Background

Federal Guidance

Recipients of federal funds have a responsibility to comply with statutory and regulatory requirements regarding the use of grant awards. The Federal Transit Administration (FTA) provides spending guidance and outlines its oversight expectations to recipients, and potential future recipients, of federal grant funds to assist in the management of federal grants. Federal guidance also includes expectations relating to third-party contracting activities and issuing payments under such contracts.

Relevant guidance includes:
- FTA Circular 4220.IG – Third-Party Contracting Guidance
- 2 CFR Part 200 - "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (commonly referred to as the Uniform Guidance)
- 49 CFR Part 225 – Cost Principles for State, Local, and Indian Tribal Governments
- 49 CFR Part 225, OMB Circular A-87 – Cost Principles

ATP Contracting Activities

ATP has entered into several contracts to procure professional services from third-party contractors to further the advancement of Austin Light Rail. ATP intends to request federal reimbursement for the contracted services received under the following contracts:

ATP CONTRACTS ELIGIBLE TO RECEIVE FEDERAL REIMBURSEMENT

Contract Description	Vendor Name	Oracle End Date	Board Authorized Not to Exceed	Authorized Purchase Order Amount as of 6/1/26	Spending to Date as of 6/1/26
Delivery Partner	AECOM	12/31/28	$98,500,000	$46,353,851	$21,830,297
Civils, Rail, Stations, & Systems Progressive Design Build (PDB)	Austin Rail Constructors (ARC) Joint Venture	12/31/33[1]	$60,000,000	$54,846,389	$3,465,132
On Call Preliminary Engineering Services	HNTB	6/12/26	$45,000,000[2]	$5,837,887	$5,837,887
Operations & Maintenance Facility PDB	Kiewit Austin Partnership (KAP) Joint Venture	12/31/33	$25,000,000	$20,992,472	$0
Real Estate Acquisition & Relocation Services	Stateside Right of Way	12/20/27	$6,100,000	$2,361,944	$501,502

[1] *No end date listed in Oracle, but contract states the expiration for Phase 2 is 12/31/2033.*

[2] *Not to exceed limit applied to both HNTB On-Call Preliminary Engineering Services and On-Call Advanced Utility Engineering Services.*

The majority of the costs incurred in accordance with these contracts relate to direct labor costs which were not reviewed in this engagement. Critically, the direct labor assistance ATP receives from contracted support is paramount to the success of Austin Light Rail.

Beyond direct labor costs, each of these contracts contains guidance on what ATP will pay third-party contractors for other direct costs. Other direct costs are costs that are not classified in another direct cost category but are attributable to a specific contract or other final cost objective, including delivery expenses, local travel, out-of-town travel, specialized printing, blueprints, equipment rentals, consultant fees, and job-specific computer software and training.

The FTA defines other direct costs as specific, project-related expenses that are directly attributable to a grant or contract but do not fall under standard direct labor or material classifications.

Generally, other direct costs included on the invoices reviewed in this audit relate to:

- Travel expenses (such as airfare, rideshares, rental cars, lodging, and meals), and
- Relocation costs (such as airfare, rental cars, vehicle transport, moving services, mileage and gas, and temporary housing) incurred by contractors who moved to Austin to work on Austin Light Rail.

The FTA mandates that all recipients manage other direct costs in accordance with federal cost principles and procurement guidelines which generally state costs “must be deemed necessary, reasonable, and directly allocable to the transit project in accordance with the Uniform Guidance.”

Invoice Review Process

Third-party contractors submit invoices to ATP to request payment for the costs they incur while conducting work on Austin Light Rail. Invoices go through two evaluations by ATP staff: (1) a review by project management staff to monitor completion of the contract’s scope of work and to validate direct labor amounts included in invoices, and (2) a more holistic review by Procurement staff that also includes review of other direct charges for expense reimbursement.

Procurement staff review the invoiced charges against the applicable contracting terms, verifying that invoice details and supporting documentation are complete, pre-approval for travel charges was properly issued, and supporting receipts and backup documentation demonstrate expenses were necessary, reasonable, and directly allocable to Austin Light Rail. This process occurs monthly and when staff note discrepancies, unauthorized charges, or expenses that lack sufficient supporting documentation, they work with third-party contractors to resolve concerns. Project management and Procurement staff complete their respective reviews and jointly approve payment for the invoiced charges. After that, the invoice and supplemental materials are routed to the Finance department for payment processing.

