



CALIFORNIA
High-Speed Rail Authority

Merced to Madera

Contract Compliance Audit

Agreement No. HSR 22-02

October 2022 – November 2024

January 2026

Report Number: 25-05

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 22-02 for design services for the Merced to Madera project section, with Stantec Consulting Services Inc. Agreement No. HSR 22-02 was executed in October of 2022 and the current end date is April 30, 2026. We have completed audits of Stantec Consulting Services Inc. and the following subconsultants for costs reimbursed for services provided from October 4, 2022, through November 29, 2024, and reimbursed through March 6, 2025, totaling \$63,873,449. Of this amount, we audited \$61,581,062 for the following firms:

- Stantec Consulting Services Inc.
- Advantec Consulting
- Anser Advisory Management
- Biggs Cardosa Associates
- Blair, Church & Flynn Consulting Engineers
- Earth Mechanics, Inc.
- ELLE Consultants
- H.T. Harvey & Assoc
- Knight CM Group
- MA Engineering
- MGE Engineering, Inc.
- NSI Engineering
- PARIKH Consultants
- Precision Civil Engineering
- Quad Knopf, Inc.
- Systra Consulting
- Terravanta, Inc.
- Unico Engineering
- VRPA Technologies
- Zephyr Rail

The audit objective was to determine whether Stantec Consulting Services Inc. 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 Stantec Consulting Services Inc. 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 Stantec Consulting Services Inc. and the subconsultants' financial management systems.

We identified overbilled and over-reimbursed costs in the amount of \$731,436.

Paula Rivera

Paula Rivera, Audit Chief

January 8, 2026

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 Stantec Consulting Services Inc. (Stantec) to provide design services to the Authority for the Merced to Madera project section. The total amount billed during the audit period of October 4, 2022, through November 29, 2024, and reimbursed through March 6, 2025, was \$63,873,449. Stantec is responsible for internal 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 conducted these contract compliance audits to ensure that the costs reimbursed to Stantec 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 HSR 22-02. We have completed audits of Stantec and the following subconsultants for costs reimbursed applicable to services provided during the audit period and reimbursed through March 6, 2025. We audited a total of \$61,581,062 for the following firms:

- Stantec Consulting Services Inc.
- Advantec Consulting
- Anser Advisory Management
- Biggs Cardosa Associates
- Blair, Church & Flynn Consulting Engineers
- Earth Mechanics, Inc.
- ELLE Consultants
- H.T. Harvey & Assoc
- Knight CM Group
- MA Engineering
- MGE Engineering, Inc.
- NSI Engineering
- PARIKH Consultants
- Precision Civil Engineering
- Quad Knopf, Inc.
- Systra Consulting
- Terravanta, Inc.

- Unico Engineering
- VRPA Technologies
- Zephyr Rail

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 October 4, 2022, through November 29, 2024, and reimbursed through March 6, 2025, to obtain reasonable assurance whether costs complied with the terms of the agreement.

The audit objective was to determine whether Stantec 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 2, Part 200 of the Code of Federal Regulations, formerly 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 Stantec 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 Stantec's and each subconsultant's audit were discussed with Stantec and subconsultant staff. The draft report was provided to the Authority Contract Manager, who provided the report to Stantec for their identification of corrective actions. Corrective actions were identified are included in the final report, as applicable, and also included in their entirety as Attachment A.

CONCLUSION

Based on our audit, Stantec 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 \$731,436. Please see below for further details.

Stantec

Stantec billed \$35,222,471 in costs during the audit period. Costs billed included fully burdened labor costs and other direct costs. Auditors tested both items and determined the costs were fully supported. Stantec's indirect cost rate was supported with an independent audit report which Authority auditors did not take exception to.

Contract Compliance Testing

Thirteen areas of Agreement HSR 22-02 were tested for compliance. Stantec has generally met their obligations in the agreement, except as noted below. Stantec has attained a Small Business Utilization of 42.3 percent as of April 2024. General Deliverables obligations stated within the contract were met, however auditors noted the following provisions were not met.

