



Locally Generated Alternative Contract Compliance Audit

Agreement No. HSR 22-01

September 2022 – October 2024

September 2025

Report Number: 25-04
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 22-01 for design services for the Fresno to Bakersfield Locally Generated Alternative project section, with HNTB Corporation (HNTB). Agreement No. HSR 22-01 was executed in September of 2022 and the end date is April 30, 2026. We have completed audits of HNTB and the following subconsultants for costs billed and reimbursed for services provided from September 1, 2022, through October 30, 2024, of \$39,682,999. We audited a total of \$39,671,539 for the following firms:

- HNTB Corporation
- Anser Advisory Management
- Arellano Associates
- BSK Associates
- Bess Test Labs
- Calvada Surveying, Inc.
- Earth Mechanics, Inc.
- FMF Pandion
- IDC Consulting Engineers
- Jacobs Engineering Group
- Lynn Capouya, Inc.
- JMA Civil, Inc.
- MA Engineering
- MGE Engineering, Inc.
- Monument Row
- NCM Engineering Corporation
- Ramos Consulting Services Inc.
- Ruettgers & Schuler, Civil Engineers
- Sapphos Environmental Inc.
- Sener Engineering & Systems
- Unico Engineering Inc.
- V&A Inc.
- Value Management Strategies, Inc.
- Wagner Engineering & Survey Inc.

The audit objective was to determine whether HNTB 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 Part 31, and Title 49, Part 18, Uniform Administrative Requirements. The Audit Office examined accounting records maintained by HNTB 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 HNTB and the subconsultants' financial management systems.

We identified overbilled and over-reimbursed costs in the amount of \$776,152. HNTB generally agrees with the issues identified. Their responses are included in the body of the report with each issue, and the response in its entirety is included as Attachment A.

Paula Rivera

Paula Rivera, Audit Chief

September 15, 2025

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 HNTB to provide design services to the Authority for the Fresno to Bakersfield Locally Generated Alternative project section. The total amount billed by and reimbursed to HNTB from September 1, 2022, through October 30, 2024, was \$39,682,999. HNTB is responsible for any controls within its organization that are necessary to ensure compliance with the terms of the agreement with the authority when billing for work performed by subconsultants.

We conduct contract compliance audits to ensure that the costs reimbursed to HNTB by the Authority comply with the terms of the agreement, including compliance with the applicable federal 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 22-01. We have completed audits of HNTB and the following subconsultants for costs reimbursed applicable to services provided during the audit period of September 1, 2022, through October 30, 2024. We audited a total of \$39,671,539 for the following firms:

- HNTB Corporation
- Anser Advisory Management
- Arellano Associates
- BSK Associates
- Bess Test Labs
- Calvada Surveying, Inc.
- Earth Mechanics, Inc.
- FMF Pandion
- IDC Consulting Engineers
- Jacobs Engineering Group
- Lynn Capouya, Inc.
- JMA Civil, Inc.
- MA Engineering
- MGE Engineering, Inc.
- Monument Row
- NCM Engineering Corporation
- Ramos Consulting Services Inc.
- Ruetters & Schuler, Civil Engineers
- Sapphos Environmental Inc.
- Sener Engineering & Systems

- Unico Engineering Inc.
- V&A Inc
- Value Management Strategies, Inc.
- Wagner Engineering & Survey 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 September 1, 2022, through October 30, 2024, 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 HNTB 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 Part 31, and Title 49, Part 18, 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 HNTB 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 HNTB and each subconsultant audit were discussed with HNTB and subconsultant staff. The draft report was provided to the Authority Contract Manager, who provided the report to HNTB for their identification of corrective actions. Corrective actions were identified and are summarized in each Issue and the entire response is included as Attachment A.

CONCLUSION

Based on our audit, HNTB and its subconsultants identified above, supported the costs billed and reimbursed in accordance with agreement provisions, the cost principles of Title 48 Code of Federal Regulations, Part 31, and administrative requirements of Title 49 Code of Federal Regulations, Part 18, except for \$776,152. HNTB generally agrees with the issues identified. Their responses are included in the body of the report with each issue, and the response in its entirety is included as Attachment A.

