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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
July 22, 2015**

**California High-Speed Rail Authority
770 L Street
11th Floor, Room 11A
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on July 22, 2015 at 10:00am.

Committee Board Members Present:

- Mr. Michael Rossi, Chair
- Mr. Tom Richards

Board Members Present:

- Mr. Lou Correa
- Mr. Daniel Curtin

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
- Ms. Deborah Harper, Chief Administrative Officer
- Mr. Robert Magnuson, Chief of Communications/External Affairs
- Ms. Paula Rivera, Senior Management Auditor

Parsons Brinckerhoff Staff Present:

- Mr. Gary Griggs, Project Manager

Minutes prepared in the order items were presented during the meeting

Agenda Item – Minutes from May 2015

- 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:

- Mr. Richards asked on the Summary of YTD Budget and Expenditures if it will show that the budget was met thru June. Mr. Fong replied yes. Next month's August 4th meeting will have the year-end close for the FY 2014-15 budget and the reports for the Authority's FY 2015-16 budget.
- Mr. Correa asked about the Executive Budget Summary page 5 footnote #1 "Salaries/Wages and Benefits are projected to be over budget due to a 2% General Salary Increase (GSI) and the need to hire above mid-step hiring range." Mr. Fong replied the State of California gave all departments a 2% increase for their salaries adjustments. The PTA loan did not increase to cover the 2%. Instead of getting an additional loan, the Authority managed within its budget to cover the 2% increase in salaries. The Authority has received the 2% increase in its FY 2015-16 budget. Mr. Correa asked about being over budget by the 2% plus what additional amount. Mr. Fong replied that the Department of Finance has historically given the Authority the mid-step for every position. The Authority does not have many entry level positions and typically hires people with more experience therefore most hiring are above the mid-step. Going forward there will be a much more balanced budget due to receiving the high-step range for recently added positions. Mr. Correa asked if Mr. Fong could quantify the exact or approximate amount. Mr. Fong replied that page 8 of 21 shows the total budget for the entire department. As an overall organization, the Authority will be under budget for salaries but some divisions are a little higher due to a need to hire at a higher step.
- Mr. Rossi commented that the inconsistencies in the way the math that is calculated in budgets needs to get fixed for next year. Mr. Fong replied that it will be fixed by the next meeting with the new budget.
- Mr. Richards asked about the FTE vacancies and why they are high. Mr. Fong replied that all the vacancies are being advertised or actively worked on. It's more of a matter of process that's the cause. Exams are needed in order to proceed with the recruitments. Mr. Rossi asked what the cause was of the 25% to 37.5% increase in the Executive Office vacancy rate. Mr. Fong responded that page 16 of 21 shows the total vacant positions compared to the prior months vacant positions. The high vacancy rate for the Executive Office was caused by 2 new positions, in Risk Management, being added to the FY 2014-15 budget. Ms. Rivera added that there was an auditor starting today. Audit Services is also bringing on 2 Caltrans on-loan staff starting August 10th and 2 retired annuitants with one starting August 27th and one without a starting date. Mr. Richards asked if the retired annuitants are full time positions. Ms. Rivera replied that the retired annuitants are part time positions where each retired annuitant can work up to 950 hours per year. The 2 retired annuitant positions will function as a full time position.
- Mr. Rossi requested a Right-of-Way (ROW) report at the next meeting that will show any potential reforecasts. This presentation will be an in depth analysis of ROW and what the impacts are. Is the Authority still within the contingency with ROW? Mr. Fong replied that the Authority is analyzing the current forecast and will have a 12-month forecast on reports going forward. He added that Mr. Tapping's group is working on an updated CP 1 contract contingency risk analysis. Mr. Rossi asked if Mr. Tapping's analysis will be completed before the next meeting date. Mr. Tapping said yes but parts of the analysis contain legal information. Mr. Morales added that the Authority has surpassed 300 parcels and based on the availability of the parcels, TPZP will be deploying on multiple sites with construction work. The construction phase continues to ramp up based upon the availability of parcels.
- Contracts and Expenditures report, Mr. Fong stated that since we started tracking our small business ratio back in February we have gone from 16.19% to 18.92%, increasing each and every month.
- Mr. Fong commented on the Projects and Initiatives Report that FI\$CAL has officially been delayed. We will have critical functionality and go-live on December 9th as the new scheduled date. One of the challenges in the financial office is over 8,000 hours of training has been tasked amongst 43 staff from March to July. This has had a tremendous impact on the financial office.
- Mr. Rossi asked about the impact on ROW with the cancelling of ROWMIS. Mr. Fong responded that the system would have helped the Authority manage acquisitions and will give better data of what is actually acquired. Mr. Tapping added that the management system did not meet the Authority's terms and conditions. Now the Authority is working with the Rail Delivery Partner (RDP) on the ROW

management system that is meeting the Authority's needs. Mr. Rossi asked about the RDP management system. Mr. Tapping replied that it is an information management tool with all the ROW data. Mr. Rossi asked who is in charge of this ROW system. Mr. Griggs replied that Parsons Brinckerhoff is assisting and setting up the management systems. Mr. Rossi asked what the RDP system software is and how does it work? Mr. Griggs replied that he does not know the specific software. Mr. Richards asked who uses it in other applications successfully and why does the Authority think it will benefit from it. Mr. Morales stated that it is a data management system and not ROW specific and a full report will be made on it.