Issue 1: Timely Invoice Submittal and Subconsultant Payment

Stantec did not submit any of the invoices within 30 days after completion of a billing period. Per Exhibit B, Section 2.2.3, "Invoice 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." In September of 2024, the Authority Contract Manager took into consideration the complexity of the invoicing process and allowed Stantec to submit invoices within 45 days. The extended time did not change the results of the testing.

Stantec also did not consistently pay their subconsultants within seven-days from receipt of payment from the State. 184 payments to Stantec's subconsultants were tested. 34 payments or 18.5 percent of payments tested were not paid within seven working days per Exhibit D, Section 2.4, "The Contractor shall pay its subconsultants within seven working days from receipt of each payment made to the contractor by the State."

Failure to submit invoices according to the agreement and pay their subconsultants in accordance with the agreement could result in noncompliance with the agreement.

Cause: Stantec expressed difficulties to the Authority's Contract Managers in submitting invoices in accordance with the agreement timeframe.

Recommendation:

Stantec should expand their oversight processes to ensure contract provisions in Agreement HSR 22-02 are met.

Auditee Response:

1. Stantec acknowledges that invoices have not been provided within 30 days. Stantec is a publicly traded company with rigorous internal control procedures that cause the invoicing process to sometimes exceed 30 days. Additionally, Stantec has many subconsultants including many small businesses which sometimes causes delays with our invoicing. Stantec will strive to invoice within 30 days.
2. Stantec disputes the findings regarding the late payment of subconsultant invoices. Based on the dates Stantec received payment from the Authority, two out of 134 payments to subconsultants were more than seven days. One late payment was due to a check being damaged in the mail; and the other was due to an accounting

oversight error while our accounting systems received year-end updates. The percentage of late payments is 1.5% of which 0.7% was controllable by Stantec.

Stantec provides payment receipt information to the Authority as part of this response.

Audit Office Analysis of Response:

1. The Audit Office agrees with the response.
2. The Audit Office has reviewed the information provided in the response. The Audit Office was also unaware of the damaged check and the circumstances regarding the year-end updates but without objective evidence to support the information provided, the issue and recommendation remains valid.

Observation: Subconsultant Agreement

Stantec's subconsultant agreement was reviewed to ensure the provisions from Agreement HSR 22-02 flowed down. Auditors noted the following provisions in the subconsultant agreement did not align:

- **Records Retention:** The subconsultant agreement requires the subconsultant to maintain accounting records "for a period of six years after the Subconsultant's final invoice." This requirement is inconsistent with Exhibit C, Article 4, which states the "Contractor agrees to maintain such records for possible audit of three (3) years after final payment, unless a longer period or records retention is stipulated."
- **Payment Clause Clarity:** The payment clause in the subconsultant agreement does not clearly state whether invoiced costs must reflect actual costs, as stated under Exhibit B, Article 2, "the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis."
- **Subconsultant Payment Terms:** Exhibit D, Article 2.4 requires the prime contractor to pay subconsultants within seven working days of receiving payment. However, the subconsultant agreement states, "Stantec will pay the Subconsultant within 30 days of receipt and approval of invoice," which is not aligned with the prime agreement.

Recommendation:

Stantec should ensure that the language in its subconsultant agreement and task orders aligns with the terms and conditions of Agreement HSR 22-02 with the Authority, thereby avoiding any contradictions or misalignments.

During the audit, Stantec submitted a draft subconsultant agreement intended to address the exceptions identified in this observation.

Auditee Response:

Stantec has reviewed the requested adjustments and has incorporated the changes into our subagreement. The draft language has been provided to the Authority for review. Stantec will confirm the changes are acceptable to the Authority and issue contract modifications to our subconsultants.

Audit Office Analysis of Response:

The Audit Office agrees with this response.

Subconsultants

Nineteen of the subconsultants on Agreement HSR 22-02 were audited. In addition to the direct labor costs, indirect cost rates, and other direct costs billed, auditors conducted reviews of the subconsultants' financial management systems to determine their reliability. Subconsultants supported the costs billed and reimbursed in accordance with agreement provisions, the cost principles of Title 48 Code of Federal Regulations, Chapter 1, Contract Cost Principles and Procedures Part 31, and administrative requirements of Title 49 Code of Federal Regulations, Part 18, except for eight subconsultants.