Please see below for further details.

Issue 1: Overbilled Indirect Costs

HNTB did not invoice the Authority in compliance with the Agreement for a total of \$147,203. HNTB is responsible for any controls within its organization that are necessary to ensure compliance with the terms of the agreement with the authority when billing for work performed by subconsultants. HNTB did not solicit annual updates to indirect cost rates nor individual direct labor rates, as required by Exhibit B: Budget Detail and Payment Provisions, Section 2.3.5, states "The Consultant shall provide updated overhead rates for the prime Consultant and all subcontractors at least 30 days prior to the annual escalation date" therefore, the firms did not bill at actual cost, per Exhibit B, Section 2.2, which states, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified.

Recommendation:

HNTB should reimburse the Authority \$147,203 of overbilled indirect costs.

Auditee Response:

"HNTB agrees with the findings."

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 2: Overbilled Indirect Costs

Although HNTB is responsible for any controls within its organization that are necessary to ensure compliance with the terms of the agreement with the authority when billing for work performed by subconsultants, ten subconsultant firms billed overstated indirect cost rates due to unsupported cost categories, and as a result, they billed higher indirect cost rates than what they were able to support. Overbilled costs totaling \$168,661 were identified due to unallowable costs per cost principles of Title 48 Code of Federal Regulations, Part 31, (including any direct labor overbillings from Issue 3).

Recommendation:

HNTB should reimburse the Authority \$168,661 of overbilled indirect costs as required by Exhibit B, Section 5.3, "Any costs for which payment has been made to the Consultant that are determined by subsequent audit to be unallowable under this Agreement, OMB Circular A-87, as amended, 49 CFR (Code of Federal Regulations) Part 18, 48 CFR Part 31, and 2 CFR Part 200 are subject to repayment by the Consultant to the Authority.

Auditee Response:

“HNTB agrees with the findings.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Sub-Issue 2a: Unsupported Indirect Cost Rate

Sapphos Environmental billed an indirect cost rate that could not be supported which created an overbilling of \$223,954. However, the Controller is new, and the owner was outside the United States when the audit was conducted and has not had time to fully review the details and look for supporting documents.

According to Exhibit B, Section 2.2, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified.

Recommendation:

Sapphos should review the audit documentation provided to them and submit any additional documents to support costs within 90 days of the final audit report. If no additional support is provided, HNTB should reimburse the Authority for \$223,954 in overbilled indirect costs.

Auditee Response:

“HNTB reserves comment until Sapphos provides HNTB and the Authority the requested documentation.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Sub-Issue 2b: Over-recovery of Indirect Costs

Unallowable costs of \$9,672 were identified for Bess Test Labs. Auditor made adjustments reducing the indirect rate for fiscal year 23/24 to 152.79 percent. Auditor was unable to determine the remaining overstated amounts due to accounting irregularities associated with direct billed indirect labor costs and other direct costs that are double recovered.

According to Exhibit B, Section 2.2, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly

billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified.

Recommendation:

HNTB should reimburse the Authority \$9,672 and have Bess Test Labs perform additional review to identify and make adjustments to their fiscal year 23/24 and fiscal year 24/25 indirect rates and related accounts to ensure they are not double recovering costs within 90 days of the final audit report. Additionally, HNTB should have Bess Test Labs complete the revision of their indirect rate schedule and provide to the Audit Office.

Auditee Response:

“HNTB agrees with the findings.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Sub-Issue 2c: Inappropriately Applied Indirect Rate

Sener Engineering & Systems’ indirect cost rate was inappropriately applied to nine employees from a parent/subsidiary entity whose direct labor costs are not included in the Sener Engineering & Systems direct labor base. According to the Code of Federal Regulations, Title 48, Part 31.203 (d) All items properly includable in an indirect cost base shall bear a pro rata share of indirect costs irrespective of their acceptance as Government contract costs. For example, when a cost input base is used for the allocation of General & Administrative costs, the contractor shall include in the base all items that would properly be part of the cost input base, whether allowable or unallowable, and these items shall bear their pro rata share of General & Administrative costs.