Auditors reviewed a sample of invoices submitted by staff working on contracts listed in the table on page 1. This review analyzed the processes ATP employs to evaluate invoices received from third-party contractors to determine if other direct cost reimbursements align with federal guidance, and if reimbursements were supported by evidence, approved by ATP staff, and consistently applied across contractors to the extent allowed by the contracting terms.

Audit Results

Although we identified opportunities for improvement as outlined below, we generally found that other direct costs charged to ATP by third-party contractors are reviewed through a thorough process to ensure such amounts are accurate, properly authorized, and supported by appropriate documentation before payment is approved. Critically, this invoice review requires coordination across the organization to advance ATP's mission and ensure public resources are properly monitored and safeguarded.

We also found that that contract language generally aligns with federal requirements and supports ATP review of charges incurred by third-party contractors. ATP has executed contracts in accordance with these guidelines and contract language includes details on non-reimbursable costs. When ATP staff have identified gaps in third-party contractor invoicing and what the contract language specifically requires, they have documented clarifications regarding reimbursement decisions in "Finding and Determination" memorandums and less formal records, such as emails. This additional documentation provides insight into how ATP oversees the expenditure of public funds and demonstrates ATP's commitment to meeting federal requirements.

Opportunities for Improvement

Develop formal operating procedures to guide the invoice review process and ensure there is a routine quality control review of the invoice review process. Management is responsible for establishing and maintaining internal controls, including documented policies and procedures. Formal, up-to-date operating procedures help ensure consistency and preservation of institutional knowledge, while also supporting supervisory review, reducing the risk of error and noncompliance, and mitigating broader organizational risks.

During our review, we noted that Procurement has not developed formal written procedures to guide the invoice review process, though management has indicated these are under development. Currently, review practices are based on informal, undocumented knowledge rather than standardized procedures. We also noted one instance where documentation of reimbursement approvals was not shared with ATP staff involved with the invoice review process, including the staff primarily responsible for reviewing the other direct costs invoiced to ATP. In this instance, ATP executive management approved an exception related to five months of temporary housing reimbursement as relocation assistance for a key third-party contractor after the initial reviewer rejected the reimbursement request.

Although the decision to make an exception was later communicated verbally to invoice reviewers, the supporting Finding and Determination memo documenting the rationale behind this decision and how ATP's payment for temporary housing aligns with federal requirements was not distributed to staff responsible for reviewing those invoices or finance staff processing the payments, nor was it saved in reimbursement files. As a result, the reimbursement records did not fully document the approval until this discrepancy was noted during the audit. A quality control review likely would have caught the issue earlier.

Without ensuring these files are complete and that an adequate audit trail supporting ATP's reimbursement decisions is retained, there is increased risk that ATP will not be able to fully demonstrate to outside reviewers, such as external auditors, FTA compliance reviewers, or grant monitoring teams, the details of and justifications for ATP's reimbursements to third-party contractors for other direct costs. Ultimately, this documentation will be critical to ATP defending its use of public funds.

Additionally, without documented policies and procedures to guide this critical function, there is an increased risk of inconsistent invoice review and processing, non-compliance with regulatory requirements, and operational disruptions in the event of staff turnover.

We commend ATP first-line invoice reviewers and the significant effort Procurement staff put into enforcing ATP contracts and safeguarding public funds. Further, we noted Procurement staff has recently initiated a cross-training effort to enhance the consistency of their invoice reviews across contracts.

We recommend that Procurement formally document, approve, and distribute comprehensive operating procedures for the invoice review process. We also recommend that Procurement continue cross training efforts and implement a routine quality review of reimbursement files.

Enhance guidance provided to third-party contractors on ATP's invoicing expectations. Contracted staff play an essential role in supporting ATP's mission. To help ensure successful partnerships with third-party contractors, ATP needs to provide clear guidance and resources on its invoicing expectations. We noted that Procurement staff have taken significant steps to communicate these expectations through email comments from first-line reviewers, but formal training on ATP's requirements for reimbursement requests and supporting documentation *before* costs are incurred has not historically been provided to third-party contractors submitting invoices to ATP.

The U.S. General Services Administration sets per diem rates that federal agencies use to reimburse employees for lodging, meals, and incidental expenses incurred during official travel within the continental U.S. These rates are generally negotiated in advance and are often lower than market rates. They may also be used by contracted third-party staff conducting business on behalf of the federal government, or when spending federal money.

