain an understanding of the methods used in preparing invoices submitted for reimbursement.
- Obtained and reviewed project organization chart.
- Reviewed PB's internal controls (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) to gain an understanding of them.
- Reviewed costs claimed to determine allocability, allowability, reasonableness, and compliance with the agreement and applicable State and federal regulations.
- Reviewed and obtained selected independent contractors' agreement and invoices to determine whether costs passed through to the Authority were properly accounted for, and supported.
- Reviewed, compared, and verified payroll dollars, hours and approved timesheets, and tax return information, as applicable, to claimed and reimbursed amounts.

- Reviewed and analyzed allocation pools, indirect costs schedules, and/or cognizant approved indirect rates to determine if rates billed and reimbursed were allocable, allowable, reasonable, and in compliance with the applicable State and federal regulations.
- Reviewed other direct costs, including travel expense costs for supporting documentation to determine allowability, allocability, and compliance with the State travel guidelines.
- Reviewed and analyzed fee claimed to ensure it was reimbursed in accordance to the agreement provisions.

The audit was conducted in accordance with the Performance Standards contained in the Government Auditing Standards issued by the Comptroller General of the United States of America. 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.

## CONCLUSION

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Based on our audit, PB was not in compliance with contract provisions and the applicable State and federal regulations which resulted in a total of \$1,206,691 questioned and disallowed costs. Specifically, billing of independent contractors' costs exceeded agreed upon rates, as well as included fees billed on the independent contractors' labor costs. In addition, subconsultants billed indirect costs in excess of actual cost and direct labor rates were billed in excess of the actual rates or the AWP. Furthermore, other direct costs billed were unsupported or inadequately supported and approved travel costs in excess of the State's per-diem, travel and subsistence rates.

Our audit identified the following findings with its amounts broken down by components.

- Independent contractor costs of \$718,079
- Indirect costs of \$247,553
- Fully burdened labor costs of \$107,927
- Direct labor costs of \$49,016
- Other direct costs of \$61,452
- Fees due to related overbillings of direct labor and indirect costs \$22,664

### Recommendation:

We recommend PB reimburse the Authority in the amount of \$1,206,691 for overbilled independent contractor costs, indirect costs, fully-burdened labor costs, direct labor costs, other direct costs, and fees, as detailed in the following pages.

## RESULTS

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### **Finding 1** – Overbilled independent contractor costs of \$718,079

Independent contractor agreements with the subconsultants were reviewed and traced to the accounting records, cancelled checks, and supporting documents. Upon review of the documents, we noted that subconsultants’ billings of independent contractors’ costs exceeded the agreed-upon hourly rates. In addition, we noted instances that subconsultants were unable to provide supporting documents for the hourly rates invoiced and reimbursed. As a result, the overbilling of the independent contractors’ costs of \$718,079 was identified. The following is the breakdown of questioned and disallowed costs by subconsultants:

AllTransit Consultant, LLC.....	\$491,294
Turner Engineering.....	\$155,403
Cordoba Corporation.....	\$36,451
Padilla & Associates.....	\$34,931
<b>Total.....</b>	<b>\$718,079</b>

According to FAR 31.201-2(d), *a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles.*

### **Finding 2** – Overbilled indirect costs of \$247,553

Subconsultants’ indirect costs rates used to bill the contract were unsupported by the actual indirect cost schedules provided. In addition, we identified direct costs and unallowable costs recorded as indirect costs. Furthermore, there were instances that the overbilled indirect costs resulted from the overbilled direct labor costs included in Finding 4 below. Based on our review, the subconsultants overcharged indirect costs of \$247,553. The following is the breakdown of questioned and disallowed costs by subconsultant:

Paragon Partners.....	\$138,537
Cordoba Corporation.....	\$54,911
Alta Vista Solutions.....	\$49,332
Zoon Engineering.....	\$3,480
Systra Consulting Inc.....	\$1,293
<b>Total.....</b>	<b>\$247,553</b>

FAR 31.201.6, *“Costs that are expressly unallowable or mutually agreed to be unallowable... shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract.”* In addition, *“allocation of indirect costs shall be based on the applicable provisions stated in FAR 31.203.”*

**Finding 3 – Overbilled fully-burdened labor costs of \$107,927**

The subconsultants were unable to support the fully-burdened labor rates used in billing the contract. We recalculated the billing rates based on the subconsultants’ payroll records, indirect costs rates, and the applicable fees to determine if the billing rates were actual costs incurred and appropriately supported. For entities (i.e. sole proprietor, etc.) where the owners are not paid salary or hourly, we reviewed the tax return information, as applicable, to determine and validate the billing rates. The fully burdened labor costs (consisted of direct labor, overhead, and fees) were overbilled by \$107,927 resulted from billing rates exceeding the subconsultants’ actual costs documented in the tax returns and supporting documentation. The following is a breakdown of the overbilling of billing rates for subconsultants:

AllTransit Consultant, LLC.....	\$57,073
Kleinfelder.....	\$49,467
Padilla & Associates.....	\$1,387
<b>Total.....</b>	<b>\$107,927</b>

According to FAR 31.201-2(d), *a contractor is responsible for accounting costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.*

