



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES  
June 14, 2016**

**California Department of Veterans Affairs (CalVet)  
1227 O Street  
Medal of Honor Hall  
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board  
met on June 14, 2016 at 8:00 am.**

Committee Board Members Present:

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

Authority Staff Present:

- Mr. Jeff Morales, CEO
- Mr. Tom Fellenz, Chief Counsel
- Mr. Russell Fong, CFO
- Mr. Jon Tapping, Director of Risk Management and Project Controls
- Mr. Scott Jarvis, Chief Engineer
- Ms. Paula Rivera, Chief Auditor
- Mr. Mark McLoughlin, Director of Environmental Services
- Mr. Paul Engstrom, Third Party Manager
- Mr. Alan Glen, Director of Real Property

Rail Delivery Partner Staff Present:

- Mr. Gary Griggs, Program Director

Minutes prepared in the order items were presented during the meeting

**Agenda Item – May 2016 Meeting Minutes**

- No comments.

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

- None.

**Agenda Item - Financial Reports –**

Questions asked and answered. Issues discussed included:

- **Accounts Payable Aging Report** – Mr. Rossi asked about the aged invoices. Mr. Fong replied that the aged accounts payable represented one invoice that was two days late.
- **Budget and Expenditures Report** – Mr. Rossi asked if the savings at this stage continues to be timing. Mr. Fong replied that we are waiting for a few interagency invoices so it will catch up. We will be under budget this year partially due to the vacancies we had at the beginning of the year.
- **Projects and Initiatives Report** – Mr. Rossi asked if the expanded Projects and Initiatives report will be prepared by the August meeting. Mr. Griggs replied yes. Mr. Rossi asked if there are any current concerns that are not reported. Mr. Griggs replied no.
- **Operations Report** - Mr. Rossi commented that the Operations Report due in August should give us a better understanding of how we will catch up to the spend rate that is required. It will tie in ROW, third party, budget and expenditures.

**Mr. Fong read this prepared statement:**

- As the CFO of the Authority, I am tasked with ensuring the quality and timeliness of the financial and performance data. Currently the Authority is operating in dual accounting systems: CALSTARS which has been the primary book of record for this fiscal year, and FI\$Cal which the Authority has been actively implementing. At this point in time the only way to ensure the timely, accurate financial and performance reporting to all of the Authority’s stakeholders is to continue to have CALSTARS be the book of record for the FY 2015/16.
- The following are the core reasons the Authority must operate in dual systems until FI\$Cal can be fully implemented: 1) Each month, the Financial Office must produce project financial and performance reports for the Finance and Audit Committee. These board reports rely heavily on the data contained and reports produced in CALSTARS. In order to ensure the continuation of the board reports and the data contained therein, the Authority has continued to operate in CALSTARS until FI\$Cal can be proven to provide the information that the Financial Office needs to be able to produce the reports. 2) The Authority has received approximately \$3.4 billion in federal grant funds. The Authority relies upon CALSTARS to produce a quarterly Funding Contribution Plan (FCP) amongst other deliverables to the FRA. The deliverables rely on project spending data and expenditures that are reconciled with CALSTARS reports. Similar to the board reports, the Authority must continue to rely on CALSTARS to help complete the federal deliverables until FI\$Cal has the necessary data and can be proven to provide the information necessary to be able to complete the deliverables. 3) In order to produce the financial and performance reports for our stakeholders, the Authority financial system must have access to historical data of the Authority. FI\$Cal contains limited data only as far back as FY 2014/15. With FI\$Cal lacking prior year and previous fiscal years, the utilization of CALSTARS is an absolute necessity in order to provide the consistent, confirmed historical data in one location.
- Wave 2 of the FI\$Cal project was initiated for the Authority in August 2015. For well over a year the Authority has had a FI\$Cal project team dedicated to the efficient, accurate and timely transition of the Accounting, Budget and Contract records from CALSTARS to the FI\$Cal system. The team consists of 7 full time consultant staff, and 1 full time Authority staff. In addition, 2 additional consultant resources spend significant amounts of time on the FI\$Cal implementation as well as a litany of Financial Office staff from the Accounting Office, Contracts Office, Budgets and Grants. The team meets on a weekly basis with FI\$Cal management to go over progress, outstanding issues and to review current and future timelines. Currently, FI\$Cal and the Authority are finalizing month end close for FM1, fiscal month 1 which is July of the current fiscal year. According to FI\$Cal, as of June 1st, more than half of the wave 2 agencies that complete their own financials have not formally closed and reconciled FM1 and each subsequent fiscal month. The Authority team met with the FI\$Cal implementation team in February 2016 to discuss the plan to stay on CALSTARS until the Authority was able to complete ‘catch-up’ transactions and confirm confidence in the output of the data and ability to compile financial and performance reports. FI\$Cal management and team members were

