



**DATE:** December 20, 2024

**TO:** Michael Hughes, Contract Manager

**FROM:** Paula Rivera, Chief Auditor <sup>PR</sup>

**CC:** Ian Choudri, Chief Executive Officer  
Christine Inouye, Director of Strategic Delivery  
Darin Kishiyama, Director of Contract Management

**SUBJECT: Interim Review of HSR 14-39**

The Audit Office of the California High-Speed Rail Authority (Authority) has completed its contract compliance review of Agreement No. HSR 14-39, Amendment 5 with STV Incorporated. 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 STV Incorporated 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 (FY) 24/25 were supported.

We completed a risk assessment and identified the following 17 subconsultants to be reviewed:

- Arellano Associates, LLC
- California Watershed Engineering Corp.
- Coast Surveying, Inc.
- CP&Y, Inc.
- Cross-Spectrum Acoustics LLC
- Environmental Review Partners
- Epic Land Solutions
- GPA Consulting
- Green Grass Communications
- Gruen Associates
- ICF Jones & Stokes
- LIN Consulting, Inc.

- The Lebaugh Group
- VACC, Inc.
- Value Management Strategies
- VMA Communications
- WSP USA Environment & Infrastructure, Inc.

Based on the review of the Master Resource Pool for FY 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 the 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 – Unsupported Master Resource Pool Raw Rates**

We reviewed 379 raw labor rates and found 112 were overstated on the FY24/25 Master Resource Pool.

**Recommendation** – The contract manager should have STV, Incorporated adjust the overstated raw rates on the FY 24/25 Master Resource Pool to the verified payroll rates for the appropriate timeframes.

#### **Issue #2 – Unsupported Fully Loaded Rate**

Independent Contractor, Surv 2 classification, for Coast Surveying, Inc. has an unsupported fully loaded rate.

**Recommendation** – The Contract Manager should have STV, Incorporated adjust the second tier subconsultant billing rate to the raw rate of \$64.34.

## **Indirect Cost Rate**

### **Issue #3 – Unsupported Indirect Cost Rates**

Discrepancies were identified between the indirect cost rates on the FY 24/25 Master Resource Pool and the verified actual indirect cost rates for 7 out of the 18 firms reviewed.

**Recommendation** – The Contract Manager should have STV, Incorporated adjust the indirect cost rates on the FY 24/25 Master Resources Pool to verified actual indirect cost rates.

### **Issue #4 – Unavailable and Unsupported Indirect Cost Rates**

VACC, Inc. and Environmental Review Partners were not able to provide FY 2023 indirect rate schedules. In addition, VACC's financial management system is not capable of segregating direct and indirect costs. Therefore, auditors were unable to verify that the rates on FY 24/25 Master Resource Pool are actual.

**Recommendation** – The Contract Manager should have STV, Incorporated work with VACC, Inc. and Environmental Review Partners to provide supportable 2023 Indirect Cost Rates as soon as possible.