

High-Speed Rail Authority

2015 SLAA REPORT

December 31, 2015

Brian Kelly, Secretary
California Transportation Agency
915 Capitol Mall, Suite 350-B
Sacramento, CA 95814

Dear Mr. Kelly,

In accordance with the State Leadership Accountability Act (SLAA), the High-Speed Rail Authority submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Russell Fong, Chief Financial Officer, at (916) 431-2929, Russell.fong@hsr.ca.gov.

BACKGROUND

The Authority's mission is to build the nation's first high-speed rail system.

Established in 1996 as the California Intercity High-Speed Rail Commission, the successor agency, the Authority is responsible to plan, design and operate a high-speed train system that provides an efficient, safe, sustainable and reliable transportation option for the people of California.

The Phase 1, 500-mile system will provide safe, reliable high-speed electrified trains that link the major Bay Area cities to the Central Valley and Southern California. The system will provide interfaces between high-speed trains and major commercial airports, mass transit, and the highway network to enhance mobility and relieve capacity constraints of the existing transportation system in a manner sensitive to and protective of California's environment and unique natural resources.

In November 2008, the voters of California passed Proposition 1A, the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century which provided \$9.95 billion in general obligation bond funds for planning, design and construction of the system. Those funds are to be used in conjunction with \$3.3 billion in federal stimulus funds provided primarily under the American Recovery and Reinvestment Act. Construction on the system began in 2013.

In pursuit of fulfilling its mission, the Authority performs the following functions:

- ensuring the state receives outstanding expertise in all phases of the rail project development and construction for the best value through responsible contracting
- informing the public of key issues and maintaining transparency in Authority operations
- securing funding and ensuring accountability

RISK ASSESSMENT PROCESS

Management performed an organization-wide risk assessment, with the assistance of the Authority's Audit Division, to identify potential issues that might impede the Authority's progress in achieving its goals and mission.

Executive management held a brainstorming session to discuss the risk assessment process. Individual meetings were held with executive management to identify administrative risks that face the Authority. The Audit Division grouped risks together based on areas of focus.

The risks were evaluated by executive management as to their potential impact and probability of

occurrence. Based on the risk evaluation, current risk levels were assigned to each risk in order to prioritize the allocation of resources, ensure the mitigation of the highest risks and identify those risks that are outside of management's control. A meeting was held with executive management to obtain additional detail on the high impact and high probability risks identified to document existing mitigating controls, and corrective actions.

The risk assessment performed by executive management was focused on administrative risks. Program and project risk assessment is performed by the Risk Management Division. The Authority has a robust Risk Management Program, which provides the Authority with a formal, systematic approach to identifying, assessing, evaluating, documenting and managing risks that could jeopardize the success of the project. These include specific engineering, environmental, planning, right-of-way, procurement, construction, organizational, stakeholder, budget and schedule risk, or any other potential inability to deliver the required results. The Risk Management Program's objectives are to:

- Systematize the process by which the Authority responds to circumstances that could increase the cost or significantly delay or halt the Program
- Increase transparency regarding challenges to project plans and objectives
- Capture project opportunities
- Satisfy legal and regulatory requirements and meet the needs and expectations of other stakeholders
- Rationalize allocation of resources including cost and schedule contingencies

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Organizational Structure

Lack of clear roles and responsibilities was identified as a risk to the Authority. Unclear roles and responsibilities affect the efficiency of our internal processes, and are due to the rate at which the Authority has expanded in recent years.

Internal controls to address the clarification of roles and responsibilities includes the hiring of a management consultant to develop an organization structure for the Authority that will integrate the Rail Delivery Partner with Authority staff including the reporting relationships, and roles and responsibilities two to three levels down from the Chief Executive Officer.

In addition, the contracted Rail Delivery Partner is developing an integration strategy. The strategy is being developed in conjunction with executive management, and is based on documenting the roles and responsibilities for activities within the California High-Speed Rail Program.

