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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
JANUARY 13, 2015**

**Cal EPA Building
1001 I Street, Second Floor Training Room
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on January 13, 2015 at 8:00am in the Training Room of the Cal EPA Building.

Committee Members Present:

Mr. Michael Rossi, Chair
Mr. Tom Richards

Authority Staff Present:

Mr. Jeff Morales, CEO
Mr. Dennis Trujillo, Chief Deputy
Mr. Tom Fellenz, Chief Counsel
Mr. Russell Fong, CFO
Mr. Frank Vacca, Chief Program Manager
Mr. Scott Jarvis, Assistant Chief Program Manager
Mr. Jon Tapping, Risk Manager
Ms. Paula Rivera, Senior Management Auditor

Minutes prepared in the order items were presented during the meeting

Agenda Item – Minutes from November 2014

Approved without comment.

Agenda Item – Action Items from Previous Finance and Audit Committee Meeting

None

Agenda Item - Financial Reports – Russell Fong

Questions asked and answered. Issues discussed included:

- Accounts Payable Aging Report – Mr. Richards is pleased with report.
- Cash Management Report – Mr. Rossi asked what the lines on the cumulative cash projections/balance charts represented. Mr. Fong explained the lines represent “cash balance” and “expenditures” that shows the Authority’s cash trends and projection. As expenditures go up the balance will go down.
- Summary of YTD Budget and Expenditures - Mr. Rossi asked with 42% of the 14/15 Fiscal Year completed and only 36% of the budget expended was the savings from timing or savings. Mr. Fong responded both timing and savings. Mr. Rossi asked what would happen if we reduced the budget by the amount of the savings. Mr. Fong replied that we would know more about our Administrative expenditures in the 3rd quarter. Mr. Richards requested that a line and total be added under Program 10 Annual Budget.

- Executive Budget Summary – No comments
- Capital Outlay Budget Summary – Mr. Richards asked if there are any trends that are a concern. Mr. Fong noted that with construction starting it will cause movements on the charts, closing the gap between planned and actual expenditures. Mr. Richards asked if the Authority wanted to use Cap and Trade funds for this purpose. Mr. Morales commented that Cap and Trade Funds will be used until the Authority gets caught up on State match.
- Total Project Expenditures with Forecasts – No comments
- Contracts and Expenditures Report – Mr. Rossi asked if the Authority is getting close to resolving the disputes. Mr. Fong stated that the total amount of disputes is over \$4M. The bulk of the disputes are from URS. Mr. Morales said that the plan is to have the disputes resolved by end of February.
- Projects and Initiatives Report – Mr. Fong explained that FISCAL is the new budget, accounting, procurements, and contracts system for the state of California. The Authority is scheduled for Wave 2 to utilize FISCAL as of July 2015. Wave 1 delays may negatively impact the complete implementation of Wave 2. Mr. Fong commented that a state audit came out with their findings of FISCAL. The state's auditors reported a high vacancy rate of executives within FISCAL. This may cause a lack of oversight with potential schedule changes. Mr. Fong is concerned the system can't handle the amount of project management data the Authority needs. Mr. Rossi asked why not buy software off the shelf. Mr. Morales responded that it is not a unilateral decision on the Authority's part. Mr. Richards asked how long can we keep doing what we're doing. Mr. Fong replied that it will get increasingly more difficult as the project grows and staff continually doing things manually. The reporting will become more time and labor intensive and too reliant on the institutional knowledge of staff and consultants. Mr. Fong highly recommends getting off the current manual process. Mr. Rossi asked what agencies are needed to sign off on this. Mr. Fong identified that the Department of Finance would need to approve, as well as Cal Tech and FISCAL. Mr. Rossi stated this needs to get done soon. Mr. Richards asked how long it will take to get things up and running after getting the software. Mr. Fong responded that it is dependent on the procurement process for support services, getting the data entered, and creating the charts of accounts that meets all of our financial reporting requirements. Mr. Rossi will talk to Director Cohen from DOF about FISCAL.
Mr. Rossi asked about long-term vehicles. Mr. Jarvis responded that the Authority is working to get concurrence with the CA Transportation Agency for long-term vehicle leases, then the Authority will go through DGS for administration of that decision.
- Summary of Financial Reports - No comments

Agenda Item – Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Audit Plan, Second Quarter Status – Mr. Rossi asked what the lineouts are on the report. Ms. Rivera responded that they are changes from the last status. Mr. Rossi asked why 5 pre-awards to ROW contracts were no longer going to be performed. Ms. Rivera responded that they went to the lowest responsible bidder as opposed to cost not being a factor in selection. Mr. Rossi asked why the change was made. Mr. Morales responded that he'd look into it. Ms. Rivera said that it became more of a bid situation as opposed to professional engineering services. Mr. Rossi then asked if we did away with ROW acquisition contracts and resources increased 350 hour. Ms. Rivera answered yes. The 2,600 hours budgeted is what was anticipated and the 2,250 hours was the available resources. Mr. Rossi asked if priorities 1-9 will be completed with current staff resources. Ms. Rivera replied that all 12 priorities are doable in the timeframe.
- Mr. Rossi asked if there is anything outstanding with the State Audit. Ms. Rivera replied no.