Indirect Rate and Direct Labor Testing

Issue 2: Actual Indirect Cost Rates were not billed

Seven of Stantec's subconsultants could not support the indirect cost rate billed during the audit period and overbilled the Authority \$700,386 in indirect costs. The overbilled amount also includes direct labor overbillings, if the subconsultant also had indirect cost rate overbillings. Indirect costs rates were tested to ensure the rates billed were fully supported and complied with Title 48 Code of Federal Regulations, Chapter 1 Part 31. As stated in Exhibit B, section 2.2 "the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis." Overbillings occurred due to various causes detailed below:

- Cause 1: Three subconsultants were awarded Paycheck Protection Program loans that were subsequently forgiven. Under Code of Federal Regulations, Title 48, 31.201-5 "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund." A forgiven Paycheck Protection Program loan qualifies as such a credit and should be applied to the subconsultants' indirect cost rate in the year it was forgiven.

However, these subconsultants were unaware that the forgiven loans were required to be credited to their indirect cost rates in the year their loans were forgiven. As a result, the subconsultants did not credit their indirect cost rates to account for the forgiven Paycheck Protection Program loan and overbilled on the agreement.

- Cause 2: Three subconsultants did not credit their indirect cost rates for compensation to their executives that exceeded the reasonable compensation established in the National Compensation Matrix. Under Code of Federal Regulations, Title 48, 31.205-6(p) "...compensation of a senior executive in excess of the benchmark compensation amount determined applicable for the contractor fiscal year by the Administrator, Office of Federal Procurement Policy (OFPP), under 41 U.S.C. 1127 as in effect prior to June 24, 2014, are unallowable."

However, these three subconsultants did not disallow excess executive compensation in their indirect cost rates. As a result, the subconsultants overbilled on the agreement.

- Cause 3: Five subconsultants included unallowable costs in the indirect rate schedules. Under Code of Federal Regulations, Title 48, 31.201-6(a) "Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract."

However, these five subconsultants did not identify and remove unallowable costs in their indirect cost rates. As a result, the four subconsultants overbilled on the agreement.

- Cause 4: Two subconsultants made material accounting errors, such as miscalculating depreciation and accounting for vacation expenses twice in their indirect cost rate. Under Code of Federal Regulations, Title 48, 31.201-3 reasonableness depends on "generally accepted sound business practices" and the errors made on the indirect cost rates are unreasonable. Auditors corrected the accounting errors on the indirect cost rate which decreased the indirect cost rate. This resulted in the subconsultant overbilling on the agreement.

One subconsultant is included in each of the causes above. Auditors were unable to determine a supported indirect cost rate after testing due to numerous issues.

Recommendation:

Stantec should reimburse the Authority \$700,386 of overbilled indirect costs. Stantec should have subconsultants review the audit documentation provided and submit any additional documents to support their indirect cost rate within 90-days of the final audit report. Stantec should also have subconsultants reconcile their indirect cost rates and provide a supported indirect cost rate to the Audit Office within 90-days of the final audit report.

Auditee Response:

1. One of the three subconsultants agrees with this finding; however, that subconsultant is unable to repay the large amount within the allotted time. Two of the three

subconsultants do not agree with this finding due to the treatment of PPP loan forgiveness by the FHWA and other states.

Stantec will request and facilitate a meeting with the Authority for the two subconsultants.

2. One subconsultant agrees with the findings and requests to repay within 60 days. Two subconsultants will provide additional information to the Authority.

The Authority will be repaid within the allotted time. Stantec will facilitate meetings with the two other subconsultants and the.

3. Three of the subconsultants agree and request to repay within 60 days. Two of the subconsultants will provide additional information to the Authority.

The Authority will be repaid within the allotted time. Stantec will request and facilitate a meeting with the Authority for the two subconsultants.