Recommendation:

HNTB should have Sener Engineering & Systems adjust the rates billed to properly apply the Sener Engineering & Systems indirect costs. Additionally, HNTB should have Sener Engineering & Systems complete the revision of their indirect cost rate schedule and/or billing adjustments and provide to the Audit Office within 90 days of the final report.

Auditee Response:

“HNTB reserves comment until Sener provides HNTB and the Authority the requested documentation.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Sub-Issue 2d: Unsupported Indirect Cost Rate

Sapphos Environmental billed an indirect cost rate of 164.52 percent in fiscal year 24/25. The Audit Office performed a review of the fiscal year 24/25 Master Resource Pool. In the review, we recommended that the indirect rate be adjusted to 145.69 percent, however, due to the expanded testing of the indirect rate in fiscal year 22/23 and fiscal year 23/24, we found similar issues in the fiscal year 24/25 indirect cost rate. Sapphos Environmental is able to support an indirect cost rate of 144.61 percent. Per Exhibit B, Section 2.2, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified.

Recommendation:

We recommend HNTB reduce Sapphos Environmental's indirect rate for fiscal year 24/25 to 144.61 percent, re-invoice, and credit the Authority accordingly.

Auditee Response:

"HNTB reserves comment until Sapphos provides HNTB and the Authority the requested documentation."

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 3: Overbilled Fully Burdened Labor Costs

We tested billed direct labor costs to ensure direct labor rates were supported by employee payroll registers, per Exhibit B, Section 2.2, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified. We identified seven firms overbilled \$288,119 in fully burdened direct labor:

The amount above includes direct labor overbillings only 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 above in Issues 1 and 2.

Recommendation:

HNTB should reimburse the Authority \$288,119 of overbilled fully burdened direct labor.

Auditee Response:

"HNTB agrees with the findings."

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 4: Unsupported Timesheets

The following companies could not support individual's time billed totaling \$103,491, with timesheets:

- MA Engineering - \$61,131
- Bess Test Labs - \$36,253
- IDC Consulting Engineers - \$6,107

Title 49 Code of Federal Regulations, Section 18.20, (b)(6): *Source documentation*. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

Recommendation:

HNTB should reimburse the Authority \$103,491 for unsupported billed labor.

Auditee Response:

"HNTB agrees with the findings."

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 5: Unsupported Other Direct Costs

Bess Test Labs' in-house other direct costs could not be fully supported.

According to Exhibit B, Section 3.1.4, the Consultant shall retain supporting documentation of amounts invoiced for audit purposes available to the Authority upon request. The Consultant shall include appropriate provisions in each of its subcontracts/sub-agreements to secure adequate supporting documentation to verify all subcontractor services and expenses invoiced for payment under this agreement.

Also, Title 49 Code of Federal Regulations, Section 18.20, (b)(6): *Source documentation*. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

Recommendation:

HNTB should have Bess Test Labs perform a reconciliation of all in-house other direct costs billed and provide it to the Audit Office within 90 days of the final audit report. If not reconciled and supported, HNTB should reimburse the Authority the full amount of the in-house other direct costs reimbursed \$567,567.

Auditee Response:

“HNTB reserves comment until Bess Test Labs provides HNTB and the Authority Audit the requested documentation.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 6: Overbilled Fee

Four subconsultants billed a nine percent fee when the agreement specified a 7.5 percent fee. HNTB obtained credits totaling \$2,278, for the appropriate fee of 7.5 percent however, it was not returned to the Authority.

