Memorandum

DATE: November 17, 2023

TO: Bruce Armistead, Contract Manager

FROM: Paula Rivera, Chief Auditor

CC: Finance and Audit Subcommittee of the Board

Brian Kelly, Chief Executive Officer

Rachael Wong, Capital Procurements

SUBJECT: Pre-award Review of HSR 23-21

The Audit Office of the California High-Speed Rail Authority (Authority) has completed its review of the draft agreement and cost proposal for Rail Systems Engineering Services, RFQ No.: HSR 23-21, between the Authority and Network Rail Consulting, Inc.

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 October 19, 2023. 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 Proposal Award has been issued to the most qualified proposer. We reviewed the entire initial cost proposal submission from Network Rail Consulting, Inc. to ensure a complete submission. We noted that the initial cost proposal was not complete, however, Network Rail Consulting, Inc. later provided the requested documents and information for a complete initial submission.

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

- Intueor Consulting, Inc.
- Egis Rail Inc., USA
- Ricardo, Inc.
- C2PM
- NSI Engineering, Inc.
- D.R. McNatty & Associates, Inc.
- GCM Consulting, 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

Cost Proposal

Issue 1 – Field Rate Not Shown

Network Rail Consulting, Inc.'s cost proposal rate sheet only lists the home office indirect rate and not the field office indirect rate, but key personnel will be working out of the Authority Office and will be billing the field rate at the beginning of the contract.

Recommendation:

Identify the field indirect rate, in addition to the home indirect rate, on the Cost Proposal Rate sheet and include a note stating, "*Key Personnel will charge the field rate, as applicable, while working out of the Authority Office."

Direct Labor

Issue 2 – Rates are not Properly Stated

Three firms proposed classification ranges that were understated, classification ranges that could not be supported, or rates for named employees that were overstated. GCM Consulting, Inc rates were determined overstated due to unavailable full salary information for the current year to evaluate uncompensated overtime. Therefore, 2022 data was reviewed to determine reasonableness of the proposed rates.

Recommendation:

D.R. McNatty & Associates, Inc - Revise the actual hourly rate proposed for the Program Controls Lead (high range) classification from $95 to the supported higher rate of $96.15.

NSI Engineering, Inc.– Remove the unsupported job classifications/ranges for Quality Analyst 2, Quality Auditor 4, and Quality Manager 5 and replace with individual names and supported actual hourly rates.

GCM Consulting, Inc. – Revise actual hourly rate proposed to their 2022 effective hourly rates.

- Mike Phillips: from proposed rate of $120 to $108.69.

- Kari Phillips: from proposed rate of $80 to $75.

Additionally, the firm shall establish procedures for consistent recording and accounting for hours worked to ensure proper allocation and distribution of labor costs.

Indirect Costs

Issue 3 – Indirect Rate is Unsupported

C2PM could not support the proposed indirect rate.

Recommendation:

Revise the indirect rate to the supported 2022 rate of 176.31%.

Issue 4 – Indirect Rate is not US based

Egis Rail Inc., USA and Ricardo, Inc. do not have an indirect rate for their US subsidiary companies based on actual costs.

Recommendation:

Indirect rates proposed are reasonable for use in the interim. An updated indirect schedule should be provided once there is a full year of sufficient US financial information. Indirect schedule and supporting documents should be provided no later than March 2024. Contract Manager should provide a copy to the Audit Office once received.

Other Direct Costs

Issue 5 – Other Direct Costs are Unsupported

Egis Rail Inc., USA - Other direct cost rates are estimates and unsupported.

NSI Engineering, Inc. - Other direct costs description does not include enough details to determine compliance with the travel-related cost requirements described in Note (4) of the cost proposal.

GCM Consulting, Inc. - Mileage rate proposed does not comply with Note (4).

Recommendation:

Egis Rail Inc., USA - Remove other direct costs from the cost proposal.

NSI Engineering, Inc. - Revise cost proposal to identify the specific categories of travel in accordance with Note (4) and similar to the prime consultant and the other sub-consultant's cost proposal.

GCM Consulting, Inc. - Mileage should be listed at CalHR rates in accordance with Note (4).