4. The two subconsultants will provide additional information to the Authority.

Stantec will request and facilitate a meeting with the Authority for the two subconsultants.

Audit Office Analysis of Response:

The Audit Office partially agrees with the responses and look forward to the meetings with Stantec to resolve disagreements.

Issue 3: Overbilled Fully Burdened Labor Costs

One subconsultant overbilled the Authority \$849 in direct labor (this amount only includes direct labor overbillings as there were no indirect rate overbillings). Direct labor billed was tested to ensure direct labor rates were supported with employee payroll registers and actual costs. As stated in Exhibit B, section 2.2 “the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis.”

Cause: The subconsultants billed the Authority a higher rate than the actual compensation paid to their employees.

Recommendation:

Stantec should reimburse the Authority \$849 of overbilled fully burdened direct labor.

Auditee Response:

The subconsultant does not fully agree with the Authority on their findings. The subconsultant acknowledges that this issue agrees with what was discussed with the

Authority's auditors at the time of the audit. Due the immaterial amount of the findings, the Authority will be reimbursed within the allotted time despite the subconsultant not fully agreeing with the findings.

Audit Office Analysis of Response:

The Audit Office agrees with the response.

Issue 4: Inadequate Financial Management System

One of Stantec's subconsultants overbilled the Authority \$30,202. The subconsultant only recorded their billable hours and paid-time-off but did not record indirect hours on their timesheets. Given the subconsultant did not record all hours, auditors could not rely on the subconsultant's timesheets for the basis of their indirect cost rate. Therefore, auditors conducted alternative procedures to determine a reasonable billing rate.

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.

Cause: The subconsultant's financial management system was incapable of accumulating and segregating direct and indirect costs.

Recommendation:

Stantec should reimburse the Authority \$30,202 in overbilled costs and the subconsultant should develop a timekeeping system capable of tracking direct and indirect hours. The subconsultant should also implement effective controls over accountability for all funds, property, and other assets and develop 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.

Auditee Response:

The subconsultant hereby disputes the accounting audit performed by the auditors and requests a meeting with the Authority to discuss the issue. Additionally, the subconsultant is requesting additional time to respond to the Draft Audit Letter.

The subconsultant disputes the "alternative procedures" utilized by the Authority in conducting the audit and believes that a safe harbor rate for indirect costs should have been reasonably applied per industry standard in California and several other states. In California, Caltrans allows a safe harbor rate of 120% for indirect home costs and 90% for indirect field costs for federal projects. The purpose of a safe harbor rate is to allow new firms to use a

pre-set rate while they work toward developing their accounting systems. The subconsultant believes it is exactly the type of firm safe harbor rates were developed for; the subconsultant began providing consulting and design services in 2019 and has worked toward developing its accounting system to comply with all federal requirements. Further, between the time of the audit and this response, the subconsultant has been able to develop its accounting system and implemented new accounting procedures as intended.

Stantec will request and facilitate a meeting with the Authority for the subconsultant.

Audit Office Analysis of Response:

The Audit Office disagrees with the response. Under Agreement HSR22-022, Exhibit B, Article 2, “the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis ... The Consultant agrees to compensate all subcontractors with the same payment structure.” The Safe Harbor rate is not based on actual costs and cannot be supported, as required under this agreement. Alternative procedures were necessary to determine a reasonable billing rate with the support provided. The auditors held a discussion with Stantec regarding this issue, outlined the alternate procedures performed, and asked Stantec for any suggested procedures to evaluate actual costs, yet none were provided.

Issue 5: Management Representations Letter

This issue was resolved during the draft report process.

Additional Comments from Stantec

“Additionally, a few of Stantec’s subconsultants requested that we provide feedback regarding the audit process. The quick turnaround time requested to provide responses to the Authority was burdensome for some small businesses that do not have dedicated accounting staff to provide the requested data.”

Audit Office Analysis of Comments

The Audit Office appreciates the feedback. We understand that audits can be time-consuming. We have worked internally to be efficient and effective in the time we spend auditing subconsultants and are striving to complete our audits quickly to allow firms to return to normal operations as soon as possible.