- JMA Civil, Inc. (\$504)
- Anser Advisory Management (\$308)
- Sapphos Environmental (\$475)
- Ramos Consulting (\$991)

According to Exhibit B, Section 2.3.1, The Consultant and its subconsultants will earn a flat fixed fee of 7.5 percent during the transition period (not to exceed three months) and the Authority’s acceptance of the initial AWP [Annual Work Plan]. Additionally, per Exhibit B, Section 2.2, the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis not to exceed the (escalated) loaded hourly billing rates, inclusive of actual hourly rate, fringe, indirect/overhead, general and administrative, and fee identified.

Recommendation:

HNTB should repay the Authority for the amount totaling \$2,278, that was credited by their subconsultants due to the overbilled fee recovery.

Auditee Response:

“HNTB agrees with the findings.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 7: Non-Payment to Subconsultant

A true-up of the performance-based fee from 8 percent to 11 percent was billed by HNTB in June 2024 and reimbursed by the Authority in August 2024 however, five of their subconsultants were not paid their portion of the performance-based fee as of January 29, 2025.

According to Exhibit D, Section 2.4, the contractor shall pay its subconsultants within seven (7) calendar days from receipt of each payment made to the Consultant by the State.

Recommendation:

HNTB should ensure that all subconsultants are paid within seven calendar days of receipt of payment by the Authority.

Auditee Response:

“The performance-based fee was awarded by the Authority to HNTB at the contract level. Subsequent to the award, HNTB assessed the performance of each of its subconsultants and determined that five of its subconsultants did not perform at a level to warrant the increased fee percentage.”

Audit Office Analysis of Response:

The Authority disagrees with the response. Per Invoice No.1001-81970-PL-003, Task order 02, Performance Based Fee, the Authority paid HNTB a total of \$127,966.64, for the increase of the performance based fee from 8% - 11% for work performed by HNTB and sixteen of its sub-consultants, during the period of March 18, 2018, through June 30, 2023. On January 29, 2025, HNTB informed the audit team that a total of five payments as of date, had yet to be released as three payments were missing and two payments were never released. Further, HNTB stated that they were working on releasing the identified payments.

Issue 8: Inadequate Financial Management System

During the audit period, IDC Consulting Engineers did not have a financial management system that they had confidence that amounts within the system are correct. In addition, IDC Consulting Engineers lacks policies and procedures for administrative and accounting tasks, and does not have documented submittal, review, or approval process for timesheets and invoicing, which creates an inadequate financial management system.

According to Title 49 Code of Federal Regulations, Section 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:

IDC Consulting Engineers should 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 develop accounting and job costing policies and procedures to ensure all costs are properly recorded and segregated.

Auditee Response:

“HNTB agrees with the findings.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 9: Contract Compliance

HNTB did not comply with the following agreement provisions:

- Of the 369 subconsultant invoices tested, there were 156 invoices that were not paid within seven (7) calendar days from receipt of each payment that was made to the Consultant by the State (42 percent of the time).
- Twenty-two of thirty-eight (58 percent) invoices were submitted after 30 days of the end of the billing period.

According to Exhibit D, Section 2.4, the contractor shall pay its subconsultants within seven (7) 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. Also, according to Exhibit B, Section 2.2.3, the consultant shall provide one electronic original copy of the invoice for payment. Invoices shall be submitted no more than monthly in arrears and no later than 30 days after completion of each billing period or upon completion of a task.

Recommendation:

HNTB should develop oversight processes to ensure compliance with the provisions in Agreement HSR No. 22-01.

Auditee Response:

“1. HNTB acknowledges that it did not pay all its subconsultants within seven calendar days as specified in Exhibit D of the contract. HNTB reviewed the payment terms associated with each subconsultant and determined that the seven-day payment “Flag” had not been set for all its subconsultants. HNTB has corrected this issue and all its subconsultants will be paid within seven calendar days from receipt of payment from the State.”

“2. HNTB agrees that consistently submitting its invoices within the 30-day period as specified in Exhibit B of the contract has, at times, been challenging. Coordinating invoicing and MRP requirements with HNTB’s large number of subconsultants as well as HNTB’s internal processes for invoice preparation, review and approval leaves very little margin for error. The volume of supporting documentation has resulted in invoices that exceed 500 pages. Although HNTB has primarily focused on the quality of its invoicing to facilitate the Authority’s review and approval, we are committed to meet the timely submittal of our invoices per the terms of the contract. HNTB has assigned a well-trained team to ensure our invoicing is completed timely and accurately minimizing the potential delay of invoice submissions.”

