CALIFORNIA
High-Speed Rail Authority

Regional Consultant – TY Lin International
Contract Compliance Audit
Agreement # HSR 13-44
February 2014 – December 2021

January 2025

Report Number: 22-06
Prepared by the Audit Office

EXECUTIVE SUMMARY

The California High-Speed Rail Authority (Authority) Audit Office conducted a contract compliance audit of the Authority's Agreement No. HSR 13-44 for Regional Consultant, T.Y. Lin International (TY Lin). Agreement No. HSR 13-44 was executed in February of 2014 and the current end date is March 31, 2025. We have completed audits of TY Lin and the following subconsultants for costs reimbursed for services provided from February 1, 2014, through December 31, 2021. We audited a total of $70,625,796 for the following firms:

- TY Lin
- LSA Associates, Inc.
- Rincon Consultants, Inc.
- VMA Communications, Inc.
- Quality Infrastructure Corporation
- MCM and Associates
- ILF Consultants, Inc.
- JRP Historical Consulting, LLC.
- Earth Mechanics, Inc.
- VRPA Technologies, Inc.
- Bloom Biological, Inc.
- COWI North America, Inc.

The audit objective was to determine whether TY Lin and its subconsultants complied with the requirements of the agreement, including but not limited to the Code of Federal Regulations Title 48, Chapter 1 Contract Cost Principles and Procedures and Part 31, Title 49, Part 19 Uniform Administrative Requirements. The Audit Office examined accounting records maintained by TY Lin and the subconsultants identified above to determine whether claimed and reimbursed costs were reasonable, allowable, and appropriately supported. We also conducted inquiries and interviews to obtain an understanding of TY Lin's and the subconsultants' financial management system.

<u>Conclusion</u>

We identified overbilled and over-reimbursed costs in the amount of $1,447,828.

January 14, 2025

Paula Rivera, Audit Chief | Date

Audit Report

BACKGROUND

As part of the California High-Speed Rail Development Act of 1994, the California Legislature created the California High-Speed Rail Authority (Authority). The Authority is responsible for planning, designing, building, and operation of the first high-speed rail system in the nation. California high-speed rail will connect the mega-regions of the state, contribute to economic development and a cleaner environment, create jobs, and preserve agricultural and protected lands. The Authority is responsible for overall management, oversight, and monitoring of state and federal awards received. This function requires accountability, transparency, and providing a means of tracking and monitoring program goals, accomplishments, and compliance with grant requirements.

The Authority entered into an agreement with T.Y. Lin International (TY Lin) to provide services as a Regional Consultant to provide Preliminary Engineering and Project-Specific Environmental Work. The total amount billed by and reimbursed to TY Lin from February 1, 2014, through December 31, 2021, was $75,682,673. TY Lin is responsible for the controls in place in their organization that will ensure compliance with the terms of the agreement with the Authority when billing for work performed by subconsultants.

We conduct subconsultant audits to ensure that the costs reimbursed to TY Lin by the Authority comply with the terms of the agreement, including compliance with the applicable cost and administrative principles. We believe these audits provide a basis for our conclusion as to whether costs billed and reimbursed were materially compliant.

OBJECTIVES, SCOPE, and METHODOLOGY

The Audit Office conducted a contract compliance audit of Authority Agreement No. HSR 13-44. We have completed audits of TY Lin and the following subconsultants for costs reimbursed applicable to services provided during the audit period of February 1, 2014 through December 31, 2021. We audited a total of $70,625,796 for the following firms:

T.Y. Lin
LSA Associates, Inc.
Rincon Consultants, Inc.
VMA Communications, Inc.
Quality Infrastructure Corporation
MCM and Associates
ILF Consultants, Inc.
JRP Historical Consulting, LLC.
Earth Mechanics, Inc.

VRPA Technologies, Inc.
Bloom Biological, Inc.
COWI North America, Inc.

The scope of our audit was limited to an examination of accounting and internal control systems and supporting documentation for costs billed to and reimbursed by the Authority from February 1, 2014 through December 31, 2021, to obtain reasonable assurance whether costs complied with the terms of the agreement. After this date, if the Authority made payments to resolve disputes from the audit period; these payments are not included in this audit.

The audit objective was to determine whether TY Lin and its subconsultants complied with the requirements of the agreement, including but not limited to the Code of Federal Regulations Title 48, Chapter 1 Contract Cost Principles and Procedures and Part 31, Title 49, Part 19 Uniform Administrative Requirements.