Stantec Consulting Services Inc.
6780 N West Avenue, Suite 101
Fresno, California 93711-4305

January 7, 2026

Britton Snipes
Engineering Project Manager
Planning and Engineering
California High-Speed Rail Authority
770 L Street
Sacramento, CA 95814

Dear Mr. Snipes,

**Reference: Agreement No. HSR 22-02 – Design Services for Merced to Madera
Contract Compliance Audit December 2025 Response**

Stantec Consulting Services Inc. (Stantec) is in receipt of the draft Contract Compliance Audit dated December 2025 for Agreement No. HSR 22-02 for the period covering October 2022 to November 2024 prepared by the California High-Speed Rail Authority (Authority) Audit Office. The objective of the audit was to determine whether Stantec 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.

Stantec offers the following response and action plan as a result of the audit findings:

Response	Action	Targeted Date
<p>Issue 1: Timely Invoice Submittal and Subconsultant Payment</p> <p><i>Stantec did not submit any of the invoices within 30 days after completion of a billing period. Per Exhibit B, Section 2.2.3, “Invoice 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.” In September of 2024, the Authority Contract Manager took into consideration the complexity of the invoicing process and allowed Stantec to submit invoices within 45 days. The extended time did not change the results of the testing.</i></p> <p><i>Stantec also did not consistently pay their subconsultants within seven-days from receipt of payment from the State. 184 payments to Stantec’s subconsultants were tested. 34 payments or 18.5 percent of payments tested were not paid within seven working days per Exhibit D, Section 2.4, “The Contractor shall pay its subconsultants within seven working days from receipt of each payment made to the contractor by the State.”</i></p>		

Reference: Agreement No. HSR 22-02 – Design Services for Merced to Madera – Contract Compliance Audit December 2025 Response

Response	Action	Targeted Date
<p><i>Failure to submit invoices according to the agreement and pay their subconsultants in accordance with the agreement could result in noncompliance with the agreement.</i></p>		
<p>Stantec acknowledges that invoices have not been provided within 30 days. Stantec is a publicly traded company with rigorous internal control procedures that cause the invoicing process to sometimes exceed 30 days. Additionally, Stantec has many subconsultants including many small businesses which sometimes causes delays with our invoicing. Stantec will strive to provide more timely invoices.</p>	<p>Stantec will strive to invoice within 30 days.</p>	<p>01/21/2026</p>
<p>Stantec disputes the findings regarding the late payment of subconsultant invoices. Based on the dates Stantec received payment from the Authority, two out of 134 payments to subconsultants were more than seven days. One late payment was due to a check being damaged in the mail; and the other was due to an accounting oversight error while our accounting systems received year-end updates. The percentage of late payments is 1.5% of which 0.7% was controllable by Stantec.</p>	<p>Stantec provides payment receipt information to the Authority as part of this response.</p>	<p>12/31/2025</p>
<p>Observation: Subconsultant Agreement</p> <p><i>Stantec’s subconsultant agreement was reviewed to ensure the provisions from Agreement HSR 22-02 flowed down. Auditors noted the following provisions in the subconsultant agreement did not align:</i></p> <ul style="list-style-type: none"> • <i>Records Retention: The subconsultant agreement requires the subconsultant to maintain accounting records “for a period of six years after the Subconsultant’s final invoice.” This requirement is inconsistent with Exhibit C, Article 4, which states the “Contractor agrees to maintain such records for possible audit of three (3) years after final payment, unless a longer period or records retention is stipulated.”</i> • <i>Payment Clause Clarity: The payment clause in the subconsultant agreement does not clearly state whether invoiced costs must reflect actual costs, as stated under Exhibit B, Article 2, “the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis.”</i> 		

