



DATE: October 23, 2024

TO: Denix Anbiah, Contract Manager

FROM: Paula Rivera, ^{PR} Chief Auditor

CC: Finance and Audit Committee
Ian Choudri, Chief Executive Officer
Bill Casey, Chief Operations Officer
Christine Inouye, Director of Strategic Delivery
Darin Kishiyama, Director of Contract Management
Britton Snipes, Engineering Project Manager

SUBJECT: Interim Review of HSR 22-02

The Authority's Audit Office of the California High-Speed Rail Authority (Authority) has completed its contract compliance review of Agreement No. HSR 22-02, Amendment 2 with Stantec Consulting Services Inc (Stantec). The review was conducted in accordance with The Institute of Internal Auditors' Global Internal Audit Standards for consulting engagements.

The objective of the review was to determine whether Stantec and its subconsultants complied with the requirements of the agreement, including but not limited to cost compliance with applicable Code of Federal Regulations Title 48, Part 31, Contract Cost Principles and Procedures. The scope of the review was limited to verifying costs proposed in the Master Resource Pool for Fiscal Year 24/25 were supported.

We completed a risk assessment and identified the following 19 subconsultants to be reviewed:

- Advantec Consulting
- Blair, Church & Flynn Consulting Engineers
- NSI Engineering
- Systra Consulting
- Cornerstone Structural Engineering Group
- Knight CM Group
- Unico Engineering
- Anser Advisory
- Biggs Cardosa Associates
- MA Engineering
- Cabrinha, Hearn & Associates

- Earth Mechanics
- Elle Consultants
- MGE Engineering
- Parikh Consultants
- Terravanta, Inc.
- Vertical Mapping Resources
- Zephyr UAS, Inc.
- VRPA Technologies

Based on the review of the Master Resource Pool for Fiscal Year 24/25, 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 management in support of contract management and management of the Authority. However, this report is a public document, and its distribution is not limited.

Issues and Recommendations

Direct Labor

Issue #1 – Stantec is recording the raw rates for their Canadian employees inconsistently by using Canadian Dollars for some employees on the Master Resource Pool. We identified two employees with Canadian Dollars for the raw rates and their corresponding escalated rates were in US Dollars. At first glance, the escalated rate is lower than the raw rate due to the different currencies. After converting the raw rates to US Dollars and calculating the escalation rate, we found the escalated rate exceeded the allowed escalation rate of 5.40% for this fiscal year.

Recommendation – The Contract Manager should have Stantec review the Master Resource Pool to ensure all rates are US Dollars and make corrections as necessary. Stantec should also indicate conversion dates on their payroll support. In addition, any escalation invoiced to the Authority in excess of contract requirements should be credited on the next invoice.

Issue #2 – One raw labor rate was overreported in the FY24/25 Master Resource Pool.

Recommendation – The Contract Manager should have Stantec adjust the following subconsultant's raw rate:

- NSI Engineering's Consulting Specialist VI – from \$115.94 to \$110.00

Issue #3 – An independent contractor working for Stantec as a Senior Sustainability & Resilience Consultant is billing the entire fully loaded rate on the Master Resource Pool when they should only include the general and administrative portion of the indirect rate.

Recommendation – The Contract Manager should have Stantec adjust the loaded billing rate for the independent contractor to exclude the fringe benefits portion of Stantec's indirect rate.

Indirect Rate

Issue #4 – MGE Engineering and Elle Consulting were not able to provide a supportable FY 2023 Indirect Rate Schedule and FY 2023 Trial Balance; therefore, their indirect rates could not be verified to be actual.

Recommendation – The Contract Manager should follow Exhibit B, section 2.2 of the contract regarding updated overhead rates prior to the annual escalation until MGE Engineering and Elle Consulting can provide a supportable indirect rate for FY 2023. Stantec should work with MGE Engineering and Elle Consulting to develop their FY2023 indirect rate.

Issue #5 – Discrepancies were identified between the indirect cost rates on the Master Resource Pool and what was verified to be actual in the review.

Recommendation – The Contract Manager should have Stantec adjust the following subconsultants' indirect cost rates on the Master Resource Pool:

- Advantec Consulting - from 163.17% to 154.62%
- NSI Engineering – from 173.18% to 170.83%
- VRPA Technologies - from 200.54% to 190.97%