To accomplish our objectives, we examined evidence supporting amounts and disclosures in the data and records selected for review. We also assessed the accounting principles used and significant estimates made by TY Lin and their subconsultants, as well as evaluating the overall billed costs.

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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.

The results of TY Lin and each subconsultant audit were discussed with TY Lin and subconsultant staff. The draft report was provided to the Authority Contract Manager, who provided the report to TY Lin for their identification of corrective actions. Their response is included in this report, as applicable and is also included in its entirety as Attachment 1.

CONCLUSION

Based on our audit, TY Lin and its subconsultants identified above supported the costs billed and reimbursed in accordance with agreement provisions, the cost principles of 48 CFR Part 31, and administrative requirements of 49 CFR Part 19 except for $1,447,828. Please see below for further details.

TY Lin International

Issue 1: Conflicting Contract Language

We reviewed the agreement between TY Lin and the Authority compared with the agreement between TY Lin and their subconsultants and noted TY Lin executed sub-agreements with conflicting requirements as compared to the agreement with the Authority. The two instances we noted are:

- The agreement with subconsultant did not specify billing rates should be at actual, whereas the prime agreement with the Authority does. The subconsultant agreement also does not ensure billed rates are supported.

  Specifically, Section 5.2 of the subconsultant agreement identifies that firms will be reimbursed for hours worked at the hourly rates specified. In addition, this Section identifies that the rates are not adustable for the performance period. HSR 13-44, between TY Lin and the Authority, Exhibit B.1.B states that Consultant and subcontractor will only be reimbursed for actual expenses incurred for hours worked at the Consultant's or subcontractor's actual direct labor, fringe, and indirect rates, not to exceed the [rate caps] specified.

  However, the subconsultant agreement Clause D specifies that the Consultant shall be bound to Engineer (TY Lin) in the same fashion as Engineer is bound to Client (Authority) in the Prime Agreement and Section 5.1 identifies that the Engineer shall pay Consultant for Basic Services rendered as set forth in each Task Order and in accordance with the Prime Agreement. The effect of the conflicting requirements is that updates to subconsultant indirect rates were not made for the first five years of the agreement.

- Record retention clause in the TY Lin agreement with subconsultant states a two year record retention from final payment, whereas the TY Lin agreement with the Authority has a three year record retention from final payment. This creates a significant discrepancy in record retention because the subconsultant agreement with the prime can be significantly less time if the subconsultant left the project early in the contract term.

Recommendation:

TY Lin and the Authority Contract Manager should ensure provisions set forth in the Agreement are established by an order of precedence clause in the sub-agreements.

Auditee Response:

> "TYLin disagrees with the first bullet of this finding and requests that it be removed from the Final Audit. It is the opinion of TYLin that Clause D, Sections 5.1, and Section 8 of Exhibit B of the respective Sub-agreements resolves any perceived conflicting requirements of the Prime agreement between the Authority and TYLin.

TYLin concurs with the second bullet of this finding and will revise the Sub-agreement with active Subconsultants, accordingly.

Implementation Date: 1/1/2025"

Audit Office Analysis of Response:

The Authority disagrees with the response of TY Lin. The language in Section 5.2 of the subconsultant agreement contradicts Section 5.1 and Clause D and is the cause of the subconsultants invoicing the same rates over the term of the agreement, which resulted in the majority of the overpayments. TY Lin managed the contracts with their subconsultants as if the rates were fixed throughout the term of the project. TY Lin would annually notify the subconsultants of the billing rates for the upcoming fiscal year. In early 2016, TY Lin rejected invoices submitted by a subconsultant because the rates billed were lower than the rates TY Lin had provided as their billing rates.

Issue 2: Overbilled Fully Burdened Labor Costs

We tested billed direct labor costs to ensure direct labor rates were supported by employee payroll registers, per contract Exhibit B, section 1B, costs should be at actual cost. Due to conflicting provisions in sub-agreements, as identified above in Issue 1, actual costs were not billed. We noted the following firms overbilled a grand total of $188,028 in fully burdened direct labor:

- TY Lin
- COWI North America, Inc
- Earth Mechanics
- ILF Consultants, Inc
- JRP Historical
- LSA Associates
- Quality Infrastructure Corp
- Rincon Consultants
- VMA Communications
- VRPA Technologies

The amount above only includes direct labor overbillings if there were no indirect rate overbillings in the same fiscal year. If both direct labor and indirect rate overbillings occurred in the same fiscal year, the total overbilling is included in Issue 3.