Response	Action	Targeted Date
<p>• <i>Subconsultant Payment Terms: Exhibit D, Article 2.4 requires the prime contractor to pay subconsultants within seven working days of receiving payment. However, the subconsultant agreement states, “Stantec will pay the Subconsultant within 30 days of receipt and approval of invoice,” which is not aligned with the prime agreement.</i></p>		
<p>Stantec has reviewed the requested adjustments and has incorporated the changes into our subagreement. The draft language has been provided to the Authority for review.</p>	<p>Stantec will confirm the changes are acceptable to the Authority and issue contract modifications to our subconsultants.</p>	<p>04/08/2026</p>
<p>Issue 2: Actual Indirect Cost Rates were not billed</p> <p><i>Seven of Stantec’s subconsultants, which includes Precision Civil Engineering and Advantec Consulting Engineers, could not support the indirect cost rate billed during the audit period and overbilled the Authority \$700,386 in indirect costs. The overbilled amount also includes direct labor overbillings, if the subconsultant also had indirect cost rate overbillings. Indirect costs rates were tested to ensure the rates billed were fully supported and complied with Title 48 Code of Federal Regulations, Chapter 1 Part 31. As stated in Exhibit B, section 2.2 “the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis.” Overbillings occurred due to various causes detailed below:</i></p>		
<p>Cause 1: <i>Three subconsultants were awarded Paycheck Protection Program loans that were subsequently forgiven. Under Code of Federal Regulations, Title 48, 31.201-5 “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.” A forgiven Paycheck Protection Program loan qualifies as such a credit and should be applied to the subconsultants’ indirect cost rate in the year it was forgiven.</i></p> <p><i>However, these subconsultants were unaware that the forgiven loans were required to be credited to their indirect cost rates in the year their loans were forgiven. As a result, the subconsultants did not credit their indirect cost rates to account for the forgiven Paycheck Protection Program loan and overbilled on the agreement.</i></p>		
<p>One of the three subconsultants agrees with this finding; however, that subconsultant is unable to repay the large amount within the allotted time.</p> <p>Two of the three subconsultants do not agree with this finding due to the treatment of PPP loan forgiveness by the FHWA and other states.</p>	<p>Stantec will request and facilitate a meeting with the Authority for the two subconsultants.</p>	<p>04/08/2026</p>

Response	Action	Targeted Date
<p>Cause 2: <i>Three subconsultants did not credit their indirect cost rates for compensation to their executives that exceeded the reasonable compensation established in the National Compensation Matrix. Under Code of Federal Regulations, Title 48, 31.205-6(p) "...compensation of a senior executive in excess of the benchmark compensation amount determined applicable for the contractor fiscal year by the Administrator, Office of Federal Procurement Policy (OFPP), under 41 U.S.C. 1127 as in effect prior to June 24, 2014, are unallowable."</i></p> <p><i>However, these three subconsultants did not disallow excess executive compensation in their indirect cost rates. As a result, the subconsultants overbilled on the agreement.</i></p>		
<p>One subconsultant agrees with the findings and requests to repay within 60 days.</p> <p>Two subconsultants will provide additional information to the Authority.</p>	<p>The Authority will be repaid within the allotted time.</p> <p>Stantec will request and facilitate a meeting with the Authority for the two subconsultants.</p>	<p>04/08/2026</p>
<p>Cause 3: <i>Five subconsultants included unallowable costs in the indirect rate schedules. Under Code of Federal Regulations, Title 48, 31.201-6(a) "Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract."</i></p> <p><i>However, these five subconsultants did not identify and remove unallowable costs in their indirect cost rates. As a result, the four subconsultants overbilled on the agreement.</i></p>		
<p>Three of the subconsultants agree and request to repay within 60 days.</p> <p>Two subconsultants will provide additional information to the Authority.</p>	<p>The Authority will be repaid within the allotted time.</p> <p>Stantec will request and facilitate a meeting with the Authority for the two subconsultants.</p>	<p>04/08/2026</p>
<p>Cause 4: <i>Two subconsultants made material accounting errors, such as miscalculating depreciation and accounting for vacation expenses twice in their indirect cost rate. Under Code of Federal Regulations, Title 48, 31.201-3 reasonableness depends on "generally accepted sound business practices" and the errors made on the indirect cost rates are unreasonable. Auditors corrected the accounting errors on the indirect cost rate which decreased the indirect cost rate. This resulted in the subconsultant overbilling on the agreement.</i></p>		