present and all agreed that this was the proper path for the Authority. Although tremendous progress has been made to date on the FI\$Cal implementation, the Authority needs to continue on CALSTARS until data catch-up is complete and proper validation is completed to ensure accuracy and integrity. The Authority intends to run parallel systems until November or December, after operations in FI\$Cal have met certain conditions. The Authority is committed to running FI\$Cal as the book of record in the near future. Given the current status of the Authority's FI\$Cal implementation, the most appropriate way to prepare for and provide accurate and timely data for the FY 205/16 year-end close is to use CALSTARS as the first system to close and then subsequently produce the year-end close statements in FI\$Cal as soon thereafter as possible. The Authority is currently engaging with the appropriate oversight agencies (FSCU/FI\$Cal) to discuss the options.

Mr. Richards asked for the reason of reading the prepared statement. Mr. Fong replied that it is to make sure the Finance and Audit Committee is aware that we are running 2 systems. The reason we haven't switched over to FI\$Cal is because it does not contain historical data. Mr. Rossi asked when FI\$Cal is actually functioning if will it have the historical data. Mr. Fong replied that FI\$Cal will have data only as far back as the go-live date of 7/1/15, since historical data is not being converted. In the future, FI\$Cal intends to provide access to the data through another platform, but the historical data is not being converted and imported into FI\$Cal.

- **Operations Report** – Mr. Rossi commented that the ROW acceleration will not make up the volume shortfalls. The issue of critical mass is more important than actual parcels. ROW should start looking from the perspective that allows the contractor to build in a fashion that still allows us to meet timeframes and reduce the potential cost as a result of delays on our side. ROW should start to look into critical mass. Mr. Morales agreed and added that the way we are managing the contract starting with CP1 and now with CP2-3 is working directly with the contractor on a parcel by parcel basis that drive key construction and how the parcels tie to work that they can get underway. We have been working with managing that process on CP1 for two years and it is the reason we have been able to get as much construction going as we could. The focus is to get the large structures underway with long lead time and high cost. With CP1 the contractor has been very adaptable in terms of going to work out of schedule based on the availability of parcels. We are adjusting constantly based on where the work can proceed. The project managers overseeing the delivery of each of the elements have the parcel by parcel list, the schedule and how it feeds into the ARRA expenditure rate. Mr. Rossi added that the way we report the parcels makes all parcels equally important. Mr. Richards suggested reporting with a schedule of parcels, which would define progress based on priorities. Mr. Griggs added that we would like to highlight the critical parcels as part of the report. We will be giving a detailed report on that in August.

