



DRAFT
FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
NOVEMBER 18, 2014

Sacramento County Board of Supervisors Chambers
700 H Street, Hearing Room # 1
Sacramento, CA 95814

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on November 18, 2014 at 8:00 AM.

Committee Members Present:

Mr. Michael Rossi, Chair
Mr. Tom Richards

Authority Staff Present:

Mr. Russell Fong, CFO
Ms. Paula Rivera, Audits
Mr. Jeff Morales, CEO
Mr. Dennis Trujillo, Chief Deputy
Mr. Tom Fellenz, Chief Counsel
Mr. Scott Jarvis, Deputy Chief Program Manager
Mr. Jon Tapping, Risk Manager

Minutes prepared in the order items were presented during the meeting.

Agenda Item – Minutes from November 2014

Meeting minutes with one correction, clarification; approved.

Agenda Item – Financial Reports – Russell Fong

Questions asked and answered. Issues discussed included:

- Accounts Payable Aging Report – Mr. Rossi indicates fantastic report, other than footnote two (Disputes: \$88.3k owed to Government Agencies, \$4.17M to URS, and \$76.5K to other vendors), are we getting closer to resolving the dispute. Mr. Morales indicates yes, we are hopeful to have resolution by the end of calendar year 2014. Mr. Richards agrees the report looks really good.
- Cash Management Report – Mr. Rossi questions the cumulative cash balance graph at the bottom of the page where the dollars ramping down. Mr. Fong indicates it is an appropriate balance with management; it should not become a concern. When bond sales take place the the balances will go up. Mr. Morales points out the balances will

go up the beginning of next fiscal year. Mr. Richards questions cash balances, not able to see the end dates for both the schedule above and the graphs below. Mr. Fong indicates the top portion indicates what our expenses will be and the two charts below are a more accurate representation of what we have projected and indicate the actual expenditures. CalStars is represented by the red line on the cumulative cash balance chart.

- Summary of YTD Budget & Expenditures – Mr. Rossi points out Administration fixed expenditures, all three are less in percentage and all are based on fiscal year completed, is that because of the way we budgeted or is it a timing issue? Mr. Fong says it's completely a timing issue. Usually the first and second quarters experience a lag, the third quarter is when we actually catch up. Currently, we are at 18 percent at the 25 percent mark of the year. Last year, at this time, we were at 16%. The "rent" for the year is more invoicing because it is cash based. Mr. Rossi states we should footnote that, what the reasons are, so it is clear. Mr. Fong indicates such footnotes will be on the next report. Mr. Richards says either that or we should deal with expenditures on an accrual basis because that is the only way to get a reasonable indication of whether or not we are tracking with our budget, otherwise this doesn't track with the budget in any way and as the summary stands, will continue to have questions about it.
- Executive Budget Summary – Mr. Rossi requests clarification regarding the current 2014-15 year forecasts. Mr. Fong indicated the budgets are set at the mid-range level for each position. The Department of Finance gives us positions and budget salary at the mid-step level. However, we do occasionally hire at the higher level and that's the difference in the budget. At the end of the year, we will move funds to make sure the department, as a whole, stays within the budget. Mr. Rossi points out on page five the similar problem and doesn't understand how we can reflect an increase in salaries. Mr. Fong indicates if looking across the department as a whole, it is a little high because of Caltrans staff on loan. If you take out the approximate one million dollars in loan staff, we are close to the state average between the salaries and benefits. Mr. Richards says he has the same tracking issues and wonders were we not informed there would be a 2 percent general salary statewide increase? Mr. Fong says we knew there was going to be an increase. The Department of Finance will increase the state department's budget at the end of the fiscal year. Mr. Rossi brings forward concerns regarding the 2014-15 Position Summary and Vacancy Reports, primarily the Financial and Program Management Divisions. Mr. Fong indicates the Financial Office hired two internal candidates and the other two vacancies staff left for promotions to other departments. We are actively recruiting to fill those positions. Mr. Jarvis indicated Program Management made recent progress and are down to eight vacancies, a big portion was due to waiting for the senior environmental planner exam to be given by Caltrans who recently established a list so we've started advertising for those positions, similar we have a management environmental planner and supervisor positions which lists have also been recently established and the recruitment process is underway. There are also two exempt positions in Program Management that we are actively recruiting for also. The goal is to hire as quickly as we can; now that lists have been established we will be able to bring those positions in. Mr. Rossi asks for a timeline to fill positions which Mr. Jarvis indicates

realistically will take approximately 60-90 days to fill and have new staff on board. Mr. Fong will have timeline added on the next report. Mr. Richards has no issues.