Agenda Item – CP 1 Project Update – Scott Jarvis

Questions asked and answered. Issues discussed included:

- CP 1 Monthly Status Highlight Report - Mr. Richards asked if we finished the continuation of working with the contractor on identifying parcels critical to the project. Mr. Jarvis replied yes. The Authority provided the design-builder the ROW acquisition plan. The meeting was held 12/17/14 and another

meeting is scheduled with Project Manager Jim Lang of TPZP to provide an updated plan based on the ROW Acquisition Plan. This will be reviewed at the Executive Partnering Session with Mr. Morales and Mr. Vacca the first week of February. Mr. Richards asked for Mr. Jarvis to report back at the next Finance and Audit Committee what issues face ROW. Mr. Rossi asked what was done when presenting parcels. Mr. Jarvis responded that the Authority will work with TPZP within the contract provisions regarding any change in the number of contract working days. Mr. Rossi commented that he's concerned with TPZP not receiving critical parcels. Mr. Morales stated that the design-builder knows they have obligations of the design progress and to obtain permits. There may be claims and concurrent delays on their part.

Mr. Richards asked about 3rd parties. Scott replied that Union Pacific is the biggest concern with 37 high priority parcels. Mr. Richards asked about key work accomplished this period. Mr. Jarvis replied there are no significant problems with design submittals. Mr. Richards asked who does that work from our side. Mr. Jarvis replied an independent checking engineer. Mr. Rossi asked who oversees this on the inside. Mr. Jarvis responded that Hugo Mejia, the Authority's Design Construction Manager, has ultimate authority. Mr. Richards asked what are the 3 structures that are currently undergoing design review. Mr. Jarvis will find out. Mr. Richards asked about the design submittal for the bridge going over the San Joaquin River. Mr. Jarvis responded that it's in progress. Mr. Rossi stated that that the Status Highlight Report is only for work accomplished by the Authority. He would like to see what the outside companies are doing related to key work accomplished for the project.

- CP 1 Performance Metrics – Mr. Richards asked what's the impact of the original schedule, delivery deadline and total cost. Mr. Jarvis Replied that TPZP's current schedule shows about a 13 month delay. Concurrent delays may have occurred and the Authority has not yet determined the full extent or responsibility for the delay. With regards to cost, the Authority hasn't analyzed the details yet. Cost is related to the extent of the delay so the Authority is working on determining the amount of delay first. After the Executive Partnering Session the Authority will have more information on the delay. Mr. Rossi asked what is the Executive Partnering Session. Mr. Morales replied that the Executive Partnering Session is with TPZP to resolve large issues, including rebaselining of the schedule. By the March Finance and Audit Committee meeting the Authority will have a better sense of where it's headed related to resolution of the delay issues.

Mr. Rossi asked when reasonable risk scenarios will be run. Mr. Tapping responded it is based on negotiation steps that Mr. Jarvis' team will have with TPZP. Mr. Rossi stated that it is important that changes be risk analyzed for potential probabilities. Don't negotiate something that has a low percentage of occurring for the Authority. Negotiating must tie into probability scenarios.

- Caltrans SR-99 Performance Metrics – No comment
- ROW Project Summary Status Report – No comment

Current Issues

- Mr. Fong stated that his biggest concern is the Authority's lack of a financial system that will meet the needs of a mega infrastructure project. Ensuring the quality and integrity of the financial data is critical. There's still uncertainty that historical data can be inputted into FISCAL.
- Mr. Rossi will talk to Michael Cohen, Carlos Ramos, and Brian Kelly.
- Mr. Morales stated that the quarterly Executive Partnering Session will produce a schedule with fixed dates and fixed obligations on the Authority's part. The Authority will make sure there's understanding of implementations of schedule and what are the commitments to be done.
- Mr. Jarvis stated that the PCM is performing a schedule analysis that will be used in negotiations with TPZP.

Closed session with the auditor at 8:41 am.