**Finding 4 – Overbilled direct labor costs of \$49,016**

A review of the payroll reports, timesheets, and AWP identified that the hourly rates used to bill the high-speed rail project exceeded the actual hourly labor rates and/or the AWP and in some instances, the subconsultants were unable to provide documents to support the hourly rates used to bill the raw labor costs which resulted in a total of \$49,016 in overbilled direct labor costs. The following is the breakdown of questioned and disallowed costs by subconsultants:

Cordoba Corporation.....	\$35,140
Paragon Partners.....	\$8,151
Zoon Engineering.....	\$3,778
Systra Consulting Inc.....	\$1,947
<b>Total.....</b>	<b>\$49,016</b>

According to FAR 31.201-2(d), *a contractor is responsible for accounting costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.*

**Finding 5** – Overbilled other direct costs of \$61,452

Upon review of the supporting documents and accounting records provided by PB and its subconsultants for other direct costs, including travel expense costs, \$61,452 of other direct costs billed were not appropriately supported and/or did not comply with the contract provisions, and the applicable federal and State rules and guidelines. The following is the breakdown of questioned and disallowed costs:

Parsons Brinckerhoff.....	\$24,515
DCG.....	\$21,463
Systra Consulting Inc.....	\$15,474
<b>Total.....</b>	<b>\$61,452</b>

Exhibit B under the Agreement, *“transportation and subsistence costs identified in the work plan shall be reimbursed at the actual costs incurred, but not to exceed the rates stipulated by the Department of Personnel Services. In addition, “any subagreement in excess of \$25,000, entered into as a result of this Agreement, shall contain all of the applicable provisions of this Compensation and Payment clause.”*

**Finding 6** – Overbilled fees due to overbilled direct labor and indirect costs of \$22,664

The fees were billed based on the sum of direct labor and indirect costs multiplied by the negotiated fee. Related to the overbilling in direct labor costs and indirect costs as mentioned in the above findings, we recalculated the applicable fee. Based on our recalculations, fees of \$22,664 were overbilled as a result of the overbilling of direct labor and indirect costs. The following is the breakdown of the overbilled fees by subconsultants:

Paragon Partners.....	\$9,522
Cordoba Corporation.....	\$8,593
Alta Vista Solutions.....	\$3,947
Systra Consulting Inc.....	\$324
Zoon Engineering.....	\$278
<b>Total.....</b>	<b>\$22,664</b>

According to the Agreement in Exhibit B, *“the consultant will receive a 10% fee during the 2006/2007 fiscal year (the fee is based on 10% of direct labor and overhead excluding facilities costs of capital). During the subsequent years, the fee will be negotiated annually during the Annual Work Program negotiations.”*

## **DISPOSITION OF AUDIT RESULTS**

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The findings in this audit report are based on the fieldwork that the Audit Office staff performed from October 2015 to April 2017. The Audit Office staff held an exit conference with PB management on April 6-7, 2017, to discuss the results, as well as other matters.

This audit report is intended for the information for High Speed Rail Authority Management and Federal Railroad Administration. This report is a matter of public document and its distribution is not limited.

ATTACHMENT



May 31, 2017

Mr. Michael Rossi, Chair of Finance and Audit Committee  
Mr. Tom Richards, Finance and Audit Committee Member  
California High-Speed Rail Authority  
770 "L" Street, Suite 620  
Sacramento, CA 95814

**Re: California High-Speed Rail Program Management Contract Audit**

Dear Messrs. Rossi and Richards:

At the direction of Paula Rivera we are responding directly to you in regard to the California High-Speed Rail Authority's ("Authority") Draft Audit Report dated June 2017, which we received on May 17, 2017. As indicated to Ms. Rivera during the audit, WSP USA Inc. (formerly known as Parsons Brinckerhoff, Inc.) will process payment to the Authority for the full amount of the findings indicated pending the receipt of the Final Audit Report, including the \$24,515 specifically attributable to WSP USA.

We have also provided the Draft Audit Report to our subconsultants, including those small and/or disadvantaged businesses ("S/DBEs") identified by the Authority, and in certain instances, they have provided the Auditors additional documentation or information they believe support costs that were preliminarily marked as disallowed in the Draft Audit Report. When the Authority Auditors have considered any of this further supporting documentation and issue a Final Audit Report our payment will include the amounts attributable to these subconsultants.

WSP USA values being a part of the Authority's High-Speed Rail Program and to resolve this contractual audit process efficiently. We are proud of our service on the High-Speed Rail Program and note that when considered in the context of a nearly 9-year contract, the preliminary findings of the Draft Audit Report resulted in questions related to only 0.4% of the total contract amount.

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Thank you for your consideration and if you have questions please contact me.

Very truly yours,

**WSP USA Inc.**

A handwritten signature in black ink, appearing to read 'Pat Sheridan', written over a horizontal line.

Patrick G. Sheridan  
Chief Financial Officer

cc: Paula Rivera, Chief Auditor  
Jeff Morales, Chief Executive Officer  
Tom Fellenz, Chief Counsel  
Jon Tapping, Director of Risk Management and Project Controls  
Mark Zehnder, Interim Program Director  
Russell Fong, Chief Financial Officer  
Scott Jarvis, Chief Engineer  
William Grimsley, Director of Contract Administration