- Mr. Rossi commented that Mr. Tapping, as Risk Manager for the Authority, is not to brief for anybody in future Finance and Audit Committee meetings due to potential conflict of interest issues.
- Mr. Rossi commented that those that are responsible for information provided to the Finance and Audit Committee need to be present.
- Mr. Rossi asked about the Programmatic Standards update and who is responsible for it. Mr. Morales responded that the Director of Engineering, Kevin Thomson, is responsible. These are the standards that the Authority puts into contracts to make sure that the designers are meeting specifications that are based on external standards.
- Mr. Rossi asked about the Document Management System and the upcoming milestone "State Archives is conducting an inspection of the Authority's current records in storage in an effort to update the Authority's Record Retention Schedule." Mr. Fong responded that our solution is to have a document management control system. It will keep the data in an efficient manner that will standardize how all documents are saved. With all the different firms working for the Authority there needs to be standardized forms to document, track and keep all of the Authority's records retained. Mr. Rossi asked if this was done and if it's done, will it make public records act easier? Ms. Harper responded that it is done. The states record center came out and reviewed the Authority's documents to make sure that we are complying with rules and the retention policy will be uploaded for public viewing. The Authority must make sure that process is in-place and it complies with the records retention schedule. The Authority is actively hiring a records manager that will work with both the RDP as well as all of the Authority staff to ensure that we are all following the record retention policy with the document management system. Mr. Rossi asked if the Authority has not been retaining document appropriately. Ms. Harper responded that the Authority has been following an old record retention policy. Mr. Rossi asked if the old policy is in sync with other policies. Mr. Morales responded no. The Authority has retained documents longer than required. Ms. Harper added that the Authority needs to ensure that all of its contractors follow the document retention policy. Mr. Rossi directed Ms. Rivera to audit the process.

Agenda Item – Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Mr. Rossi asked about the pre-award. Ms. Rivera replied that the Authority completed a pre-award of the RDP contract. This report is slightly different from ones done previously as the findings were grouped by firm as opposed to by topic. Mr. Richards asked why we continue to see the same results. He said that he thought that the Authority was going to set up an orientation or training program for people who want to do consulting work so we don't have proposals submitted that would appear to be government work so they see how much they could possibly get away with. People are submitting salary ranges that are not supportable. Ms. Rivera made a presentation to the Business Advisory Counsel and let them know what the Authority is looking for and what rules to follow. There's also slides in the prebid industry forum meetings with this information. There's also a document thru Federal Highways that refers to these types of Audits that are on the Authority's website. The Authority is reaching out to small businesses to inform them on what's expected. Mr. Richards commented that these do not relate to small businesses, they relate to the prime consultant Parsons Brinckerhoff. Ms. Rivera responded that the first finding for Parsons Brinckerhoff is mostly instructions to the contract manager. They have a number of pay grades. The instructions to the

contract manager are to make sure when new employees are brought on, the pay rate meets the range in the pay grade. It's not an issue but the contract manager needs to know that we verified those ranges and the ranges are reasonable. Mr. Richards asked if all the small businesses are under Parsons Brinckerhoff's contract. Ms. Rivera replied yes. Mr. Richards asked if it is Parsons Brinckerhoff's responsibility to make sure that before submitting that they are compliant with the Authority's requirements. Mr. Rossi stated that going forward Parsons Brinckerhoff will not let this happen again.

