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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
July 18, 2017**

**Department of Healthcare 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 July 18, 2017 at 8:30am

Committee Board Members Present:

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

Authority Staff Present:

- Mr. Tom Fellenz, Interim CEO
- Mr. Russell Fong, CFO
- Mr. Jon Tapping, Acting COO
- Mr. Scott Jarvis, Chief Engineer
- Ms. Paula Rivera, Chief Auditor
- Mr. Mark McLoughlin, Director of Environmental Services
- Mr. Paul Engstrom, Third Party Manager
- Mr. Jeff Mathews, Acting Director of Real Property
- Ms. Patty Nisonger, CIO

Rail Delivery Partner Staff Present:

- Mr. Roy Hill, Chief Program Officer

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

Agenda Item: May 10, 2017 Meeting Minutes

- No comments.

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

- None.

Agenda Item: Financial Reports

Executive Summary

Mr. Rossi welcomed everyone. Mr. Rossi requested that Mr. Fong begin the discussion with the Executive Summary. Mr. Rossi stated he would then like to focus on four areas as a result of reading all of the July Report data versus going over each individual report. Mr. Richards agreed.

Mr. Fong started with key points on the financial reports. We continue to have some challenges with year-end this year. As you know, we are the largest department on FI\$Cal. The State Controller's Office, who we work extremely close with for year-end close, is not on FI\$Cal. They are still on the old system so that means we are doubling up on our work and doing things on a manual basis. FI\$Cal has experienced quite a few outages this last month so it has been pretty challenging for the staff but they have been working weekends and we are doing the best that we can. The good news is that I think FI\$Cal, once we get the kinks out and everyone is on it, will be a much better system. The challenge is just getting everyone on the same page.

Mr. Fong stated that he was happy to report that we have zero aged receivables for six months straight, kudos to the accounting team. Our Prop 1A cash is \$1.3B. Mr. Fong moved onto Cap and Trade. At our May auction, we received \$128M this year, which is back up to the normal. We currently have \$884M in Cap and Trade funds.

Mr. Fong moved on to the Executive Budget Summary. At 92% of the year completed, we have spent 70%, which is about \$30M. Last year we were at 66%, which is about even. If you remember, you asked about three months ago, where we thought we would be at this time. That is exactly what we thought. Our vacancy rate went down a little bit. We are currently at 14.6%, which means we have thirty-three vacancies out of the 226 positions we currently have.

Mr. Fong moved onto the Capital Outlay Budget. We are at 92% of the year. We have spent 53% (\$1.2B) of our \$2.2B budget, which is consistent with where we were last year. For Total Project Expenditures, for ARRA, we have spent 100%. We spent the \$2.55B. We have about \$210M pending FRA approval. Once that is complete, we will have spent the entire \$2.55B. Mr. Rossi asked how much of the \$210M is being reviewed from the perspective of not being acceptable to the FRA? Mr. Fong replied that we believe that all \$210M will go through. Mr. Rossi replied ok. Mr. Fong stated that we usually don't submit anything unless we are positive. If something does come back, it is usually for more definition or details. Mr. Richards asked that if something did come back, do you have anything else to submit? Mr. Fong replied yes, we have quite a few pending and that he feels pretty comfortable that we will hit our goal of total expenditures by the end of this month. Mr. Richards replied ok.

Mr. Fong moved onto the Contracts and Expenditures Report. We currently have \$5.4B in contracts and purchase orders. Our Small Business Utilization Rate remained at about 19%. For our Project and Initiatives Report, we have fourteen reds, fifteen yellows, six greens, three on hold and five that are pending milestones. The good news is that we completed six of our initiatives, for a total of 49 total initiatives. Of the red, a vast majority are IT and I am sure we will go over that in a few minutes. That concluded Mr. Fong's highlights.

Mr. Rossi stated in reading the data there are four things that he wants to focus on today. The first is the 2018 Business Plan for a couple of reasons. First, Mr. Richards and I are going to need to know what the scheduling is so we can back into how we do all of this and get it done on time. More importantly, when you look at the Operation Reports and you look at where we are, we know a lot more

today than when we started these Operation Reports predicated on the 2016 Business Plan so they are going to have to be updated, or re-baselined so I would like to know what your thoughts are about that and where we stand.

Mr. Fong stated that as most of you know, we just went through a reorganization at the top level, moving from a planning focused organization to a program delivery focused model. Part of that, looking at it with numbers, for FY2012-13 we spent a \$151M. Every year since then, we have increased our expenditures. Last year, we spent \$1.2B. This project has spent over \$3.5B total. As I mentioned earlier, we have \$5.4B worth of contracts underway. That is why it was critical to transition to a more program delivery focused model. Part of that is the 2018 Business Plan and doing a more in-depth analysis. We will have a cost loaded and funding constrained schedule. We anticipate having that done by early September. This enhanced baseline will have costs that are specific to milestones which will increase our forecasting ability. We have had some challenges over the last couple of years in our forecasting but I think this will be a key part of ensuring that does not happen again. We will do a thorough cash flow analysis over a two-year period to ensure that we have the appropriate cash to meet our expenditures throughout this 2018 business plan process. We will also have more specific details to help match and tie together our variances that may occur for both cost and schedule. This will create more oversight and governance for our reporting, enhancing the forecasting side.

