



DRAFT

FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES

March 10, 2015

**California Department of Health Care Services Building
1500 Capitol Avenue
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on March 10, 2015 at 9:00am in the California Department of Health Care Services Building.

Committee Board Members Present:

Mr. Michael Rossi, Chair
Mr. Tom Richards

Board Members Present:

Mr. Lou Correa
Ms. Lynn Schenk

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
Mr. Robert Magnuson, Chief of Communications/External Affairs
Ms. Paula Rivera, Senior Management Auditor

Minutes prepared in the order items were presented during the meeting

Agenda Item – Minutes from February 2015

Questions asked and answered. Issues discussed included:

- Approved without comment.

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

Questions asked and answered. Issues discussed included:

- Mr. Richards asked about the allocation the Department of Finance made available for External Affairs and Communications. How did they come up with the \$500,000? Was it requested by the Authority or

based upon historical requirements? Mr. Fong responded that it was a combination of both. The Department of Finance worked with the Authority a few years ago to come up with that number.

Agenda Item - Financial Reports – Russell Fong

Questions asked and answered. Issues discussed included:

- Mr. Rossi asked for our future discussions to focus on the FCS spend at 7.8%.
- Mr. Rossi commented as things ramp up for CP2-3 and CP4 the Authority will have an accelerated increase in our spending curve, the issues of concern about the expenditures from September 17 has been mitigated by agreements that are in the process of being papered. Is that correct? Mr. Morales responded yes.
- Mr. Rossi commented that the right-of-way acquisition of parcels seems to be improving. He wants this to be the second focus of future F&A meetings going forward.
- Mr. Rossi is pleased with our current financial reports. Mr. Rossi wants the Finance and Audit Committee focused on the exceptions going forward. All the reports will continue to be produced. Mr. Richards added that Mr. Fong is to raise any changes that are material from the previous reports.

Agenda Item – Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Mr. Rossi asked if the recommendations have been addressed on the preaward for the Regional Consultant from Burbank to Anaheim. Ms. Rivera responded yes, they submitted a revised cost proposal and it was reviewed by the Program Management staff. Mr. Rossi requests that the reports include actions that were recommended satisfactorily implemented. Mr. Richards asked why the proposed ranges are so much closer to the supported ranges than previously. Ms. Rivera responded that part is education. The small business advisory council invited Ms. Rivera to speak at their last meeting. Ms. Rivera went over the things found and what is being reported. We are working with small business to identify what is expected.
- Mr. Rossi commented that the Contract Management report indicates that policy and procedures have not been followed as well as they should be. Mr. Rossi asked if this occurred because it is a new process. Ms. Rivera replied yes. Interviews with contract managers indicated that it was a large amount of work bringing people on and working through contracts. Now the process is in place to have training and identify expectations. The process has improved since the initial interviews. Mr. Rossi asked if after the 90 day review the issues will be fixed. Ms. Rivera replied that in 90 days the programs will provide status on the corrective actions that have been implemented. Mr. Morales added that the corrected actions we committed to will take place in those 90 days. Some of the issues identified were caused by people that lack experience as contract managers. It wasn't always that they weren't following procedures, it was that they couldn't document that they followed the procedures. There will be better record keeping and better tracking that will be addressed in the training. Mr. Richards asked what audit program was implemented? Ms. Rivera replied that all active contracts of the Authority were included. The audit testing included all contract managers responsible for contracts that exceeded \$250,000. Two-thirds of the contract managers were interviewed. The contracts that were not included were confidential shredding and transcription. Mr. Rossi indicated that these will be included on the next go-around. Interviews took place in Northern California, Southern California, Fresno and Sacramento. Interviews included questions about processes of reviewing and approving invoices, managing scope of work, work assignments, and monitoring completion of work. How the contract was developed was not a focus. The scope of this audit started when the contract was executed and how all the work that has been contracted out is managed. There were documentation gaps when the person that started the contract was no longer managing it. Handing off duties has now been addressed. Without documentation the audit results were based on interviews. Mr. Richards asked who manages the contracts that outside consultants manage. Ms. Rivera responded that all contracts have an Authority staff member as the contract manager. Contract managers have varying levels of assistance

from other consultants. The design-build contract was not included in the contract management audit because the audit plan includes an audit to look at the design-build from an oversight perspective. It is scheduled to start after the preaward for the rail development partners. The Project Construction Manager (PCM) are performing some of the oversight on the Design-Build (DB) Contract. Mr. Rossi asked if 70% of the contracts were reviewed except for the DB Contract. Mr. Morales responded that the plan is to do an audit of that contract on a standalone basis. Mr. Rossi asked for the DB Contract audit by the next Finance and Audit Committee meeting. Mr. Rossi wants to know the schedule that can be met. The next focus should be to audit all contracts below \$250,000. Mr. Richards asked if the contract managers are administrating or managing. Mr. Morales responded that a contract manager has both responsibilities. In some cases administrative support is provided to the contract manager to make sure the administrative functions are carried out.

Agenda Item – CP 1 Project Update – Scott Jarvis

Questions asked and answered. Issues discussed included:

- Mr. Rossi asked for an update on page 2 of 9, Design & Support Cost, and page 4 of 9, Schedule, of the Performance Metrics for CP 1. Mr. Jarvis responded that the Design & Support Cost is a cost indicator of support cost for administering the design-build contract. The ratio is currently in the red at a current value of 7.4%. It is calculated by dividing the Design & Construction Support Cost by the DB Invoiced to Date Amount. A slower than anticipated start to substantial construction has caused the DB Invoiced to Date Amount to be less than anticipated. The Authority anticipates this ratio to go down below 6% after substantial construction begins. Mr. Rossi asked about the Schedule metric. Mr. Jarvis responded the Schedule metric on page 4 is the Schedule Performance Index, which is measured by the ratio of the earned value divided by the planned value. The earned value is the amount of work that the DB has performed. This is less than anticipated due to a slower start to substantial construction. This metric is expected to ramp up as substantial construction starts.
- Mr. Rossi asked about page 2 of 9, Cost of the State Route 99 Realignment Project. Mr. Jarvis replied that construction will begin later in the year on this project and we will begin to see measurements on the Construction Contingency ratio at that time.
- Mr. Rossi requested to add a page that defines the acronyms.
- Mr. Richards asked about the contract of Caltrans and what exposure the Authority has relating to cost. Mr. Morales responded that it is a lump sum contract with Caltrans. They are responsible for delivering it to the Authority in the amount the contract was negotiated. Mr. Jarvis added that the only exposure the Authority would have is if change orders were approved.

Current Issues

- Mr. Rossi commented that the financial data continues to be excellent and going forward the reports will be on an exception basis. Mr. Rossi stressed the importance of the audits and wants to get updates on responses and when issues are going to be fixed.
- Mr. Morales commented that as the Authority moves into the project delivery phase the Legislature is moving into an oversight phase. The oversight reports will be developed to make sure that the Authority is providing the right information. Mr. Correa asked if both reports can be done together.

Meeting adjourned at 9:38 am.