



DATE: June 5, 2023

TO: Andrew Prack, Contract Manager

FROM: Paula Rivera, Chief Auditor

CC: Finance and Audit Subcommittee of the Board
Brian Kelly, Chief Executive Officer
Rachel Wong, Capital Procurements
Della Leong, Capital Procurements

SUBJECT: Pre-award Review of HSR 22-44

The Audit Office of the California High-Speed Rail Authority (Authority) has completed its review of the draft agreement and cost proposal for Right-of-Way Engineering and Survey Support Services, RFQ No.: HSR 22-44, between the Authority and Hernandez, Kroone and Associates, 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 May 15, 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.

We reviewed the entire initial cost proposal submission from Hernandez, Kroone and Associates, Inc. to ensure a complete submission. We noted several missing documents, however Hernandez, Kroone and Associates, 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:

- Michael Baker International, Inc.
- David Evans and Associates, Inc.
- Saddleback Surveys, 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 Costs

Issue 1 – Revisions to the Indirect Rate

The following firms require revisions to the indirect rates:

1. Hernandez, Kroone and Associates, Inc.:
 - a) Costs for office supplies and meeting expenses were questionable and unsupported, requiring an adjustment to the overhead accounts.
 - b) Uncompensated overtime was not accounted for in their indirect rate.

2. Saddleback Surveys, Inc.:
 - a) Unallowable meals and entertainment costs.
 - b) Approximate amounts for "Benefits: 401k". It was determined that this was due to the subconsultant not having received the final recommended funding calculations during the time of the Indirect Rate Schedule submittal.

Recommendation: The Contract Manager should request an updated cost proposal with supportable indirect rates and a final indirect rate schedule with adjustments no later than July 1, 2023, for Hernandez, Kroone and Associates, Inc. and no later than October 2023 for Saddleback Surveys, Inc.

Upon receipt, the Contract Manager should forward the updated cost proposal and indirect rate schedule to the Audit Office.

Cost Proposal

Issue 2 – Incorrect Proposed Hourly Rates

The following firms did not provide the correct Actual Hourly Rate or Range of Actual Hourly Rates:

1. Hernandez, Kroone and Associates, Inc.
2. David Evans and Associates, Inc.

Recommendation:

The Contract Manager should have the firms listed above revise their cost proposals as follows:

1. Hernandez, Kroone and Associates, Inc. should remove:
 - a) "Actual Hourly Rate" for all proposed classifications.
 - b) Range of Actual Hourly Rate for proposed prevailing wage employees.
2. David Evans and Associates, Inc. should remove:
 - a) Range of Actual Hourly Rates for employee Mike R. Fallert
 - b) Range of Actual Hourly Rate from Survey Apprentice classification

Issue 3 – Missing Prevailing Wage Employee Names or identification

The following firms proposed prevailing wage classifications that do not have names of employees or were not identified with an asterisk to denote prevailing wage.

1. Hernandez, Kroone and Associates, Inc.
2. David Evans and Associates, Inc.
3. Michael Baker International, Inc. - asterisks were not included

Recommendation: The Contract Manager should have the firms listed above revise their cost proposal to add employee names or an asterisk to all prevailing wage classifications. Future employees that need to be added to the contract shall go through the add process with the Contract Manager.

Other Direct Costs

Issue 4 – Incorrect Other Direct Cost Guideline Reference

The following firms did not reference the correct Other Direct Cost guidelines for travel-related costs:

1. Michael Baker International, Inc.
2. Saddleback Surveys, Inc.

Recommendation: The Contract Manager should have the firms listed above revise the cost proposal to include the correct Other Direct Cost guideline reference for travel-related costs.

Issue 5 – Unclear/missing Other Direct Costs

The following firms did not propose other direct costs as intended and proposed unclear other direct costs:

1. David Evans and Associates, Inc. - intended to propose other direct costs, including reprographic and equipment, but did not.
2. Saddleback Surveys, Inc. – did not provide clear details for their proposed other direct costs. The consultant simply proposed “reimbursables.”

Recommendation: The Contract Manager should have:

1. David Evans and Associates, Inc. revise their Other Direct Costs cost proposal to include what was originally intended, which are the Reprographic Prints and Equipment at actual.
2. Saddleback Surveys, Inc. – detail their other direct costs to replace proposed “reimbursables.”

