

28912832

May 3, 1989

Audit No. 89-PA-30  
(Supplementary Report)

Supplementary Report on Pre-Award Audit of  
Proposed Costs Through June 30, 1989 for  
Personnel Support Services Under Phase II  
of Metro Rail Red Line Project - MRTC  
Contract No.1019 - Hayakawa Associates -  
\$138,000.

May 3, 1989

Audit No. 89-PA-30  
(Supplementary Report)

P.L. Como  
Director  
Office of Contracts, Procurement and Materiel

Supplementary Report on Pre-Award Audit of Proposed Costs Through June 30, 1989 for Personnel Support Services Under Phase II of Metro Rail Red Line Project - MRTC Contract No. 1019 - Hayakawa Associates - \$138,000

At the request of Facilities Engineering to come up with supportable billing rates of Hayakawa Associates, we requested the subcontractor to furnish us the cost breakdown of the proposed billing rates. The subcontractor however, does not want to provide us with the cost data. According to Hayakawa Associates, the proposed billing rates were based on standard rates in the industry of their size and volume of operations.

We requested the subcontractor, for which they agreed, to provide us with a copy of their direct and indirect expenses for fiscal year ended 1/31/89. Based solely on said account balances, we calculated an overhead rate of 134% for the same fiscal year. We also determined an alternative overhead rate of 120% based on the average audited rates for the last five fiscal years, including FYE 1/31/89.

Using the calculated overhead rate of 134% and 120% plus the normal 8% profit allowed to all MRTC subcontractors, we computed the direct labor rates for the proposed job classification. The results were compared with the 1989 direct labor rates which we have calculated based on the subcontractor's actual hourly labor rates for 1985 escalated by an annual salary increase of 5% for four years.

A comparative analysis of the direct labor rates and the billing rates is presented in Exhibit 1.

As shown in exhibit 1, the calculated direct labor rates with 134% overhead burden are slightly higher than the rates allowed to MRTC joint venture members. However, the billing rates for non-supervisory staff are comparable with other subcontractors. If the rates were computed based on 5-year average overhead rate of 120%, the results would show a much higher direct labor rates but lower billing rates, (billing rate includes direct labor plus overhead and profit). Except for the "principal" position, the computed direct labor rates for each job are higher than those rates using 1985 actual hourly rates escalated by an annual salary increase of 5% for four years.

Therefore, we recommend that the following billing rates be used for purposes of negotiation. The recommended rates were determined using 134% overhead and 8% profit.

Job Classification	Recommended Billing Rate
Principal	\$100
Associate	80
Project Engineer	63
Designer	45
Draftsmen	35
Clerical Staff	21

*Filiberto E. Martinez Jr.*  
 Filiberto E. Martinez Jr.  
 Assistant Inspector General

Audit Staff:

Jon Sotero  
 Clem Bellaflor

cc: E. V. Fuentes  
 T.L. Johnson  
 W. Rhine  
 J. Crawley

Audit No. 89-PA-30  
(Supplementary Report)  
Exhibit I

Hayakawa Associates  
Comparative Analysis of  
Billing and Direct Labor Rates

	Proposed Billing Rates	Calculated Billing Rates		Calculated D/Labor Rates		Actual D/L	
		@134%OH +8%FF	@120%OH +8%FF	@134%OH +8% FF	@120%OH +8% FF	85	89*
Principal	\$100	\$111	\$104	\$40	\$42	\$36	\$44
Associate	85	80	75	34	36	26	32
Project Eng.	75	63	59	30	32	21	25
Designers	65	45	42	26	27	15	18
Draftsmen	55	35	32	22	23	11	14
Clerical	25	21	19	10	11	7	8

Legend:

OH - Overhead rate

FF - Fixed Fee

\* - Increase by 5% per year for four years, 1986-1989.

Hayakawa Associates  
Calculation of Overhead Rate  
Fiscal Year Ended 1/31/89

A. Indirect Cost Pool		\$1,531,000
Less: Adjustments:		
o Advertising	\$11,100	
o Profit sharing plan	12,000	
o Fringe benefits	<u>15,034</u>	
Total		<u>38,134</u>
Adjusted Total Indirect Cost		1,492,866
B. Direct Labor	\$1,147,600	
Less: Adjustments:		
Direct labor-Canvasser	<u>33,600</u>	
Net Direct labor		1,114,000
C. Overhead Rate (A divide by B)		<u>134.01%</u> =====

Note:

The above information originated from subcontractor's financial records. We calculated the overhead rate based on the account balances only as submitted.