Mr. Rossi asked on page 4 if there are dates for the probabilistic analysis updates. Mr. Tapping replied that he will get back to the Committee with the dates (Follow-up: On June 14, 2016, Mr. Tapping advised the Finance and Audit Committee that the updated ROW probabilistic analysis for CP1, CP 2-3, and CP4 parcel delivery is underway and is planned to be complete in July, 2016; a supplemental risk informed ROW analysis specifically focusing on "construction critical" parcel delivery is planned to be complete in August 2016). Mr. Richards asked if there is anything with third party that should be brought up to the Committee. Mr. Griggs responded that at the last Finance and Audit Committee we submitted a third party financial report. As we were updating the numbers for this report we noticed slight discrepancies in the numbers we reported. The invoiced to date costs were less than we reported at the last Finance and Audit Committee meeting. We are resubmitting that report. Mr. Richards asked how not having the Master/Cooperative Agreements executed is affecting the construction progress of CP2-3. Mr. Jarvis replied that the third parties have the right to review the design plans of the design builder. If our facilities are encroaching upon the right of way and facilities of third parties and design

builders need to get their plans approved, we need the third party agreements in place to do that. It's not critically affecting the project yet, but at some point it will. Mr. Morales added that we are asserting state sovereignty where necessary if we are not able to reach agreement. Our preference is to reach a negotiated agreement which we have done in every other county along the route. There are advantages to both sides to have an agreed upon approach for going forward to ensure that we have their cooperation and they have the benefit to evaluate the potential impacts. We have made adjustments throughout based on county input. If we can't negotiate an agreement we do have the authority to move forward on state property. We won't delay that work in the absence of an agreement.

Mr. Richards asked if there are any concerns with environmental that should be brought up to the Committee. Mr. McLoughlin responded that we are working on project definitions and having meetings with engineering and executive staff to understand what we want to build and what we want to operate. Mr. Morales added that with the decision with the business plan to go north we need to clear the Wye. There have been many alternatives and complications with the Wye. The Wye is critical and we need to make sure we do not fall into patterns we've seen in the past with repeated requests for additional alternatives and variations of alternatives. The key to this whole process is discipline throughout. The problem in the past is we have not fully identified or understood the implications of looking at other alternatives in terms of impact on schedule and cost. Mr. Griggs commented on pages 32, 36 and 39 of the Operations Report that the footnote for the Central Valley Wye and Bakersfield F Street Station Alignment environmental work was part of the Purpose and Need and the Alternatives Analysis achieved under the Fresno to Bakersfield EIR/EIS. Mr. Griggs commented that page 50 was originally characterized as "Third-party Expenditures" and is really "Third-party and Other Expenditures".

Mr. Morales commented on contingency and ROW. A few weeks ago Kings County announced it would not appeal the ruling. There was an impact of that litigation. With the execution of the CP1 contract and setting the contingency we identified the potential impact on ROW as one of the most significant factors on the \$160M contingency that was set at the time. Starting with the execution of the contract, we had to balance out the issue of proceeding in order so we can spend Federal funds. We issued a series of limited notices to proceed in order to contain the risk and make sure we didn't get out ahead of our ability to meet our obligations of the contract. The impact on the CP1 contract schedule was determined by the contractor, and we reviewed the effect to be 24 months of impact on the contract. It won't show up yet in the contingency reports but we will be drawing down on the contingency as was identified at the beginning of the contract to cover the time extension of the contract. The impact on the project schedule from the litigation and from other factors was 24 months. What we have agreed with the contractor is a contract extension of 17 months. That is the amount of time that it will take beyond what was originally scheduled in order to complete the work. We have agreed to the cost of that extension as \$49M. That's within the contingency that was allocated. It's below the mean cost risk that was projected. We are executing the change order this week that will push the completion date of the CP1 contract from March 2018 to August 2019. As part of the agreement the contractor will make up the additional seven months through acceleration of work. We anticipated this and we worked to manage it. This has no impact on budget because it is within the contingency levels and it has no impact on the program schedule. This change order takes into account all delays up to the end of 2015 so this brings us current.

**Agenda Item – Audits –**

- No discussion

**Agenda Item – CP 1 & 2-3 and SR-99 Project Update –**

- No discussion

**Current Issues –**

- No discussion

**Meeting adjourned at 8:45 am.**