Recommendation:

TY Lin should reimburse the Authority $188,028 of overbilled fully burdened direct labor.

Auditee Response:

> "We note that the Audit Office apparently limited its review to instances where it believes the billed costs were overstated, and did not consider multiple instances when the billed costs were understated. Unfortunately, that approach appears not to comply with the audit engagement letter dated March 1, 2022 (the "Engagement Letter), not with the Standards for Performance Audits set forth in the 2018 Government Auditing Standards issued by the Comptroller General of the United States (the "Government Auditing Standards").
>
> The Engagement Letter states that the purpose of the audit is to obtain "reasonable assurances whether costs billed complied with the terms of the agreement." Chapter 3 of the Government Auditing Standards requires that auditors independently and objectively consider all facts relevant to their audit. TYLin maintains that, consistent with both the Engagement Letter and the Government Auditing Standards, the Draft Audit should be revised to consider both understated and overstated costs.
>
> Once such revision has been completed, and to the extent applicable, TYLin will further evaluate its obligations to refund or credit the Authority the amount associated with this finding upon receipt of the corresponding amounts from the Subconsultants included in the Draft Audit, less any amounts owed to TYLin or its Subconsultants by the Authority. Please note that a number of the small business Subconsultants have requested to return amounts owed in installments due to the size of the returned funds.
>
> Implementation Date: Thirty days after receipt of funds from the Authority or applicable Subconsultants"

Audit Office Analysis of Response:

The Authority disagrees with the response of TY Lin. Agreement HSR 13-44, Exhibit B, Section 1.B "… *the Authority agrees to reimburse the Consultant for actual expenditures incurred in accordance with the rates specified … The rates in Exhibit B are rate caps, or the maximum amount allowed to be billed. Consultant and subcontractor will only be reimbursed for actual expenses for hours worked at the Consultant's or subcontractor's actual direct labor, fringe, and indirect rates, not to exceed the rates specified …"*

Auditors objectively considered, using professional judgment, whether costs tested as part of the audit were supported, actual, and in compliance with the federal regulations as required by audit standards. If an amount was not invoiced, the audit cannot determine its reasonableness. The audit followed the audit objective to obtain reasonable assurance that costs billed complied with the terms of the agreement. Unbilled amounts are not costs associated with the agreement and therefore not audited.

Exhibit D Section 4.A of the Authority agreement with TY Lin identifies that "The Consultant agrees to be as fully responsible to the Authority for the acts and omissions of it's subcontractors and of person either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Consultant." TY Lin is responsible to reimburse the Authority for overpayments in the timeframe set by the Authority.

Issue 3:

Eight subconsultant firms billed overstated indirect cost rates due to unsupported cost categories or an inadequate accounting system, and as a result, they billed higher indirect cost rates than what they were able to support. TY Lin is responsible for the controls in place in their organization that will ensure compliance with the terms of the agreement with the Authority when billing for work performed by subconsultants. The following firms did not bill at actual cost, per contract Exhibit B, section 1B, in addition to unallowable costs per cost principles of 48 CFR Part 31, for a grand total of $1,191,526 (including any direct labor overbillings from Issue 2):

- Earth Mechanics
- ILF Consultants, Inc
- JRP Historical
- LSA Associates
- Quality Infrastructure Corp
- Rincon Consultants
- VMA Communications
- VRPA Technologies

Recommendation:

TY Lin should reimburse the Authority $1,191,526 of overbilled indirect costs.

Auditee Response:

> "As noted above, in response to Issue #2, TYLin maintains that, consistent with both the Engagement Letter and Chapter 3 or the Government Auditing Standards, the Draft Audit should be revised to consider both understated and overstated costs. TYLin further maintains that using a constant overhead throughout the project was a requirement of the Authority, as identified through the Authority's yearly approval of the Master Resource Pool and reflected in contemporaneous communications with Authority officials.
>
> Our conservative internal estimates show that, had the audit considered both overstated and understated indirect cost rates related only to TYLin's indirect costs, TYLin would actually be owed over $600,000 by the

Authority. This information, and similar information indicating understated costs for subconsultants, was provided to the Authority as part of the audit, but apparently disregarded. To remain consistent with both the Engagement Letter and the Government Auditing Standards, we believe the Draft Audit must be revised to account for both overstated and understated costs for TYLin and subconsultants, and we look forward to working with the Audit Office to that end.