Additionally, ATP's contracting language has evolved as Austin Light Rail has progressed. Earlier contracts did not require contracted staff to seek GSA lodging rates when traveling for ATP business, but more recent contracts request that third parties attempt to obtain GSA pricing. In March 2026, ATP staff asked AECOM to make every effort to obtain GSA hotel rates, even though the contract does not explicitly require it. We praise ATP staff for refining processes to maximize the use of public dollars funding Austin Light Rail.

After auditors concluded their testing, we obtained documentation showing that ATP provided training to select third-party contractors in April 2026, which appeared to strengthen guidance on invoicing expectations.

Without ensuring third-party partners are informed of ATP's invoicing requirements, there is increased risk that charges submitted for reimbursement are not aligned with ATP's expectations, limited ATP staff time is unnecessarily spent evaluating invoice rework and resubmissions, third-party contractors are dissatisfied with partner relationships, and that ATP encounters increased pressures to approve invoices for reimbursement as prompt pay deadlines approach.

We recommend that ATP provide formal training to third-party contractors on invoicing expectations and provide documented templates and instructional resources to supplement the invoice submission process, prior to reimbursing other direct costs. We recommend this guidance reiterates ATP's expectation that third-party contractors seek GSA rates when traveling for ATP and advise third-party contractors to separate purchases so that disallowable charges are not included on invoices and supporting documentation submitted to ATP.

Pre-approve relocation charges. Generally, contractors that request reimbursement for other directs costs must comply with the miscellaneous expense policy detailed in contracts. In addition, contractors must live in Austin for 12 months or longer after receiving relocation assistance, or return any relocation reimbursements received, if they leave employment with ATP or move within one year of relocating to Austin.

Peer transit entities in Texas appear to have more stringent relocation assistance requirements. For example, Metro (Houston) and Via (San Antonio) limit payments for temporary housing to 30 and 90 days, respectively. Further, Metro (Houston) and CapMetro (Austin) require contractors to sign a relocation agreement prior to receiving relocation assistance.

ATP contracts allow reimbursement of actual relocation costs, without markup, for contracted staff relocating to work on Austin Light Rail subject to ATP's prior approval of estimated charges.[1] This is similar to contract language relating to costs incurred by third-party contractors traveling on ATP's behalf. The travel request form helps alert ATP staff to estimated costs in advance, allowing them to identify unreasonable or unnecessary expenses before they are incurred. However, while most contracts require completion of a travel request form before travel costs are incurred, ATP does not have a comparable relocation request form.

Without stronger documentation of preapproval, ATP has diminished financial control and visibility over relocation spending which can lead to increased costs, charges that do not adhere to ATP policies, and more extensive use of ATP staff review time, particularly burdensome given ATP's lean staffing.

We recommend Procurement design, implement, and enforce use of a relocation agreement and require relocating contractors to complete and submit a relocation request form before incurring relocation costs intended for reimbursement by ATP.

[1] For more information on contract requirements for relocation assistance and relocation payments issued under these contracts as of June 1, 2026, see appendix A.

Validate travel expenses paid using per diem reimbursement. As mentioned, ATP's contracting language has evolved as Austin Light Rail has advanced, and contracting expectations will continue to evolve as needed to ensure ATP is best positioned to meet objectives and deliver light rail to the Austin community. ATP management changed its contracting approach when it executed the Operations and Maintenance Facility (OMF) agreement with Kiewit Austin Partnership (KAP).[2] Under the KAP contract, ATP will pay for travel on a per diem basis without reviewing the actual receipts for expenses. This differs from other contracts that require submission of receipts evidencing the actual costs third-party contractors incurred prior to receiving reimbursement for other direct costs.

Management asserts this change in approach provides the opportunity for more streamlined invoice review and increases ATP's ability to adhere to prompt pay guidelines, while minimizing staff invoice review time. Contracting language requires KAP to request reimbursement for actual travel costs only and to follow contract requirements for allowable expenses, in addition to retaining invoice backup and support for charges (e.g. receipts, credit card statements, travel confirmations, etc.) so that it can be audited later by ATP staff, FTA reviewers, and external auditors conducting financial audits among others.