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Observation***Observation 1: Inconsistent Subconsultant Agreement Language***

There were inconsistent payment terms between the subconsultant agreement/task order in comparison to the agreement with HNTB and the Authority.

Recommendation:

HNTB should ensure that language between the Prime/Authority agreement is not inconsistent or contradictory in the agreements/task orders between HNTB and their subconsultants.

Excerpt of Auditee Response titled “Insufficient Audit Results”:

“The Authority included those findings where HNTB and its subconsultants overbilled the Authority. However, there were many instances where subconsultants underbilled their overhead rates and labor rates. Although the Authority Audit Team identified the overhead rates and labor rates underbilled, it did not quantify the amounts underbilled and offset these amounts against the amounts overbilled. HNTB estimates that the total overhead and labor underbilled amounts to \$280,741 resulting in a net overbilling of \$495,411 (\$776,152 - \$280,741). Therefore, HNTB feels it is reasonable the adjusted net amount is \$495,411.”

Audit Office Analysis of Response:

The Authority disagrees with HNTB's summary statements titled "Insufficient Audit Results".

The Authority Audit Team issued an engagement letter to HNTB on December 10, 2024, communicating that "The scope of our engagement will be limited to costs billed to and reimbursed by the Authority from September 1, 2022, through October 30, 2024. In addition to the Authority Audit team identifying the overhead rates and labor rates underbillings as stated in HNTB's response, an audit exit conference was conducted in which, the underbillings as well as the audit scope limitation, citing back to the audit engagement letter was discussed and communicated. Costs that were neither billed nor reimbursed are outside the scope of our audit.

The underbillings summarized in HNTB's response included unbilled indirect cost rates and labor billing rates that potentially could have been billed and reimbursed if the costs invoiced by HNTB were based on actual costs, as stipulated in Exhibit B, Section 2.2... "The Authority agrees to compensate Consultant for actual hours worked on an actual cost basis...." HNTB, is responsible to reimburse the Authority for overpayments for costs invoiced and reimbursed, in the timeframe set by the Authority, as required by Exhibit B, Section 5.3, "Any costs for which payment has been made to the Consultant that are determined by subsequent audit to be unallowable under this Agreement, OMB Circular A-87, as amended, 49 subject CFR (Code of Federal Regulations) Part 18, 48 CFR Part 31, and 2 CFR Part 200 are to be repaid by the Consultant to the Authority."

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Paula Rivera, Chief Auditor
California High-Speed Rail Authority
770 L Street, Suite 620
Sacramento, CA 95814

8/19/2025

Subject: HNTB's response to Draft Audit Report 25-04, HSR Contract No. 22-01

Dear Ms. Rivera,

HNTB thanks you for the opportunity to respond to your Draft Audit Report 25-04 and we appreciate your patience in this matter. HNTB held multiple meetings with our subconsultants and their questions and concerns are represented in our Response.

Issue1: Overbilled Indirect Costs

HNTB Response

HNTB agrees with the findings.

Issue 2: Overbilled Indirect Costs

HNTB Response

HNTB agrees with the findings.

Sub-Issue 2a: Unsupported Indirect Cost Rate

HNTB Response

HNTB reserves comment until Sapphos provides HNTB and the Authority the requested documentation.

Sub-Issue 2b: Over-recovery of Indirect Costs

HNTB Response

HNTB agrees with the findings.

Sub-Issue 2c: Inappropriately Applied Indirect Rate

HNTB Response

HNTB reserves comment until Sener provides HNTB and the Authority the requested documentation.

Sub-Issue 2d: Unsupported Indirect Cost Rate

HNTB Response

HNTB reserves comment until Sapphos provides HNTB and the Authority the requested documentation.