Once a revision to consider understated costs has been completed, and to the extent applicable, TYLin will further evaluate its obligations to refund or credit the amount associated with this finding to the Authority upon receipt of the corresponding amounts from the Subconsultants included in the Draft Audit, less any amounts owed to TYLin or its Subconsultants by the Authority. Please note that a number of the small business Subconsultants have requested to return amounts owed in installments due to the size of returned funds.

Implementation Date: Thirty days after receipt of funds from the Authority or applicable Subconsultants."

Audit Office Analysis of Response:

The Authority disagrees with the response of TY Lin. Agreement HSR 13-44, Exhibit B, Section 1.B "… *the Authority agrees to reimburse the Consultant for actual expenditures incurred in accordance with the rates specified … The rates in Exhibit B are rate caps, or the maximum amount allowed to be billed. Consultant and subcontractor will only be reimbursed for actual expenses for hours worked at the Consultant's or subcontractor's actual direct labor, fringe, and indirect rates, not to exceed the rates specified …"*

TY Lin has provided zero documentation, nor has any been found in the Authority contract manager files to support their claim that using a constant overhead [rate] throughout the project was a requirement of the Authority. The Authority's "yearly approval" of the Master Resource Pool was based on the premise that TY Lin submitted the Master Resource Pool in compliance with the agreement provisions, specifically that the loaded hourly billing rates were based on actual costs. The Master Resource Pool annual updates identified by TY Lin were not based on current information from the subconsultants nor was it verified as part of their responsibility to be fully responsible for the acts and omissions of it's subconsultants, as identified in Exhibit D, Section 4.A, cited above.

The scope of the audit, as identified in the engagement letter was limited to supporting documentation for costs billed to and reimbursed by the Authority. The "under billed" information provided was out of scope. Had TY Lin followed the provisions of Agreement HSR 13-44, actual costs supported would have been invoiced to and reimbursed by the Authority in a timely manner. In addition, three years after the execution of the agreement, in 2017, in email communications in preparation for the execution of Amendment 2 to the agreement, TY Lin was aware that the under the "actual cost" terms in the amendment language billings would be based on actual direct hourly wages and overhead and could have made contemporaneous changes to the invoicing practices.

TY Lin is responsible to reimburse the Authority for overpayments in the timeframe set by the Authority.

Issue 4: Unsupported Travel Expenses

Bloom Biological, Inc was unable to support $2,476 of travel charges. According to Title 48 CFR Part 31.201-2, contractor is responsible for maintaining records.

Recommendation:

TY Lin should reimburse the Authority $2,476 in unsupported travel costs.

Auditee Response:

> "TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.
>
> Implementation Date: Thirty Days upon receipt of funds from applicable Subconsultants"

Audit Office Analysis of Response:

The Authority partially disagrees with the response of TY Lin. Exhibit D Section 4.A of the Authority agreement with TY Lin identifies that "The Consultant agrees to be as fully responsible to the Authority for the acts and omissions of its subcontractors and of person either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Consultant." TY Lin is responsible to reimburse the Authority for overpayments in the timeframe set by the Authority.

Issue 5: Payment Terms not Adhered to

TY Lin did not pay their subconsultants within the maximum amount of days contractually bound from when the they receive payment. We tested and found 22 invoices paid past the maximum number of days of the 37 invoices we tested. According to Exhibit D, Section 4, the contractor shall pay its subconsultants within ten (10) calendar days from receipt of each payment made to the Consultant by the State. Failure to pay within a timely fashion results in noncompliance with the contract. Late payments to subconsultants may put a strain on their fiscal liquidity to run operations.

Recommendation:

On any future contracts, TY Lin should adhere to contract terms.

Auditee Response:

> "TYLin will adhere to the contract terms on future contracts.
>
> Implementation Date: 1/1/2025"

Audit Office Analysis of Response:

The Authority agrees with the response.

<u>MCM and Associates</u>

Issue 6: Inadequate Financial Management System

MCM and Associates does not have a financial management system to accumulate and segregate direct and indirect costs, lacks policies and procedures for administrative and accounting tasks, documentation such as employee handbook, and does not have a second reviewer in place when dealing with inputting information because of its small size and business structure, which creates an inadequate financial management system,. Therefore, the auditors could not provide assurance that contract related costs incurred and billed are in accordance with the fiscal provisions of Authority Agreement HSR 13-44. As a result, alternative audit procedures were performed to determine the reasonableness of the costs billed and reimbursed.