- Capital Outlay Budget Summary – Mr. Rossi seeks clarification between the Cap & Trade funds (purple and green line indicators) what is the difference? Are we able to get to our projections? Mr. Fong indicates these are larger invoices, it reflects the amount of time to receive and approve an invoice and the actual submittal; we are working on speeding up the process to close that gap. Mr. Rossi would like to get a better feel from Mr. Morales if we are going to start moving in a direction more rapidly? Mr. Richards indicated a tentative conclusion that the concerns have to do with right-of-way, the speed of the design and design build, and feels this is of major concern because it goes into risk analysis, that we are behind schedule in areas, especially in regards to right-of-way, and thought the design build process would be farther along and agrees with Mr. Rossi's concerns and is also concerned this will drag us further behind. Mr. Morales would describe it as if we are revving our engines but haven't taken our foot off the clutch yet, however, we are about to engage and move forward much more aggressively. To add to right-of-way and design, we have to receive state, federal and local permits, all of which are preparatory work that isn't as visible. Right-of-way has always been our leading risk; management is difficult and we are doing that in a number of ways. We are giving management the resources they need to address the issues, working with the design builders to make sure that we are in alignment with priority and the coordination with other agencies to continually improve the process. We have a lot of property to acquire, we have had some issues that will not be repeated such as delays in funding; we will provide a full report in January but between now and then we will be meeting with the design builder to rebase-line based on the status of right-of-way and the status of their design work. We established a right-of-way design build in the RFP based on our assumptions; however, they have a difference in assumption related to timing and sequence, the schedules won't align so we are going to meet in December to go through the alignment process. We have worked through many issues with the Public Works Board and the Board has approved bringing on 8 new consultants to do the work. We now have about 1/4th of all parcels needed for CP1 in possession and about another 1/4th possession in about 30-days so we will start to see it ramp up the next 3-6 months and the trend start to change. We will have the award of CP2-3 which will also start to kick-in and result in progress, and right-of-way. We have support from other agencies and Bryan Kelly who is pushing us forward and to rely on CalTrans for additional PY resources they have committed to providing. Mr. Fellenz met with their Chief Counsel who is working on providing additional legal resources in three areas; CP2-3, Right-of-way and environmental permitting which will be very helpful to us. They have a couple positions they will dedicate to this project. Mr. Richards asks if we have Right-of-way staff that are on the ground and stationed in the CP1, CP2-3 areas as opposed to moving back-and-forth from Sacramento. Mr. Jarvis confirms we do have staff at both project locations and we do have positions identified we are hiring for this fiscal year and a manager we will place in Fresno and more staff there as well, working very closely with the design build contractor. CalTrans also has right-of-way agents that will be dedicated to the program and

located in Fresno as well. Mr. Trujillo indicates we have gone through two rounds of training with the consultants to make sure they are able to not only carry out the nuts and bolts of the procurement process but answer general questions of property owner's in the field; we have shifted to a task order performance base process so that it is a much stronger incentive for them to get through the process quickly. We are initiating the resolution process fairly quickly and reach agreements. We have a fair number of properties where the property owner is not known or available so we have to go through the RON process to bring them to resolution. The overall message is that it is a risk area and will continue to be a risk area that we have to manage aggressively and we will continue to do that and start to see the fruits and a different trend over the next few months. A report and full presentation will be provided in January, including the RM014 study. Mr. Tapping added that 3/4th of the issues were identified in the initial analysis. We are moving forward with the updated CP1 contingency analysis.

