



DATE: September 28, 2023

TO: Steven Milton, Contract Manager

FROM: Paula Rivera, Chief Auditor ^{PR}

CC: Finance and Audit Subcommittee of the Board
Brian Kelly, Chief Executive Officer
Richard Yost, Capital Procurements

SUBJECT: Pre-award Review of HSR 22-10

The Audit Office of the California High-Speed Rail Authority (Authority) has completed its review of the draft agreement and cost proposal for Environmental and Preliminary Engineering Services for the Central Valley Heavy Maintenance Facility, RFQ No.: HSR 22-10, between the Authority and STV Incorporated.

A pre-award review is performed when an agreement for architectural and engineering services is to be awarded based on qualifications. In accordance with Title 40, United States Code, Section 1104 and California Government Code Title 1, Chapter 10 Section 4528(a)(1), fair and reasonable compensation is negotiated. A pre-award review is not an audit; however, it is performed to assist in negotiations with the most qualified proposer.

The scope of the review was limited to examining the draft agreement and the cost proposal dated 8/18/23. For the purpose of accepting contract progress billings, the objectives of the review were to determine if:

- The necessary fiscal provisions were incorporated in the draft agreement.
- The proposed costs are reasonable and in compliance with the Code of Federal Regulations, Title 48, Chapter 1, Part 31 and the agreement.

The pre-award is completed after the Notice of Proposed Award has been issued to the most qualified proposer. We reviewed the entire initial cost proposal submission from STV Incorporated to ensure a complete submission. We noted that the initial cost proposal was not complete for firms not selected for full pre-award review. JLB Traffic Engineering Inc. and Chaudhary & Associates Inc. did not provide the indirect rate support for FY 2022.

We completed a risk assessment of the proposed subconsultants and determined the following subconsultants would be reviewed for this pre-award:

- LSA Associates, Inc.
- Soar Environmental Consulting, Inc.
- Convey, Inc.

Based on the review of the draft agreement and the cost proposal, except as discussed in the following *Issues and Recommendations* section, no material deficiencies came to our attention.

Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing for consulting engagements.

This report is intended for the information and use of the contract manager in support of contract negotiations, and management of the Authority. However, this report is a public document, and its distribution is not limited.

ISSUES and RECOMMENDATIONS

Indirect Rate

Issue 1 – Adjustment to the Indirect Rate

Convey, Inc. proposed rate of 150.65%, which is based on a partial year, the first half of 2023.

Recommendation: The Contract Manager should have Convey, Inc. revise the indirect rate to 136.00%, to reflect their FY 2022 indirect rate.

Issue 2 – Use of Prior Year Indirect Rate

Soar Environmental Consulting, Inc. proposed an indirect rate for FY 2021 which could not be supported.

Recommendation: The Contract Manager should request Soar Environmental Consulting, Inc. provide the FY 2022 indirect rate and support documents as soon as available, no later than October 2023.

Cost Proposal

Issue 3 – Incorrect Proposed Loaded Billing Rate

STV Incorporated proposed a loaded hourly billing rate for an independent contractor at \$196.73. The contractor's agreement states that payment for his services should be \$183.00 per hour, for all services. The proposed rate of \$196.73 includes the Fee and is not supported by the consultant agreement.

Recommendation: The Contract Manager should have STV Incorporated revise the proposed loaded hourly billing rate for the contractor to \$183.00.

Other Direct Costs

Issue 4 – Incorrect Other Direct Cost Guideline Reference

LSA Associates, Inc. proposed mileage reimbursement at a rate of \$0.66 per mile. While this is the current CalHR travel reimbursement amount for mileage, CalHR rates are subject to change.

Recommendation: The Contract Manager should have LSA Associates, Inc. revise the cost proposal to include the correct Other Direct Cost guideline reference for travel-related costs, "per CalHR guidelines."

Direct Labor

Issue 5 – Loaded Hourly Billing Rates for Overtime

STV Incorporated initially proposed overtime loaded hourly billing rates for the classifications of Admin and CAD at straight time. For all other classifications, there was no overtime proposed. Based on our inquiry, STV Incorporated identified that there was an error and that the overtime loaded hourly billing rate for the Admin and CAD classifications should be at time and a half, respective to their straight rate. STV Incorporated also yielded that all other employees/classifications should have overtime proposed equivalent to their respective straight time rate.

Recommendation: The Contract Manager should have STV Incorporated revise the cost proposal to adjust the proposed overtime loaded hourly billing rate for the classifications of Admin and CAD to be equivalent to time and a half of their respective straight time rate.

All other employees/classifications should have their proposed overtime adjusted to be equivalent to their respective straight time rate.

Issue 6 – Unsupported Job Classification Rates

Convey, Inc. and Soar Environmental Consulting, Inc. proposed actual hourly rates/ranges for job classifications that were not supported. However, from inquiries with both subconsultants, they both indicated that they wanted to remove all classifications from their respective cost proposal.

Recommendation: The Contract Manager should have Convey, Inc. and Soar Environmental Consulting, Inc. remove all proposed job classifications from their cost proposals.