According to Title 49 CFR 19.21 (b), the financial management systems shall provide for the following: (3) Effective control over and accountability for all funds, property and other assets; (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award; (7) Accounting records including cost accounting records that are supported by source documentation.

Recommendation:

MCM and Associates develop an accounting system capable of tracking and segregating costs as required by the federal regulations cited in the agreement. They should establish written policies, procedures, and maintain source documentation to support billed costs as well as develop accounting and job costing policies and procedures to ensure all costs are properly segregated.

Auditee Response:

> "TYLin has passed this recommendation to MCM and Associates.

Implementation Date: Completed"

Audit Office Analysis of Response:

The Authority agrees with the response.

VRPA Technologies, Inc.

Issue 7:

VRPA Technologies, Inc. was not able to provide the proper indirect rate schedules or documentation to support the billed indirect rates. The auditors could not provide assurance to their accounting system since they do not have written policies and procedures and the firm does not create indirect cost rate schedules each year. Indirect cost rate schedules are only created upon request by a government agency. As a result, alternative audit procedures were performed to determine the reasonableness of the costs billed.

According to 49 CFR 19.21 (b), the financial management systems shall provide for the following: (3) Effective control over and accountability for all funds, property and other assets; (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award; (7) Accounting records including cost accounting records that are supported by source documentation.

Recommendation:

VRPA Technologies, Inc. should develop an accounting system wherein indirect rate schedules are created annually. VRPA Technologies, Inc should also establish written policies, procedures, and maintain source documentation to support billed costs.

Auditee Response:

"TYLin has passed this recommendation to VRPA Technologies, Inc.

Implementation Date: Completed"

Audit Office Analysis of Response:

The Authority agrees with the response.

Bloom Biological, Inc.

Issue 8: Inadequate Financial Management System

Bloom Biological, Inc. does not have a financial management system to accumulate and segregate direct and indirect costs, lacks policies and procedures for administrative and accounting tasks, does not sign-off on timesheets, and does not have a second reviewer in place when dealing with inputting information, which creates an inadequate financial management system, because of its small size and business structure. Therefore, the auditors could not provide assurance that contract related costs incurred and billed are in accordance with the fiscal provisions of Authority Agreement HSR 13-44. As a result, alternative audit procedures were performed to determine the reasonableness of the costs billed.

According to Title 49 CFR 19.21 (b), the financial management systems shall provide for the following: (3) Effective control over and accountability for all funds, property and other assets; (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award; (7) Accounting records including cost accounting records that are supported by source documentation.

This resulted in an overbilling. See Issues 4 and 9 for additional details.

Recommendation:

Bloom Biological, Inc. should develop an accounting system capable of tracking and segregating costs as required by the federal regulations cited in the agreement. The subconsultant should establish written policies, procedures, and maintain source documentation to support billed costs. The firm should develop accounting and job costing policies and procedures to guarantee all costs are properly segregated.

Auditee Response:

> "TYLin has passed this recommendation to Bloom Biological Inc.
>
> Implementation Date: Completed"

Audit Office Analysis of Response:

The Authority agrees with the response.

Issue 9: Overbilled Fully Burdened Labor Costs

Bloom Biological, Inc. does not have an adequate financial management system to segregate and accumulate costs. As a result, we used an alternative testing method to calculate an average hourly labor rate for calendar years 2016 and 2017, respectively.

According to the Authority Agreement HSR 13-44 Exhibit B, Section 1.B, subcontractor will only be reimbursed for actual expenses incurred for hours worked at the subconsultant's actual direct labor, fringe, and indirect rates. As a result, the auditors found a total overbill of $65,363.

Recommendation:

TY Lin should reimburse the Authority $65,363 in overbilled costs.

Auditee Response:

> "TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.
>
> Implementation Date: Thirty days upon receipt of funds from applicable Subconsultants"

Audit Office Analysis of Response:

The Authority partially disagrees with the response. Exhibit D Section 4.A of the Authority agreement with TY Lin identifies that "The Consultant agrees to be as fully responsible to the Authority for the acts and omissions of its subcontractors and of person either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Consultant." TY Lin is responsible to reimburse the Authority for overpayments in the timeframe set by the Authority.