Given ATP's limited staffing, it is essential to maximize use of every employee's time, and this change in contracting approach appears to support that goal. However, a compensating control to enforce ATP's contract requirement that only actual expenses be submitted for reimbursement is essential to ensuring ATP has the documentation it needs to show reimbursement payments comply with federal guidelines should a future reviewer request this support.

We recommend Procurement design and implement a periodic review of travel expenses paid using per diem reimbursement to ensure third-party contractors are properly retaining documentation and adjust as needed to ensure records comply with federal oversight expectations and are available for future audits.

Additional Observation

We were unable to obtain a report on ATP's spending by contractor, across contractors (including prime and subcontractors) on other direct costs because Oracle does not have this reporting functionality. Further, ProCore will not have this reporting functionality once fully implemented. We noted similar issues in prior audits. Auditors will consider reviewing this risk more comprehensively in a future engagement.

[2] See appendix B for more information on reimbursements ATP may pay for select other direct costs for the ARC and OMF contracts.

ATP Management Action Plan

Recommendation	Management Action Plan	Proposed Implementation Date	Responsible Party
Recommendation 1: *We recommend that Procurement formally document, approve, and distribute comprehensive operating procedures for the invoice review process. We also recommend that Procurement continue cross training efforts and implement a routine quality review of reimbursement files.*	*ATP concurs with this recommendation and the report's acknowledgement that other direct costs subject to review in this audit represent a small percentage of actual costs invoiced to ATP. That said, ATP has already started developing formal invoice review procedures to align with implementation of the new project management information system and its integration with ATP's financial system. Once finalized, ATP will provide training to all individuals involved in the invoice review process.* *ATP has also hired and onboarded a new VP-Procurement that will be responsible for routine quality review of reimbursement files.*	*This will be completed by July 31, 2027.*	*Procurement along with collaboration from Finance, and Project Controls.*
Recommendation 2: *We recommend that ATP provide formal training to third-party contractors on invoicing expectations and provide documented templates and instructional resources to supplement the invoice submission process, prior to reimbursing other direct costs. We recommend this guidance reiterates ATP's expectation that third-party contractors seek GSA rates when traveling for ATP and advise third-party contractors to separate purchases so that disallowable charges are not included on invoices and supporting documentation submitted to ATP.*	*ATP concurs with this recommendation. ATP staff will develop invoice submittal instructions for third-party contractors that align with contract requirements and will provide additional training on ATP's invoicing expectations.*	*This will be completed by July 31, 2027.*	*Procurement*

Recommendation	Management Action Plan	Proposed Implementation Date	Responsible Party
Recommendation 3: *We recommend Procurement design, implement, and enforce use of a relocation agreement and require relocating contractors to complete and submit a relocation request form before incurring relocation costs intended for reimbursement by ATP.*	*ATP concurs with this recommendation. Staff has already drafted a relocation preauthorization form and relocation agreement, which are currently being tested under the ARC contract. After testing is complete and any necessary revisions are made, staff will implement the process across all contracts with relocation needs.*	*This will be completed by December 31, 2026.*	*Procurement*
Recommendation 4: *We recommend Procurement design and implement a periodic review of travel expenses paid using per diem reimbursement to ensure third-party contractors are properly retaining documentation and adjust as needed to ensure records comply with federal oversight expectations and are available for future audits.*	*ATP concurs with this recommendation. ATP will conduct periodic reviews of travel expenses paid through per diem reimbursement to confirm third-party contractors comply with applicable requirements. To support more cost-effective lodging, staff have negotiated corporate rates with several nearby hotels and will continue encouraging contractors to use those options.*	*This will be completed by July 31, 2027.*	*Procurement*

Objective, Scope, and Methodology

Objective

Are payments for other direct cost reimbursements aligned with federal guidance, supported by evidence, approved by ATP staff, and consistently applied across contractors to the extent allowed by the contracting terms?

Scope

ATP's invoice review process relating to other direct costs, with a primary focus on payments eligible to receive federal reimbursement.

Methodology

To complete this audit, we performed the following steps:

- Interviewed ATP staff from Procurement, Finance, and Project Controls to understand the risks and internal controls related to other direct costs and the invoice review process,
- Reviewed federal rules and regulations, and emerging federal updates related to allowable cost guidance,
- Evaluated industry practices related to the invoice review process for other direct costs,
- Analyzed invoices submitted by third-party contractors and requests for reimbursements for other direct costs,
- Reviewed ATP contracts, policies and procedures, memos, and other documentation related to ATP's invoicing requirements and expectations,
- Evaluated reporting capabilities of Oracle and ProCore,
- Reviewed documentation relating to how the ARC Joint Venture contract was refined and developed during the contract solicitation phase,
- Evaluated information technology and fraud risks related to the invoice review process, and
- Evaluated internal controls related to ATP's: risk assessment and control activities and monitoring.