- Total Project Expenditures with Forecasts – Mr. Rossi indicates it looks like this continues to be okay and asks if there is anything that they should be made aware of on this report. Mr. Fong states no. However, brings attention to the bottom of report where it reflects total liability of \$350M; what you see on the left is what the state owes currently (match with the Feds) and if you look at the right side it monitors what we actually paid. Last year we paid we paid about \$102M and we are tracking it. Mr. Richards had nothing to add.
- Contracts & Expenditures Report – Mr. Rossi is fine with the percentage differences already explained. However, to be clearer, forecast expenditures should reflect dates. Mr. Richards indicates he looked carefully at the small business percentages. Mr. Fong confirms we are still focused on this area and indicates every year we are required to report to the Department of General Services our small business goals and performances. This report tracks the number of contracts per fiscal year and percentage of small business participation. Different numbers presented at the last meeting only included CP1 contracts, not the entire enterprise. There may be some numbers out there that are relatively small because some of the contracts were executed prior to the 30% goal. Mr. Richards clarifies if these contracts expire, they will be redone. Mr. Fong indicates as they expire they may be re-procured at 30 percent. Mr. Morales clarifies we've reinserted the goal; we cannot go back and capture the prior period, however, on a prospective basis it's applied. It is confirmed for Mr. Richards that AECOM is still in contract, however, infrequent use.
- Projects & Indicatives Report – Mr. Rossi indicates the report looks good; on page 2, under "Long-term Leased Vehicles Project" it indicates the number of proposed fleet acquisitions of 18 leased vehicles was denied and a new request for 5 was submitted. Mr. Fong indicated we submitted a request to the Department of General Services and it was denied. Mr. Trujillo indicates there is an executive order to reduce the states fleet and procure from cooperative state agencies for excess fleet vehicles they have which is the process we are involved in right now. We will receive the number we need however we have to go through a different process to acquire the vehicles needed.

- Summary of Financial Reports – Neither Mr. Rossi nor Mr. Richards had comments or anything else to add.

Agenda Item - Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- First Quarter Status report
 - Mr. Rossi inquired about Contract Management, priority # 1 of the Audit Plan to see if it is on schedule, which Ms. Rivera confirmed.
 - Mr. Rossi also inquired about Design-Build Oversight, priority #3, and seeks an explanation for the “process in place.”, Ms. Rivera indicated we are going to take a look at the design-build contract provisions, as well as take a look at the processes in place, to determine if Authority employees are allowing the contractor to be responsible for the things identified in the contract. Because we have yet to complete such review it is hard to estimate how many hours (1,000), however, her thought is three staff for three months. Mr. Rossi indicated he is surprised at the amount of hours based on the number of projects we have going on.
 - Ms. Riviera confirmed the Year-End Close Review, priority #4, is on schedule and expects a report in December with no problems closing on time; this is a review of the State Controller’s Office process.
 - For the Preaward Reviews, priority #5, the benchmark is based on auditing processes at other state agencies. Mr. Rossi questioned if this is our best practice, and Ms. Rivera indicated it is not a requirement, but, is a best practice to take a look at the cost proposals for contracts where cost is not a determining factor in selection to be sure we have a reasonable cost proposal before moving forward, instead of waiting until the end, completing an audit and taking money back. Mr. Richards sought clarification on the lined-out Right-of-way acquisition preawards. Ms. Rivera indicated it was due to a change to our original plan, there is no pre-award associated. Mr. Richards is in agreement with Mr. Rossi in asking Mr. Morales to determine if this is the best we can or should do.
 - Incurred Cost Contract Audits, priority #6, Mr. Rossi asked if this is a regular report. Ms. Rivera noted not at this time, due to staffing, however the plan is to start with regional consultant contracts and work on those in the spring of 2015.
 - Draft Agreement Review, priority #7, Mr. Rossi asked if there are unresolved issues. There are no significant issues according to Ms. Rivera.
 - Prompt Payment Follow-up, priority #8, is a process which resides with the financial office; a report was issued a couple years ago and we are following up to see the recommendations were implemented. Mr. Morales indicated that Mr. Fong’s group provides management training for things that would deal with issues such as prompt payments, on an on-going basis.
 - Mr. Rossi moved on to the Small Business Follow-up, priority #9, and questioned if we need 250-hours to oversee this issue? According to Ms. Rivera it will depend on how many small business utilization reports have been filed, and may only take 80 hours.

Agenda Item – CP1 Project Update – Scott Jarvis

Questions asked and answered. Issues discussed included:

- CP1 Monthly Status Report –
- CP1 Performance Metrics –
- CalTrans SR 99 Project monthly Status –
- ROW Project Summary – Mr. Rossi indicated it looks straight forward to him. Mr. Richards has no issues.

Current Issues – No additional issues were brought forward.

Meeting adjourned at 10:00 AM.