This will also provide a benchmark so when we ask for additional funding requests or contract changes, it will be much more clear who is accountable and who is in charge of those requests. I do think overall we will have a much more enhanced baseline than we have had in the past. Part of that reason is because we are spending quite a bit and the project has grown quite a bit. Mr. Rossi commented that we should have had this from day one. It is good that we are getting it all in place so we are not constantly trying to catch up to where the numbers are. Mr. Rossi again asked about scheduling. When is the final draft due to Lisa Marie Alley to get appropriately proofed, edited and ready to go? Mr. Fong replied that we have delivery of the cost loaded schedule in early September. We will work with the Board to find out what comes out of that and work on the strategy and what the business plan is actually going to say. That is the key milestone.

As far as the dates for Board review, we will have the baseline to you the first week of September. The first draft will be out in October, the second draft in November and the third draft in December, which is a lot quicker than it was two years ago. Mr. Fellenz commented that the draft is due in February so we will give the Board ample time to review prior to that so that you can start looking at drafts that are produced at that time. Mr. Rossi asked for a schedule of meetings to be sent to him and Mr. Richards. Mr. Fong replied yes, he will send it. Mr. Rossi asked if Mr. Richards had any questions. Mr. Richards replied no.

Mr. Rossi moved onto the second issue he wanted to go over, IT. As I look at where we are per the plan and the thirty day goal that was given thirty days ago, clearly it is not going to be met. Where are we? Have we addressed the approach we have taken to date, clearly it has not worked. Have we addressed it and corrected it? Or are we in the process of correcting it so that we have fixed our approach, from the perspective of doing the right kind of analysis, getting the testing done, getting everything done in a matter that is efficient and standard for IT projects today? What are realistic delivery dates?

Ms. Nisonger replied we are pushing the project methodology and project management best practices. We are doing it on an individual project basis and it is taking a significant amount of executive leadership to push those standards. I believe there needs to be a change in approach to bring in someone who is already more familiar with conducting a project in that manner. Mr. Rossi asked if

Ms. Nisonger was doing that. Ms. Nisonger replied that she has spoken with Mr. Hill and Agnes Otto. We will need to develop a scope of work to know exactly who we should bring in. Mr. Rossi replied ok. Ms. Nisonger replied that as for the dates, she is a little skeptical as to the dates that were provided in the final report. Mr. Rossi asked what a little skeptical means? Ms. Nisonger replied that with the amount of historical performance, the amount of roadblocks and issues that we will face to deliver those. Mr. Rossi asked what the roadblocks are. Ms. Nisonger stated she considers the Cost Management System to be the top priority and it will certainly help with the manual entry work Mr. Fong reported is done in his group. That system has a significant amount of data cleanup to get ready to go, data formatting to make it available in the system. Roadblocks to that seem to be resource availability. They did just add two resources that I believe are starting this morning, but I understand that the data takes a significant amount of forensics. In other words, it is not just like seeing it and putting it in. They have to figure it out and map the data. We are pushing on a regular basis, in fact, meeting again this afternoon to ensure that they are continuing to progress. The timeline estimate was provided by the folks who are actually doing the work. Again, with the pushing and attention, September 29, 2017, which is the current planned go live date, I don't think it is impossible. I am just skeptical because of the amount of problems they have had in the past in getting the amount of data that they are working on ready for a new system. Now, I am going to discuss this afternoon with the team that is working on it some options to ensure from a business perspective that the're truly options that are workable but I am going to start exploring that this afternoon. I will also have to engage Mr. Matalaka and Mr. Fong in this discussion.

Mr. Richards asked as you see it, what would you say the realistic date is? Ms. Nisonger replied that she did not want to toss another date out there that just might not be valid. I think September 29, 2017 is as good as any date she could come up with. What Ms. Nisonger would promise is that if that date needs to move she will provide full transparent reasons to what the hold ups are. Mr. Richards replied ok. Ms. Nisonger added that this is something that has not always been clear in the past.

Mr. Rossi asked how many people do we have working on the forensics? How many days and hours a day do they put in a week? Ms. Nisonger stated she didn't have that data off hand and asked Mr. Hill if he did. Mr. Hill replied the total number of resources working on IT programs is forty-nine. Mr. Rossi stated he expected the Forensics to be done in 6 weeks maximum. 3 weeks more likely. Mr. Hill will confirm today how many are working on forensics. Mr. Rossi stated he wants the forensics done and if we can't get this done, nothing else is going to happen. Let's get a timeframe for that and let's lock it down.