Standards

This audit was conducted in accordance with the standards promulgated by the Institute of Internal Auditors (Standards). These Standards encompass such matters as independence, objectivity, proficiency, due professional care, the scope and performance of work activities, and management of the internal auditing function. We believe that our work provides a reasonable basis for the reported issues, conclusions, and recommendations.

Audit Team

Katie Houston, Chief Audit Executive
Cameron Lagrone, Senior Auditor

APPENDIX A

Contract Requirements for Relocation Assistance

Contract Description	Vendor Name	Per Person Relocation Limit	Current Relocation Maximum	Additional Details
Delivery Partner	AECOM	$25,000/person	Subject to miscellaneous expense amount in each Annual Work Plan (AWP).	2025 AWP: $462,000 2026 AWP: $841,000
Civils, Rail, Stations, & Systems Progressive Design Build	Austin Rail Constructors (ARC) Joint Venture	$30,000/person	Total for Move, Subsistence, Travel: $3,223,834.00 *Lead Contractor and Subs: $1,254,273* *Lead Designer and Subs: $1,969,561*	$3,465,132 total paid, with $46,592 paid to ODCs as of June 1, 2026[1]
On Call Preliminary Engineering Services	HNTB	$25,000/person	Total limit on ODCs: $520,741	This is an indefinite delivery, indefinite quantity contract. Contractor cannot perform services without an authorized task order issued. To date, ATP has not made any relocation payments on this contract and no relocations are anticipated.
Operations & Maintenance Facility Progressive Design Build	Kiewit Austin Partnership (KAP) Joint Venture	No limit per person but limited to total contractual maximum to complete tasks in Phase 1A	Phase 1A limit for all travel and relocation capped at $950,000	All travel and relocation under Phase 1A must be completed and capped at $950,000 total
Real Estate Acquisition and Relocation Services	Stateside Right of Way	Anything over $1,000 must be approved in writing by Contracting Officer or designee	Capped per task order as an ODC	This contract does not include a “relocation” provision, but relocation can be considered as a miscellaneous expense if over $1,000.

[1] *Figure reported by ATP management (ARC invoicing not tested in this audit)*

APPENDIX B

Limitations on Other Direct Cost Reimbursements for ARC and OMF Contracts

ARC Contract

Phase 1A Other Direct Costs (ODC)

DESCRIPTION	LEAD CONTRACTOR AND SUBS	LEAD DESIGNER	TOTAL
MOVE/SUBSISTENCE/TRAVEL	$1,254,273.00	$1,969,561.00	$3,223,834.00
OFFICE RENT	$153,062.00	-	$153,062.00
PRINTERS/NETWORK	$65,000.00	-	$65,000.00
PROJECT SOFTWARE	$246,783.00	-	$246,783.00
INSURANCE	$742,811.00	-	$742,811.00
PERMITS	$90,000.00	-	$90,000.00
FIELD ODC'S (DRILLING, SURVEY, UTILITIES)	-	$1,610,529.00	$1,610,529.00
ARCHITECTURE ODC'S (RENDERINGS, ANIMATION, PRESENTATION MODEL, PRESENTATION BOARDS)	-	$383,000.00	$383,000.00
TOTAL	**$2,551,929.00**	**$3,963,090.00**	**$6,515,019.00**

OMF Contract

Phase 1A Other Direct Costs (ODC)

DESCRIPTION	CONTRACTOR AND SUBCONTRACTORS (OTHER THAN LEAD DESIGNER)	LEAD DESIGNER	TOTAL
MOVE/SUBSISTENCE/TRAVEL (lump sum for all personnel)	$410,000.00	$540,000.00	$950,000.00
MEETING COSTS	$35,000.00	-	$35,000.00
OFFICE RENT	$80,000.00	-	$80,000.00
PRINTERS/NETWORK	$16,000.00	-	$16,000.00
PARKING	$33,600.00	-	$33,600.00
TOTAL	**$574,600.00**	**$540,000.00**	**$1,114,600.00**