



CALIFORNIA
High-Speed Rail Authority

Contract Execution Process

June 2019

EXECUTIVE SUMMARY

The Audit Office of the California High-Speed Rail Authority (Authority) completed its audit of the Authority's contract execution process. The Authority contracts include, but are not limited to, architectural and engineering services, right of way, design-build services, environmental services, and operating concessionaires. The contracting process is initiated with an initial project concept meeting and drafting of the scope of work. The Contract and Procurement Branch (CPB) within the Authority's Office of Administration acts as the purchasing agent for the Authority and is responsible for preparing solicitation documents and awarding contracts, as well as assuring compliance with requirements in the procurement process. Primarily, the CPB is responsible for facilitating the procurement of goods and services through the execution of contracts.

The purpose of our audit was to determine if the contract execution process is in compliance with policies and procedures. The objectives were to determine if:

- Contracts are developed, negotiated, and executed consistent with policies and procedures.
- The development and documentation of the contract estimate is sufficient.

The scope of the audit included contracts executed during the period of July 2015 to June 2017. We examined applicable policies and procedures, interviewed staff involved in the procurement of contracts, and reviewed contract files and relevant documents.

We found the Authority has a process in place upon receiving an approved contract request to execute contracts. We found that the Authority complies with the State Contracting Manual and its own procurement policies and procedures. However, we found estimates for contracts are not documented nor maintained. Twelve contract files were reviewed and the contract managers were interviewed. One of the contract estimates was based on grant requirements, i.e., a grant formula. Of the remaining eleven contracts reviewed, only two had documentation of the methodology supporting the estimated contract costs.

We recommend that the Authority develop procedures and/or guidelines to require methodologies supporting contract cost estimates be sufficiently documented and maintained in the contract files.

The Authority's response to the finding is included as Attachment I

BACKGROUND

The California High-Speed Rail Authority (Authority) contracts include, but are not limited to, architectural and engineering, right of way, design-build, environmental services, and operating concessionaires. The Contract and Procurement Branch (CPB) within the Office of Administration acts as the purchasing agent for the Authority and is responsible for preparing solicitation documents and awarding contracts, as well as assuring compliance with requirements in the procurement process. Primarily, the CPB is responsible for facilitating the procurement of goods and services through the execution of contracts.

In general, once the need for a contract is determined and funding is approved, the program submits the scope of work and the approved contract request with the necessary documents to the CPB. The CPB, in an administrative capacity, reviews the program's contract package for completeness and accuracy, and advertises the solicitation for procurement. The CPB forwards statements of qualifications and proposals received to the selection committee for evaluation. Procurement selection committee members, comprised of Authority staff, evaluate the proposals for expertise, capability, competence to deliver the service, and/or price as required by law. The selection committee informs the Authority's Chief Executive Officer, or designate of its recommended or short-listed proposers.

The procurement team notifies the successful team of the proposed award and the CPB facilitates the negotiation of terms between the program and the selected proposer (contractor). When terms are settled, the contract is reviewed, signed and executed.

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our audit was to determine if the contract execution process complies with policies and procedures. The objectives were to determine if:

- Contracts are developed, negotiated, and executed consistent with the Authority's policies and procedures.
- The development and documentation of contract estimates are sufficient.

The scope of the audit included contracts executed during the period of July 1, 2015, to June 30, 2017. To accomplish our objectives, we reviewed applicable criteria, interviewed staff involved in the contract execution process, and reviewed contract files and relevant documents. The CPB provided the auditor with a list identifying 191 contracts executed during our audit period. Of the 191 contracts listed, we selected 12 contracts (6 percent), interviewed each of the responsible contract managers, and reviewed the contract file.

This audit was conducted in accordance with the standards for the International Professional Practice of Internal Auditing. The results of the audit were discussed with management on September 26, 2018. The Administration Office provided a response, and the full written response is included as Attachment I. The final report is intended as information for management's use; however, this report is a public document and its distribution is not limited. We appreciate the Authority's time and cooperation throughout the audit and look forward to assisting the Contract and Procurement Branch and management as needed.