Direct Labor

Issue 6 – Overstated Employee and Classification Rates

Proposed rates were overstated for the following firms:

1. Hernandez, Kroone and Associates, Inc. - employees
2. David Evans and Associates, Inc. – employees and classifications

Recommendation: The Contract Manager should have the following firms revise the cost proposal to reflect the actual rates supported in the payroll registers:

Hernandez, Kroone and Associates, Inc.:

Name	Classification	Proposed Rate	Verified Rate
John Hernandez	Project Manager	\$ 95.00	\$ 83.20
Joel Flasschoen	Asst. Project Manager	\$ 80.00	\$ 69.30
Richard Terrazano	Quality Manager	\$ 94.00	\$ 87.47
Gary Lewis	Asst. Quality Manager	\$ 72.00	\$ 64.30

David Evans and Associates, Inc.:

Name	Classification	Proposed Rate	Verified Rate
Devin Jensen	Survey Apprentice	\$ 43.42	\$ 32.57
	Project Surveyor	High: \$65.00	\$ 63.00
	Survey Analyst	High: \$55.00	\$ 53.00

Issue 7 – Incorrect and Unsupported Overtime Proposed

David Evans and Associates, Inc. calculated overtime using a 1.5 multiplier. However, they stated that the consultant will bill all time over 8 hours as straight time loaded rates and not with the 1.5 multiplier.

Saddleback Surveys, Inc. proposed an overtime rate for a salaried employee, Kathleen Tetreault. Saddleback indicated that overtime is not applicable to salaried employees.

Recommendation: The Contract Manager should have David Evans and Associates, Inc. revise the cost proposal to reflect overtime at straight time for nonexempt employees in the following proposed classifications:

- Survey Analyst
- Survey Technician
- Survey CADD
- Project Coordinator

The Contract Manager should have Saddleback Surveys, Inc. remove the proposed overtime for Kathleen Tetreault on the cost proposal.

Issue 8 – Incorrect and Unsupported Classification Proposed

The following firms proposed incorrect and unsupported classifications:

1. David Evans and Associates, Inc. - Proposed two classifications “PLS Survey Party Chief” and “Survey Certified Party Chief” on their cost proposal, however, stated that there are no Department of Industrial Relations determinations for these classifications, and they should fall under the Chief of Party prevailing wage rates.
2. Michael Baker International, Inc. – The cost proposal does not include the prevailing wage classification title for the proposed employee, Cory Haukka.
3. Hernandez, Kroone and Associates, Inc. proposed classifications without supporting payroll registers.

Recommendation: The Contract Manager should have the following firms revise the cost proposal as follows:

1. David Evans and Associates, Inc. – “PLS Survey Party Chief” and “Survey Certified Party Chief” to Chief of Party.
2. Michael Baker International, Inc. – “PLS” to “PLS/Chief of Party” for Cory Haukka.

The Contract Manager should also have Hernandez, Kroone and Associates, Inc. remove the following unsupported classifications:

- Senior Land Surveyor or Senior Engineer
- Project Surveyor or Project Engineer
- Associate Land Surveyor/ Eng IV
- Associate Land Surveyor/ Eng III
- Associate Land Surveyor/ Eng II
- Associate Land Surveyor IV
- Associate Land Surveyor III
- Land Surveyor IV
- Land Surveyor III
- Land Surveyor II
- Land Surveyor I
- Survey Analyst IV
- Survey Analyst III
- Survey Analyst II
- Administration III
- Administration II
- Administration I
- Staff Accountant III
- Staff Accountant II
- Instrument Man

Issue 9 – Intended Employee and Classification Missing

Michael Baker International, Inc.'s cost proposal lists one Chief of Party (working alone) position for Thomas Durning. Since the employee will be performing work as Chief of Party and the secondary position, "Chief of Party with crew," the secondary position is missing from the cost proposal.

David Evans and Associates, Inc. intended to propose classification of Sr. Project Manager but only proposed a named employee in that classification.

Recommendation: The Contract Manager should have Michael Baker International, Inc. update the cost proposal to add the secondary "Chief of Party with crew" position when working on a survey crew - Thomas Durning, Chief of Party with crew, \$61.11.

The Contract Manager should also have David Evans and Associates, Inc. revise their cost proposal to add the classification of Sr. Project Manager with a supported range of \$63 - \$85.