<u>LSA Associates, Inc.</u>

Issue 10: Overpaid Invoice Due to Mathematical Errors

LSA Associates, Inc. staff are able to manually overwrite invoices and in one instance, a recalculation between a task and total billed was not revised. Therefore an invoice was overbilled and overpaid by $435. According to Authority Agreement HSR 13-44 Exhibit B, costs should be at actual cost.

Recommendation:

TY Lin should reimburse the Authority $435 in overbilled costs.

Auditee Response:

> "TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.

Implementation Date: Thirty Days upon receipt of funds from applicable Subconsultants”

Audit Office Analysis of Response:

The Authority partially disagrees with the response. Exhibit D, Section 4.A of the Authority agreement with TY Lin identifies that “The Consultant agrees to be as fully responsible to the Authority for the acts and omissions of its subcontractors and of person either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Consultant.” TY Lin is responsible to reimburse the Authority for overpayments in the timeframe set by the Authority.

Observations

Observation 1: Noncompliance with Retention of Records

One employee at LSA Associates, Inc. received a rate escalation higher than the allowable yearly escalation. The escalation was acknowledged in the Master Resource Pool but we were not able to obtain documentation of the escalation approval from the Contract Manager or TY Lin. As a result, the auditor’s cannot wholly confirm the escalation in question was appropriately approved and satisfies contract requirements.

Recommendation:

The Authority Contract Manager and TY Lin should maintain all relevant contract documentation.

Auditee Response:

“Noted.

Implementation Date: Through Contract Termination”

Audit Office Analysis of Response:

The Authority agrees with the response.

Observation 2: Small Business Goals Not Reached

TY Lin achieved 28% of the 30% Small Business (SB) / Disadvantaged Business Enterprise (DBE) goals as of January 31, 2024.

Recommendation:

TY Lin should endeavor to reach small business goals identified in the Authority Agreement HSR 13-44 Exhibit D Section 16.

Auditee Response:

> “Noted.
>
> Implementation date: Through Contract Termination”

Audit Office Analysis of Response:

The Authority agrees with the response.

TYLin

TYLIN'S PROPOSED CORRECTIVE ACTION PLAN

NON-CONFORMING FINDINGS

Objectives, Scope & Methodology	Auditee Concern with Report's Public Policy Implications	IMPLEMENTATION DATE:
Response:	The California High-Speed Rail Authority ("Authority" or "CHSRA") currently asks for a return by TYLin of $57,757, with the remaining ~$1.4M owed by subconsultants. The results of this Draft Audit as it currently stands are especially troublesome when considering that nearly all of TYLin's subconsultants subject to this audit are or were, over the course of the project, small or disadvantaged businesses. Absent a complete audit that considers both overstated and understated costs, as discussed in more detail below, demanding a return of funds from small and disadvantaged businesses for costs reimbursed up to a decade ago--and presumably relied upon by those businesses for current operations—creates obvious concerns. If the Audit Office determines that these subconsultants do in fact owe money to the Authority after considering instances when the billed indirect cost rates were understated, we would request that the Authority work with these businesses to develop installment payment plans.	N/A

Objectives, Scope & Methodology	Auditee Concern with Scope and Timing of Report	Implementation Date:
Response:	The Draft Audit represents the first expression of concern by the Authority over charges that are in some cases more than a decade old, and that extend over a seven-year period. TYLin is confident that we and our subconsultants could have promptly resolved billing concerns had they been raised more contemporaneously with the delivery of our services. Instead, the multi-year delay creates multiple operational complications. Surely neither the Authority nor its consultants should anticipate that billing decisions and expenses reimbursed today would be allowed to stand until 2031, then subject to review in 2034. We question the reasonableness of retroactively adjusting billing agreements that the Authority allowed to stand for a decade, based on revised overhead rates the Authority recommended as supported at the time.	N/A

Issue #1 -	Conflicting Contract Language	Implementation Date:

Response:	TYLin disagrees with the first bullet of this finding and requests that it be removed from the Final Audit. It is the opinion of TYLin that Clause D, Sections 5.1, and Section 8 of Exhibit B of the respective Sub-agreements resolves any perceived conflicting requirements of the Prime agreement between the Authority and TYLin. TYLin concurs with the second bullet of this finding and will revise the Sub-agreement with active Subconsultants, accordingly.	1/1/2025

