



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES**

**April 14, 2015**

**Hiram Johnson State Office Building  
Monterey Room  
455 Golden Gate Avenue, San Francisco, California**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority Board met on April 14, 2015 at 12:00 pm in the Hiram Johnson State Office 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. 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:

- Mr. Rossi inquired about the contract management audit, how the implementation of the corrective actions was coming along, and if the audit of the remaining third of the contract managers had been initiated. Ms. Rivera identified that implementation was going well, with training held in March that was well attended with good discussion. The audit of the remaining contract managers will be initiated at the same time as the follow up audit.
- Mr. Rossi requested a summary page that identifies the audited unit, remaining issues, and the status of implementation.
- Minutes approved.

**Agenda Item - Financial Reports – Russell Fong**

Questions asked and answered. Issues discussed included:

- Accounts Payable Aging Report - Mr. Rossi asked if it was correct that HSR did not have any aged invoices. Mr. Fong confirmed that was the case. Mr. Rossi complimented the staff for doing a great job on this report. He commented on the progress that has been made in the past year as aged invoices

were a significant issue a year ago.

- Executive Budget Summary - Mr. Rossi inquired about Legal and Project Management being forecasted to be over budget, and if there was a plan to remain in budget? Mr. Fong explained the cause of the overage is some staff were hired at a higher step and Department of Finance funds positions at mid-step. Mr. Rossi would like it footnoted. Ms. Selby inquired if we have the ability to correct the issue next year. Mr. Fong explained that the most recent 35 positions were funded at the higher step.
- Capital Outlay Budget Summary - Mr. Rossi asked if the assumptions are reasonable. Mr. Fong explained that the 33% spending is an 11% increase over last month. Mr. Rossi inquired if the change is a one-time blip or a trend, and Mr. Fong replied that it is both. Mr. Richards had a specific inquiry on Page 6 and requested an explanation of what the Systems Study is. Mr. Fong stated that the System Study is the environmental studies needed to bring electrification to HSR.
- Total Project Expenditures with Forecasts – Mr. Corea asked why there was no information for San Diego or Orange County. Mr. Rossi explained that San Diego isn't in Phase I. Mr. Fong explained that the report is broken out by environmental sections. Mr. Morales identified that Orange County is included in the Los Angeles to Anaheim section.
- Contracts and Expenditures Report – Mr. Fong identified that the Small Business expenditure percentage had dropped to 17.96% from last month's 18.25%. Mr. Rossi noted that expenditure fluctuations are expected in the early stages. Ms. Selby inquired if we could figure out the cause of the decrease. Mr. Fong explained that the figures on the report are based on actual expenditures and will fluctuate monthly. As construction activities increase, we anticipate this percentage to also increase. Mr. Morales further explained that the contracts have a 30% commitment throughout the time period of the contract and the report is as of a point in time.
- Projects and Initiatives Report – Mr. Rossi inquired about long-term leased vehicles on Page 3, why there was an orange diamond and an upward arrow, which signified that corrective action was needed. Jeff explained that Agency had signed off on the vehicle leases and now were at Finance for signature. Mr. Rossi reiterated that if the report identified that corrective action was necessary then the corrective action should be included in the report.
- Mr. Fong provided a list of acronyms to the Committee members. Ms. Selby also requested a copy. Mr. Rossi identified that he expects the list of acronyms to be in the binders each month.
- Mr. Fong provided an update of the FCS. Expenditures were at 7.8% of the \$6.34B budget, and are currently at 8.5%. Additionally, 21.2% of ARRA funds have been expended.
- Mr. Rossi inquired if there was a Right of Way update, and Mr. Fong identified that an update would not be provided at this meeting. Mr. Rossi requested a full update at the next meeting.

#### **Agenda Item – Audits Division Update – Paula Rivera**

Questions asked and answered. Issues discussed included:

- Preaward Review - Mr. Rossi noted that the same issues keep coming up, and asked from a managerial sense, what can be done. Mr. Richards expressed concern that it appears there is an effort on the consultant's part to charge more than they can support. Mr. Morales explained that firms may do work for a variety of public clients and the rules may be different between agencies. Mr. Rossi asked if the Authority has identified what rules will be followed. Mr. Morales affirmed that we have. Ms. Selby added that as a small business it is often difficult to know how to interpret and apply the rules even if you are aware of what they are. Ms. Rivera mentioned that most of the findings are with firms that don't have experience with the Authority, and we weren't seeing repeat findings for firms we have previously evaluated.
- Contract Management Audit Update – Mr. Morales identified that, per the Committee's request, the auditors interviewed the staff involved in the contract management of the design build contract. Ms. Rivera explained that the auditor had interviewed Authority staff as well as contracted Project

Construction Management staff regarding their contract management of the design build contract. At the working level, the contract management seems good. There are weekly meetings to review deliverables, monthly updates to the schedule, and a monthly “over the shoulder” review of the invoice. However, we did find instances where the design-build contract falls into the first finding of the contract management audit that processes and roles and responsibilities have not been fully implemented.

- Third Quarter Status – Mr. Rossi inquired why the hours were reduced for the Incurred Cost audits. Ms. Rivera identified that it was a resource issue. Mr. Rossi explained that he doesn’t want to short-change audits and staffing should never be an issue. He wants the issue addressed in 90 days. Ms. Rivera explained that resources was identified as an issue previously and they met with Mr. Morales and they decided that the best course of action was to contract out specific audit services to a small business. However, it was necessary to identify what the three year effort would be, and since these are services already provided by state employees, that Caltrans, the State Controller, and the Department of Finance would need to be solicited to see if they have resources available to perform the audits. Ms. Selby asked if we’ve had any special requests, and if those hours could be used. Mr. Rossi explained that it wouldn’t help, without available staff there isn’t anyone to do the work.

### **Agenda Item – CP 1 Project Update – Jon Tapping**

Questions asked and answered. Issues discussed included:

- CP 1 Performance Metrics - Mr. Rossi noted that there is nothing really new to discuss. Mr. Morales added that the Legislature will be performing additional oversight and the Authority will be using these same reports to provide to the Legislature.
- Right of Way Weekly Status Report – Mr. Rossi noted that there is a lot of work to be done. Mr. Richards added that the CP 2-3 schedule seems aggressive and inquired if potential right of way delays were included in the Monte Carlo analysis. Mr. Tapping affirmed that they were included. Mr. Rossi asked Mr. Tapping if he was confident that the CP1 contract contingency is sufficient given right of way progress to date. Mr. Tapping identified that it will be a challenge to meet the targets, but that right of way delay uncertainty is accounted for in the undated Monte Carlo analysis, and that he is confident that the current contingency amount is sufficient. Mr. Rossi identified that there will be highs, and lows, but it is better to look at what is probabilistic. The Authority will really need to bend the curve to be successful. Mr. Morales explained that the report is outdated, as of March 20. As of today 150 parcels have been delivered, with an additional 20 able to be delivered for CP 2-3 upon contract execution. In addition, there are 36 parcels from Union Pacific that we should have within two weeks. Mr. Rossi noted that the process is accelerating at an accelerated rate due to the lessons learned in CP 1. Mr. Morales agreed that many things have been learned in CP 1. Ms. Selby inquired if the acceleration will continue. Mr. Rossi added that there will be greater acceleration in CP 1, but CP 2-3 will benefit from the improved process.

### **Current Issues**

None discussed.

**Meeting adjourned at 12:55 pm.**