FINDING AND RECOMMENDATION

We found that the Authority complies with the State Contracting Manual and its own procurement policies and procedures for contract execution. However, we found only 3 of 12 contracts reviewed had a methodology for the contract estimate. Of the 12 files we reviewed, only one contract manager was involved in the contract execution process from the beginning, i.e., development, negotiation, and execution. For the other contracts, the contract managers were assigned after the contracts were executed or the executed contracts were reassigned from other contract managers.

As stated in the Government Accountability Office's *Cost Estimating & Assessment Guide*, documentation provides total recall of the estimate's detail so that it can be replicated by someone other than those who prepared it. Documentation also serves as a reference to support future estimates. Well-documented cost estimates are considered a best practice for high-quality cost estimating for several reasons:

- 1) Thorough documentation is essential for validating and defending a cost estimate. A well-documented estimate can present a convincing argument of an estimates' validity and can help answer decision makers' and oversight groups' probing questions.
- 2) Documenting the estimate in detail, step by step, provides enough information so that someone unfamiliar with the program could easily recreate or update it.
- 3) Good documentation helps with analyzing changes in program costs and contributes to the collection of cost and technical data that can be used to support future cost estimates. Good documentation includes recording lessons learned and provides a history of why costs changed.
- 4) Sufficient documentation supports reconciling differences with an independent cost estimate, improving understanding of the cost elements and their differences so that decision makers can be better informed.
- 5) Poorly documented estimates can cause a program's credibility to suffer because the documentation cannot explain the rational of the underlying costs elements.

Finding: Nine out of 11 (82 percent) contract files reviewed had no documentation supporting the contract estimates. However, the contract manager for one of the nine contract files with no documentation described a reasonable method for the contract estimate. Nevertheless, the method was not documented. For one of the 12 contracts, the contract estimate, and eventual contracted amount, was based on grant requirements, i.e., a grant formula.

Recommendation: The Authority should develop policies, procedures, and/or guidelines requiring contract estimates and their methodologies be sufficiently documented and maintained in the contract files.



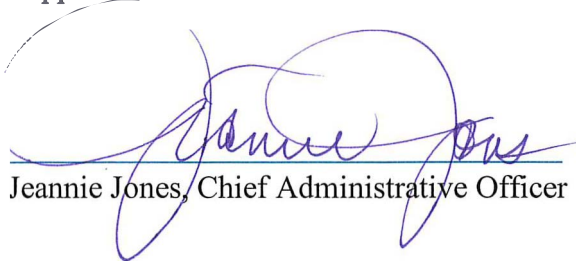
**17-06 CONTRACT EXECUTION AUDIT
RESPONSE MEMORANDUM**

TO: Paula Rivera, Chief Auditor
FROM: Jeannie Jones, Chief Administrative Officer
SUBJECT: Response to Contract Execution Audit 17-06

The California High-Speed Rail Authority (Authority) Administration Office appreciates the opportunity to provide a response to the Authority's Audit Office Contract Execution Audit Report (17-06). The audit's purpose was to determine if the contract execution process is in compliance with policies and procedures. The audit found that the Authority has a process in place upon receiving an approved contract request to execute contracts. The audit also found that the Authority complies with the State Contracting Manual and its own procurement policies and procedures. However, the audit found that estimates for contracts are not documented nor maintained. The audit's recommendation is as follows: "The Authority should develop policies, procedures, and/or guidelines requiring contract estimates and their methodologies be sufficiently documented and maintained in the contract files."

Response:

The Contract and Procurement Branch will update the contract request form, utilized within the Authority, to request new contracts, contract amendments and contract funding allocation changes to include certification by the requestor/Contract Manager of the completion and retainment of an independent contract estimate for all applicable requests. The contract request form requires approvals by the Program Manager, Director of Program Delivery (when applicable), and the Financial Office. The Contract Administration Branch will verify the contract estimate documentation is included within the contract file during the Contract Assessment process. In addition, the Strategic Delivery Branch has developed the Independent Estimate Development Guideline for Contracts/Amendments/Task Order/Task Order Supplemental or Additional Work.



Jeannie Jones, Chief Administrative Officer