Response	Action	Targeted Date
The two subconsultants will provide additional information to the Authority.	Stantec will request and facilitate a meeting with the Authority for the two subconsultants.	04/08/2026
<p>Issue 3: Overbilled Fully Burdened Labor Costs</p> <p><i>One subconsultant overbilled the Authority \$849 in direct labor (this amount only includes direct labor overbillings as there were no indirect rate overbillings). Direct labor billed was tested to ensure direct labor rates were supported with employee payroll registers and actual costs. As stated in Exhibit B, section 2.2 “the Authority agrees to compensate the Consultant for actual hours worked on an actual cost basis.”</i></p>		
The subconsultant does not fully agree with the Authority on their findings. The subconsultant acknowledges that this issue agrees with what was discussed with the Authority’s auditors at the time of the audit.	Due the immaterial amount of the findings, the Authority will be reimbursed within the allotted time despite the subconsultant not fully agreeing with the findings.	03/09/2026
<p>Issue 4: Inadequate Financial Management System</p> <p><i>One of Stantec’s subconsultants overbilled the Authority \$30,202. The subconsultant only recorded their billable hours and paid-time-off but did not record indirect hours on their timesheets. Given the subconsultant did not record all hours, auditors could not rely on the subconsultant’s timesheets for the basis of their indirect cost rate. Therefore, auditors conducted alternative procedures to determine a reasonable billing rate.</i></p> <p><i>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.</i></p>		
<p>The subconsultant hereby disputes the accounting audit performed by the auditors and requests a meeting with the Authority to discuss the issue. Additionally, the subconsultant is requesting additional time to respond.</p> <p>The subconsultant disputes the “alternative procedures” utilized by the Authority in</p>	Stantec will request and facilitate a meeting with the Authority for the subconsultant.	04/08/2026

Response	Action	Targeted Date
<p>conducting the audit and believes that a safe harbor rate for indirect costs should have been reasonably applied per industry standard in California and several other states. In California, Caltrans allows a safe harbor rate of 120% for indirect home costs and 90% for indirect field costs for federal projects. The purpose of a safe harbor rate is to allow new firms to use a pre-set rate while they work toward developing their accounting systems. The subconsultant believes it is exactly the type of firm safe harbor rates were developed for; the subconsultant began providing consulting and design services in 2019 and has worked toward developing its accounting system to comply with all federal requirements. Further, between the time of the audit and this response, the subconsultant has been able to develop its accounting system and implemented new accounting procedures as intended.</p>		
<p>Issue 5: Lack of Management Representation</p> <p><i>One subconsultant did not provide a management representation letter to the Authority. This letter identifies the documentation and support provided to the auditors are true, correct, accurate, and no other documents that were not requested would have an impact on the audit. Auditors requested this letter multiple times but the subconsultants have not provided the Management Representation Letter. This questions the management team of the subconsultant and the validity of the information provided.</i></p> <p><i>According to generally accepted government audit standards, promulgated by the Government Accountability Office, section 8.97, “Auditors may request that management provide written representations as to the accuracy and completeness of information provided.”</i></p>		
<p>Stantec has met with the subconsultant to discuss the reasoning for not providing the management representation letter to the Authority. The subconsultant misunderstood the intent of providing the letter, which is why it has not been provided. The subconsultant will review the letter, modify it as necessary and provide to the Authority.</p>	<p>The subconsultant’s management representation letter is attached to this response.</p>	<p>12/31/2025</p>

Reference: Agreement No. HSR 22-02 – Design Services for Merced to Madera – Contract Compliance Audit December 2025 Response

Additionally, a few of Stantec's subconsultants requested that we provide feedback regarding the audit process. The quick turnaround time requested to provide responses to the Authority was burdensome for some small businesses that do not have dedicated accounting staff to provide the requested data.

Please let us know if you have any questions regarding our response or if you would like to set up a meeting to discuss in further detail.

Respectfully,

Stantec Consulting Services Inc.



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Attachments: 1) Advantec Management Representation Letter, and 2) Subconsultant Payment Details