Ms. Nisonger replied Contract Management is also moving forward and having some challenges but not quite the same. Ultimately, I personally believe that in all cases the root is the lack of planning upfront and that has generated all the problems at the backend. Mr. Rossi agreed. Mr. Nisonger stated for Contract Management the roadblock at this point of time is specific requirements as to how the system is supposed to work and what it is supposed to address. We did meet late last week to discuss a little bit of a change of strategy as far as using a couple of specific contracts to get the system configured and running and then address the outliers where those don't fit. That is the path that we are following now. Mr. Bill Grimsley is one of the key sponsors of that effort and he has just identified an individual to work with us as dedicated to the effort to get that system moving along. I am getting more comfortable with progress on that particular system as well. Those two are my top focus right now for the organization. Mr. Rossi said ok and that sounds right.

Mr. Rossi moved onto his third issue, EIR. Mr. Rossi asked if we have fixed the reporting issues on this exercise? Mr. Rossi stated he is worried about the fact that it seems we are taking a little longer than we need to on the important ones, the ones that we need to get done for the construction that we are doing now. Clearly the dates are slipping as Mr. McLoughlin said they would and they are. Do

we also have a more realistic view as to delivery dates? What is the status? Mr. McLoughlin stated that we have requested that the regions provide updated schedules based upon timeframes of review currently with FRA. We started that exercise in mid-May and we just received those about a week ago. Mr. Rossi asked if Mr. McLoughlin had received all of the schedules. Mr. McLoughlin replied yes. Mr. Rossi asked why did it take so long to receive? Mr. McLoughlin replied he could not say, the regions are supposed to provide the requested scope and budget with that and we have yet to receive all of the budgets associated with those schedules. Mr. Rossi asked who in the regions are providing the information? Mr. McLoughlin replied the directors of projects and the project managers. We are trying to get to the end of reviewing and re-baselining. Mr. Rossi asked again why did it take so long to receive? Mr. Fellenz replied that it should not take this long. Mr. Rossi asked it that is taking care of? Mr. Rossi asked Mr. McLoughlin if we are still working on the budgets? Mr. McLoughlin replied yes. Mr. Rossi asked is there a reason why that was not done? Mr. Hill said that we have established the schedule and that was the first pass at the schedules for this activity which shows how it comes together with the FRA approvals. We can produce a rough cut of cost schedules now and those will be done by August which will reflect in new schedules. I am hesitant to issue any financial information out in raw data because it has not been scrubbed and it has not gone through the assurance process. If we issue that, there is a high probability that it will change and it will look as if it is wrong but in fact that is the natural process of assuring it, coordinating it, integrating it. I am in the process of doing that now. So that is where we are with the schedule and when budgets come through we will integrate them. It is all part of the detail baseline buildup and we will have integrated schedules and costs to reflect that. That is the process we are going through. Mr. Rossi said that was fair and that makes sense. Mr. Rossi wanted to know why we continue to let people not deliver things in a timely fashion. Is that over with? Mr. Hill replied yes, that is over. Mr. Rossi commented that a timely schedule has to be defined by an agreement between whoever is delivering and whoever is receiving on a date on the outset. Mr. Hill replied that we have set those time schedules for this new baseline and very clear input requirements that will go back to each discipline whether it is Environment or Right of Way, etc. Everyone will sign off on that collectively rather than individual pockets. We have set up a new organizational structure. This is part of the focusing of resources and I can assure you that occurrence of things not happening will cease. Mr. McLoughlin commented that he was following the original schedule of three months ago and the schedule changes, implications of budget, scope and costs.

Mr. Rossi asked if all of this is going to get done in a timely fashion for the re-baselining? Mr. Fellenz and Mr. Fong both replied yes. Mr. Richards asked that when you have a schedule on the dates that you have agreed upon, would you forward a copy of the dates to Mr. Rossi and myself. Mr. Fellenz replied yes, we will.

Mr. Rossi's moved onto his fourth question. With the new reorganization, there are new policies and procedures. Mr. Rossi asked if Ms. Rivera was comfortable with what she needs to audit the operational changes. Do you have any concerns about staffing? Ms. Rivera replied not at this time but she has only seen the front page of the new organizational chart. She would need to see more detail. Mr. Rossi replied ok and asked to include Ms. Rivera as these changes are made. Mr. Fellenz replied yes, he will include Ms. Rivera and will make sure that she has everything she needs.

Audits

Mr. Rossi asked if Ms. Rivera had anything she needed to go over. Ms. Rivera replied no.

Final Thoughts

Mr. Rossi commented that as you go through all of this, what it tells you is that everything looks good, except that it is not. We need the new baseline. It does not mean it will not look good. It means that at this stage, we have reached the period in a two-year period where this data is done against a budget that has become almost out of date. We do need to get this done and as Mr. Hill said get it all integrated, scrubbed and get it the best that you can get it. Mr. Rossi thanked everyone for those efforts and stressed that need to get IT squared away as soon as possible, because nothing else works in a rational way. It just takes too much labor and is too prone to error. We need to make sure we are on top of EIR. Those dates have clearly slipped for at least five of the ten and continue to slip.

Mr. Rossi thanked everyone for coming.

There were no further discussions and meeting adjourned at 8:50 a.m.