Issue #2 -	Overbilled Fully Burdened Labor Costs	Implementation Date:
Response:	We note that the Audit Office apparently limited its review to instances where it believes the billed costs were overstated, and did not consider multiple instances when the billed costs were understated. Unfortunately, that approach appears not to comply with the audit engagement letter dated March 1, 2022 (the "Engagement Letter"), nor with the Standards for Performance Audits set forth in the 2018 Government Auditing Standards issued by the Comptroller General of the United States (the "Government Auditing Standards"). The Engagement Letter states that the purpose of the audit is to obtain "reasonable assurances whether costs billed complied with the terms of the agreement." Chapter 3 of the Government Auditing Standards requires that auditors independently and objectively consider all facts relevant to their audit. TYLin maintains that, consistent with both the Engagement Letter and the Government Auditing Standards, the Draft Audit should be revised to consider both understated and overstated costs. Once such revision has been completed, and to the extent applicable, TYLin will further evaluate its obligations to refund or credit the Authority the amount associated with this finding upon receipt of the corresponding amounts from the Subconsultants included in the Draft Audit, less any amounts owed to TYLin or its Subconsultants by the Authority. Please note that a number of the small business Subconsultants have requested to return amounts owed in installments due to the size of returned funds.	Thirty days after receipt of funds from the Authority or applicable Subconsultants

Issue #3 -	[*Overstated Indirect Costs Rates*].	Implementation Date:

Response:	As noted above, in response to Issue #2, TYLin maintains that, consistent with both the Engagement Letter and Chapter 3 or the Government Auditing Standards, the Draft Audit should be revised to consider both understated and overstated costs. TYLin further maintains that using a constant overhead throughout the project was a requirement of the Authority, as identified through the Authority's yearly approval of the Master Resource Pool and reflected in contemporaneous communications with Authority officials. Our conservative internal estimates show that, had the audit considered both overstated and understated indirect cost rates related only to TYLin's indirect costs, TYLin would actually be owed over $600,000 by the Authority. This information, and similar information indicating understated costs for subconsultants, was provided to the Authority as part of the audit, but apparently disregarded. To remain consistent with both the Engagement Letter and the Government Auditing Standards, we believe the Draft Audit must be revised to account for both overstated and understated costs for TYLin and subconsultants, and we look forward to working with the Audit Office to that end. Once a revision to consider understated costs has been completed, and to the extent applicable, TYLin will further evaluate its obligations to refund or credit the amount associated with this finding to the Authority upon receipt of the corresponding amounts from the Subconsultants included in the Draft Audit, less any amounts owed to TYLin or its Subconsultants by the Authority. Please note that a number of the small business Subconsultants have requested to return amounts owed in installments due to the size of returned funds.	Thirty days after receipt of funds from the Authority or applicable Subconsultants

Issue #4 -	Unsupported Travel Expenses	Implementation Date:
Response:	TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.	Thirty Days upon receipt of funds from applicable Subconsultants

Issue #5 -	Payment Terms not Adhered to.	Implementation Date:
Response:	TYLin will adhere to the contract terms on future contracts.	1/1/2025

Issue #6 -	Inadequate Financial Management System [*MCM and Associates*]	Implementation Date:
Response:	TYLin has passed this recommendation to MCM and Associates.	Completed

Issue #7 -	[*Alternative Audit Procedures for VRPA*]	Implementation Date:
Response:	TYLin has passed this recommendation to VRPA Technologies, Inc.	Completed

Issue #8 -	Inadequate Financial Management System [*Bloom Biological, Inc.*]	Implementation Date:
Response:	TYLin has passed this recommendation to Bloom Biological Inc.	Completed

Issue #9 -	Overbilled Fully Burdened Labor Costs	Implementation Date:
Response:	TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.	Thirty days upon receipt of funds from applicable Subconsultants

Issue #10 -	Overpaid Invoice Due to Mathematical Errors	Implementation Date:
Response:	TYLin concurs with this finding and will refund the Authority the amount associated with this finding upon receipt of the corresponding amounts obtained from the Subconsultant included in the Draft Audit.	Thirty days upon receipt of funds from applicable Subconsultants

Issue #11 -	Lack of Management Representation Issue removed from final report	Implementation Date:
Response:	Rincon Consultants provided their Management Representation Letter to the Authority.	Completed

OPPORTUNITIES FOR IMPROVEMENT

Opportunity #1 -	Noncompliance with Retention of Records	Implementation Date:
Response:	Noted.	Through Contract Termination

Opportunity #2 -	Small Business Goals not Reached	Implementation Date:
Response:	Noted.	Through Contract Termination