Also, the Authority's Quality Program meets with units within the Authority, as requested, to facilitate the development of RACI (Responsible, Accountable, Consult, Inform) documentation which describe the major steps in a process and identify which program area(s) are responsible for the step, who the responsible party is accountable to, who should be consulted with before moving to the next step, and whom to inform of the result.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

The Authority faces the risk of key person dependency, which affects the Authority by placing reliance on a specific person for their knowledge of the program, and is due to the small number of Authority staff in place during the first few years after funding was made available.

Policies and procedures have been developed as staff have been hired so knowledge is not concentrated with an individual. Also, the Authority is in a unique position with the Rail Development Partner integration, that a short-term void in a key position can be filled with the consultant counterpart should a key person leave the Authority.

In addition, a Training Officer was hired and will be drafting a succession plan.

Exit interviews for key staff will require a transition memo.

Operations- Internal- Communication

Internal communication was identified as a risk to the Authority. Ineffective or inadequate internal communication affects the efficiency of our internal processes, and is due to the rate at which the Authority has expanded in recent years.

One of the Authority's goals is to recruit, develop and retain an energized and informed workforce, which includes communicating program progress, news, and needs clearly, timely and effectively. Controls have been implemented to address inadequate internal communication and include hot topics meetings for program staff, project section meetings for functional staff, creating a single location for Authority policies and procedures available to all staff, a twelve-month board agenda items tracking and forecast report and meeting, and onboarding meetings to introduce the project elements to new staff.

The Authority has hired a management consultant to be responsible for identifying improvements to our organizational and governance model, which will allow communication to be more effective.

Proposed controls include implementation of an intranet to facilitate access to information for employees.

ONGOING MONITORING

Through our ongoing monitoring processes, the High-Speed Rail Authority reviews, evaluates, and improves our systems of internal controls and monitoring processes. The High-Speed Rail Authority is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of High-Speed Rail Authority, Jeff Morales, Chief Executive Officer, is responsible for the overall establishment and maintenance of the internal control system. We have identified Mark Robinson, Quality Manager, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Authority is deploying a performance process utilizing performance criteria from the National Institute of Standards and Technology. The Authority Quality Management Team is trained as performance examiners. The Quality Management Team has a work plan that involves engaging each functional area over the course of each year to enhance individual performance scores and of the entire high speed rail program.

The Risk Management Team monitors identified risks and reports to the California High-Speed Rail Board and the Board's Finance and Audit Committee in public meetings on a regular basis.

The Quality Management Team monitors organizational performance with the performance evaluation process each winter and reports annually with a report due on December 31st. Throughout the year, the Quality Management Team engages each functional area to discuss strengths and Opportunities for Development (OFI) to develop action plans.

Reporting and Documenting Monitoring Activities

The performance evaluation process involves a meeting of the integrated functional area teams

facilitated by the Quality Management Team to develop a response to performance excellence criteria of the National Institute of Standards and Technology (NIST). The Quality Management Team scores the responses according to the NIST methodology and compiles all scores into an annual Performance Evaluation Report. The identified risks are incorporated into the discussion to ensure that results are achieved, lessons are learned and improvements are made when necessary.

The NIST performance criteria are focused on results and effective metrics. As metrics are developed by each functional area, they will be added to an organizational dashboard for display.

Procedure for Addressing Identified Internal Control Deficiencies

Dashboard metrics will support data-driven decisions by managers and for accountability by staff, managers and as an organization. When a dashboard metric changes, the manager will be alerted and will address the change in a timely manner. Positive changes are worthy of note for potential continuous improvements and best practices. Negative changes are worthy of note for investigation, corrective actions, and additional resources.

Dashboard metrics can be used as the primary topics for management meetings and support effective and timely reporting. Dashboard metrics can be reported to all levels of the organization and broad availability of the data supports accountability.

CONCLUSION

The High-Speed Rail Authority strives to reduce the risks inherent in our work through ongoing monitoring. The High-Speed Rail Authority accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Jeff Morales, Chief Executive Officer

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations