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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
August 9, 2016**

**Department of Health Care Services
Conference Room 72.165
1500 Capitol Avenue
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on August 9, 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 – June 2016 Meeting Minutes

- No comments.

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

- None

Current Issues –

- Mr. Fong stated that we are going to present to the full board the year-end budgets for FY 2015-16 and

the new FY 2016-17 Administrative and Capital Outlay budgets. The FY 2016-17 Administrative Budget went up 2% due to the newly established audit positions. The difference between the FY 2015-16 and FY 2016-17 Capital Outlay Budgets was a 9% decrease to align with the 2016 Business Plan. The Capital Outlay Budgets for the total project had a 22% increase mainly due to the bookends being added to the project pending approval of a funding plan and the alignment with the 2016 Business Plan.

Agenda Item - Financial Reports –

Questions asked and answered. Issues discussed included:

- **Executive Summary** – Mr. Rossi asked on page 3 why “the Administrative Budget is at 78% of budget expended with 100%” is an issue. Mr. Fong replied that the 78% represents the year-end percentage for FY 2015-16. Since this is the year-end report, I wanted to highlight this percentage. It’s not a negative issue. Mr. Rossi asked on page 5 if there are any concerns with the 17 caution items. Mr. Fong replied not at this time.

Agenda Item – Audits –

- **Internal Quality Assessment for Fiscal Year 2015/2016** – Mr. Rossi asked for an overview of the Audit Internal Quality Assessment. Ms. Rivera responded that the audits meet standards. There is still work to be done to comply with the Audit Manual. The checklist shows where the files do not document the audit work that was done. There are documentation issues to address. There may have been an exit conference and there may have been a draft report that did not make it in the final set of work papers. Mr. Rossi asked if there’s a closing checklist for the audit findings. Ms. Rivera replied yes. Ms. Rivera added that her first concern was that standards were being met. The next concern is that we are providing a service and that we can document the work that we have done. Mr. Rossi stated that he is concerned with the internal audit process because the head of the department does not sign off on the closing audit checklist. Ms. Rivera responded that is something that needs to be addressed. These issues were identified and we will have a report next month to show how they have been addressed. Mr. Rossi asked on the Audit Division Finding Summary for Fiscal Year 15/16 if “corrected” means that every one of these issues have been corrected. Ms. Rivera responded that we issue the audit and we get a response. The Program says that the issues has been corrected or addressed. A year later there will be a follow-up so we can see if the issue has been corrected. What’s listed as corrected on the Audit Division Finding Summary is based on the Program’s interpretation of what corrected is. Mr. Rossi asked for a footnote description of “corrected”.
- **Audit Plan for Fiscal Year 2016/17** – Mr. Morales noted that we received 6 new audit positions. Four of the 6 have been filled. This plan assumes full staffing. Ms. Rivera added that we are actively trying to fill the vacancies with interviews scheduled this week. Mr. Richards asked what happens at the board meeting regarding the audit plan. Ms. Rivera replied that the audit standards require that the board approve the audit plan. Mr. Richards recommended that the Finance and Audit Committee recommend approval of the audit plan to the board. Mr. Rossi agreed.

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

- Mr. Rossi stated that nothing looks too troubling and it’s still early for these metrics. The Current Value on page 4 of 10 is in red but that is understandable. Mr. Jarvis replied that there is an upward trend with the Current Value where spending is starting to increase. Mr. Jarvis added that we did execute the major change order to resolve all delays on CP 1 through 2015. A big reduction in the contingency balance is shown in the Operations Report. Mr. Rossi asked if we are comfortable that the remaining contingency is enough. Mr. Tapping replied yes.

California Build High-Speed Rail Report -

- Mr. Griggs stated that at some of the last Finance and Audit Committee meetings we have been

discussing how we are addressing maximizing construction and looking at approaches in regard to right of way. At the Committee's request we have put together this report to show the actions that we have been taking in that regard. Also, we are tracking the ARRA spend closely and will report on that. Mr. Morales stated that the program update is something we have been working closely on with the FRA. Mr. Griggs stated that we have met and exceeded the ARRA spend for the first 2 quarters as shown on page 2 of the ARRA Spend Year-to-Date. Page 3 is a summary of the total amount of expenditures through June of 2016. We have expended 65% of the grant award with full expenditure expected by June 2017. The grant deadline is September 2017. We want to get the invoices in with lead time for payment so everything is cleared out by September 2017. Mr. Richards asked about the deadline for the delivery of invoices. Mr. Morales replied that the statutory deadline for submitting the invoices and getting paid is September 30, 2017. With the FRA we set June 30, 2017 as the target to ensure that everything is in the pipeline for payment. That gives us some time to ensure the statutory deadline is met. Mr. Rossi asked if the probability was run on meeting the \$2.55B forecast by June 2017. Mr. Tapping responded that we have done a risk overlay and we are involved in some of the assumptions that are in the analysis. Mr. Griggs noted that page 4 is based upon the March 2016 funding contribution plan. We have just submitted the June 2016 funding plan and are in the process of reviewing that with the FRA. The June 2016 funding plan will give us additional help. Under Amendment 6 we have been allowed more project development money to be eligible against the ARRA spend. Mr. Richards asked when that will be updated. Mr. Morales responded the update is quarterly. Mr. Griggs explained that slide 5 gives a summary of how we plan to get to the \$2.55B. The \$8M for project development is low because prior to the latest amendment on the grant agreement we were almost expended on project development costs compared to what was eligible. One of the changes we made in the amendment allows us to have more project development money brought forward. Mr. Morales responded that it was not an eligibility issue, it was a cap. The costs were always eligible. There was an internal cap within the grant that could be spent on different categories. Mr. Rossi asked how it is determined what the cap should be. Mr. Griggs responded that it was negotiated in the original grant agreement. Mr. Griggs commented that page 6 gets into the construction areas where there is some uncertainty as we go forward. For CP1 we are projecting a spend of \$157M, CP2-3 a spend of \$233M, CP4 a spend of \$118M, and SR-99 \$16M. The areas that need to be focused on are CP1 where we have the largest amount of construction under way. To do an analysis of how we are projecting the costs we did some historical assessments of how we have performed up to date. Page 7 shows where we worked with the contractor to identify 10 priority locations. This is where we see the best opportunity to get the construction up to the level that we need. We have done an analysis showing what the contractor's construction forecast were, what the remaining costs are, and an assessment of the right of way parcels. We have identified 41 critical parcels that are being tracked very closely. They are critical for construction to proceed or complete. Footnote number 3 is from an assessment of the risk perspective of the 41 parcels done by the right of way team. We will use that as the basis to do our assessment going forward for getting construction completed. CP2-3 is the other area we are pushing forward as much construction as we can. We did a similar analysis for CP2-3 looking at what the contractor forecasted and what we were looking to achieve as part of the ARRA spend which is \$233M. On slide 10 the best case projection does not get to the ARRA target. We have a concern here that we are looking at. We have identified 5 priority construction locations. We know here we have more of a challenge. Mr. Rossi commented that \$390M is needed to surpass the ARRA goal and \$368M is what is projected. On page 11 the most likely scenario is that we will exceed the ARRA goals by \$19M. Somewhere \$41M is being picked up. Mr. Griggs responded that on page 11 we point out that short fall. Right now CP1 and CP2-3 most likely won't get us to the point that we want to get to. We point out that we have other sources of expenses that are very secure, in particular right of way. Just with the addition of right of way alone we are going to achieve the ARRA goal. Mr. Rossi replied that the important part to answering the question of whether or not we can achieve the ARRA spend is defined if there's a clear path to achieving the goal. There is a series of mitigating options that can fill

in gaps if they do occur. Mr. Morales added that the work behind the program update is done daily. We don't have the July numbers in here yet but we know they were very strong. Page 2 the average expenditures per month is \$96M and with July we are forecasting to be over \$100M. The trend lines of our expenditure rates are moving up. We are not comfortable. A lot has to happen to make this work. We are on a path and there is a very viable and realistic path to make sure we get there. We update where we are in the balance every week so we know on a real time basis exactly where we are and what's in the pipeline. We have worked with the FRA to track two numbers. One is the invoiced and paid numbers out of FRA, so we know at any point in time where we are at in that target. Second is the work that we have in the pipeline that they can't see yet because it's coming to us from the contractors and then from us to the FRA. That is how we are managing against the June 30, 2017 deadline. Mr. Rossi asked if this is being presented to the board. Mr. Morales replied not in full detail. In the quarterly report the plan is to update slides 2 and 3. We weren't going through the full detail on this. We just recently submitted the updated funding contribution plan. What might make sense is to build on this and present it on next month's board with the updated numbers.

Current Issues –

- No discussion

Meeting adjourned at 9:05 am.