Issue 3: Overbilled Fully Burdened Labor Costs

HNTB Response

HNTB agrees with the findings.

Issue 4: Unsupported Timesheets

HNTB Response

HNTB agrees with the findings.

Issue 5: Unsupported Other Direct Costs

HNTB Response

HNTB reserves comment until Bess Test Labs provides HNTB and the Authority Audit the requested documentation

Issue 6: Overbilled Fee

HNTB Response

HNTB agrees with the findings.

Issue 7: Non-Payment to Subconsultants

HNTB Response

The performance-based fee was awarded by the Authority to HNTB at the contract level. Subsequent to the award, HNTB assessed the performance of each of its subconsultants and determined that five of its subconsultants did not perform at a level to warrant the increased fee percentage.

Issue 8: Inadequate Financial Management System

HNTB Response

HNTB agrees with the findings.

Issue 9: Contract Compliance

HNTB Response

1. HNTB acknowledges that it did not pay all its subconsultants within seven calendar days as specified in Exhibit D of the contract. HNTB reviewed the payment terms associated with each subconsultant and determined that the seven-day payment “Flag” had not been set for all its subconsultants. HNTB has corrected this issue and all its subconsultants will be paid within seven calendar days from receipt of payment from the State.
2. HNTB agrees that consistently submitting its invoices within the 30-day period as specified in Exhibit B of the contract has, at times, been challenging. Coordinating invoicing and MRP requirements with HNTB’s large number of subconsultants as well as HNTB’s internal processes for invoice preparation, review and approval leaves very little margin for error. The volume of supporting documentation has resulted in invoices that exceed 500 pages. Although HNTB has primarily focused on the quality of its invoicing to facilitate the Authority’s review and approval, we are committed to meet the timely submittal of our invoices per the terms of the contract. HNTB has assigned a well-trained team to ensure our invoicing is completed timely and accurately minimizing the potential delay of invoice submissions.

Insufficient Audit Results

The Authority included those findings where HNTB and its subconsultants overbilled the Authority. However, there were many instances where subconsultants underbilled their overhead rates and labor rates. Although the Authority Audit Team identified the overhead rates and labor rates underbilled, it did not quantify the amounts underbilled and offset these amounts against the amounts overbilled. HNTB estimates that the total overhead and labor underbilled amounts to \$280,741 resulting in a net overbilling of \$495,411 (\$776,152 - \$280,741). Therefore, HNTB feels it is reasonable the adjusted net amount is \$495,411.

Below is a summary of the overhead underbilled:

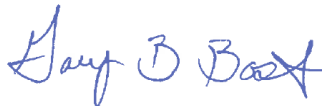
	Overhead Rate Variances			Amount
	FY22/23	FY 23/24	FY24/25	Underbilled
MGE Engineering			-56.49%	58,771
Monument Row		-3.87%		185
Jacobs Engineering		-2.87%		21,574
Unico Engineering		-7.67%		525
BSK Associates	-34.60%	-40.00%		17,526
Wagner Engineering	-28.12%	-6.39%		1,081
Anser Advisory	-4.30%	-8.72%		1,780
HNTB		-1.29%		72,402
FMF Pandion		-53.88%		54,844
IDC Consulting	-3.20%			7,007
VMS Strategies		-23.07%		3,258
Total				238,955

Below is a summary of the underbilled direct labor hourly rates:

	Hours	Under-billing
Anser Advisory	245	1,418
MGE Engineering	278	2,403
Sener Engineering	166	5,226
IDC Consulting	37	3,923
JMA Civil, Inc.	1,595	28,816
	2,321	41,786

Feel free to contact me with any questions or concerns.

Sincerely,



Gary B. Bost
Manager Audit and Fiscal Compliance

cc: Yoga Chandran, Senior Vice President
Adam Dayhoff, Project Manager
Roger Seymour, Director Audit and Fiscal Compliance
Terrie Breit, Office Finance Manager
Joanna McCurdy, Audit Analyst II