- Ms. Rivera stated that the Single Audit for the 14/15 fiscal year has been initiated and it is the federal compliance portion. The auditor was here before the end of the fiscal year to gather background information and there will be a team that comes back in October or November. This audit is an annual audit that's done on behalf of the feds that make sure the Authority is compliant with the rules and requirements of the grant. Mr. Rossi asked if we audited it within the last 90 days. Ms. Rivera replied that the last audit ended in March. The Bureau of State Audits (BSA) performed the audit last year and issued a report in March. Ms. Rivera added that she had an update based on a request of Mr. Richards to update on the findings to be sure they have been addressed. One finding was we weren't reconciling our reporting to CALSTARS. We prepare a quarterly report that goes to FRA, we use information from the accounting system to prepare that report. These are the total invoices submitted, and payments received based on source documents. At the end we weren't going back and reconciling to make sure that nothing was mis-posted. The recommended we reconcile to CALSTARS before we submit the reports. That process is in place and is in effect for the reporting period ending June 30. Mr. Rossi asked how long it takes to reconcile. Ms. Rivera responded it's fairly time consuming. Mr. Rossi replied that is exactly the right thing to do. As the Authority begin to do more and more of this stuff, more and more contracts, he needs to know if we have enough auditors. Mr. Rossi stated that he wants to be overstaffed on auditors. Mr. Morales responded that reconciliation is done by Mr. Fong's department. Mr. Fong replied that this was discussed a couple of months ago, we were actually pushing back because we actually do reconciliation. CALSTARS only has a portion of the overall data, but because it is in statute that we reconcile to the financial system we are using, actually in my mind we are reconciling twice, it is a workload issue, reconciling twice. However, it's a workload issue that satisfies the audit. Mr. Rossi asked how do you do it twice. Mr. Fong replied that CALSTARS has only a piece of the data we use and we reconciled to the actual warrants issued using a State Controller Office report. We were reconciling. Ms. Rivera stated that the other finding was related to prevailing wage (Davis-Bacon). We have staff in Fresno reviewing weekly payrolls on construction contracts and we had draft procedures that we were using. The auditor objected to those not yet being finalized, and they have been finalized. Last year's findings have been addressed. This year's audit was initiated in June. Mr. Rossi asked if we know exactly what they're going to audit. Ms. Rivera replied yes. Mr. Rossi asked if everything they are going to audit the Authority audited already. Ms. Rivera replied that we have not audited already that would have been a duplication. Mr. Rossi asked of what. Ms. Rivera replied that the purpose of the single audit is to have a single audit that everyone relies on. Mr. Rossi stated that you don't want a bad audit ever. So if someone comes in, an external auditor coming in to audit, in my shops, my internal auditors have already audited that. So I already know the answer so I don't get a bad audit. I don't want an outside auditor finding stuff we didn't find. We are the Authority; we have to run different, don't want to be Caltrans light. When people come in from the outside, we audit first. We aren't depending on their audit, we are depending on you. Mr. Correa agreed.

Agenda Item – CP 1 Project Update

- Mr. Correa asked about page 1 of 2 of the Monthly Status Report and was noticing the key points, second page, parcel acquisition is behind, dates specified in the ROW acquisition, continues to be a schedule risk, jump ahead because Jeff you were talking about parcel acquisitions, figure out how your comments fit into this change in status. Mr. Morales responded, one we've been very clear about the early delays in getting ROW we're making progress now on getting through that. The schedule risk is in fact a risk and we're managing it as a risk. At this point we don't have certainty that we have a delay

or what that will amount to, the work that Mr. Tapping is doing through the Monte Carlo analysis is to quantify that risk so that we can manage it so that we can say that we are within contingency. From a management perspective we're working with the contractor to mitigate the risk, the original schedule was put in the RFP, when the contract was advertised so that all the bidders could bid against common schedule, we made assumptions how they would build a 30 mile stretch. Mr. Correa asked if where we are at right now is within acceptable risk. Mr. Morales replied yes. Mr. Correa replied that he called Rudy Salas who jumped on as a coauthor with Andy Vidak's bill as part of the frustration that his constituents in his area are expressing, particularly the Hormel issue, any update on that? Mr. Morales replied that the alignment that was selected impacts the Hormel property, two things effected the actual hog farm and the associated feed mill. We've been able to work through to make some adjustments to avoid making impacts on the hog farm and now the issue is the mill. We have not been able to come up with a fix to avoid the impacts and now it's a mitigation question. We're working with them and UPRR to relocate the feed mill. Mr. Correa asked if Mr. Salas is being appraised. Mr. Morales replied that he doesn't know offhand of the last time we spoke with him and he will double check. Mr. Correa stated that he will follow up with Mr. Salas today personally so if there are any updates/information, to let him know.

- Mr. Rossi commented that we have 7 major locations that are parceled up through at least the end of the year, so we're ok with CP 1 as we sit, analyzing where we're going to be, and that all are negotiating as quickly and efficiently to ensure that as the schedule is re-casted, as these things come off, we'll be able to meet the construction needs of the contractor. Mr. Rossi asked if that is a fair statement of where we are. Mr. Morales replied that is a fair statement. The Authority's goal is to have the contractor work to keep up with the Authority as opposed to the other way around.

Current Issues

- No current issues.

Meeting adjourned at 10:49 am.