December 31, 2019

David S. Kim, Secretary
California State Transportation Agency
915 Capitol Mall, Suite 350-B
Sacramento, CA 95814

Dear Mr. David S. Kim,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the High-Speed Rail Authority submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Pam Mizukami, Chief Deputy Director, at (916) 324-1541, pam.mizukami@hsr.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Authority's Mission, Vision, and Goals

Mission: Connect California's diverse communities and improve mobility, the economy, and the environment by delivering a functional, certified, and commercially viable high-speed rail system.

Vision: Deliver a transformative high-speed rail system by developing a world-class organization that demonstrates leadership, collaboration, diversity, and strong stewardship of public funds.

Goals: To achieve our mission, the High-Speed Rail Authority (Authority) is updating the strategic plan which includes specific goals and performance measures to track progress for each of the following goals:

- *Safety:* The safety and security of our workers, employees, and customers is first and always our top priority.
- *Stewardship:* Protect and conserve public and environmental resources dedicated to this project.
- *Performance:* Use specific performance measures to track progress and support the development of a robust culture of program delivery and accountability.
- *Transparency and Engagement:* Engage and consider input from the public and our stakeholders in an authentic, two-way dialogue to provide information about program achievements, milestones, and challenges.
- *Diversity:* Develop and support a diverse workforce fully capable of delivering this transformative project.
- *Sustainability:* Deliver a system that maximizes benefits to priority communities, protects resources and serves in the transition to a low-carbon economy.

Control Environment

Decisions are made through the governance process of decision making. Effective governance depends on:

- Applying relevant statutes and regulations;
- Defined organizational roles and responsibilities;
- Individuals knowing and understanding their corresponding duties and authorities;
- Complementary internal processes and policies; and
- Employing comprehensive program and project leadership and management.

An effective governance structure achieves:

- The accomplishment of the Authority's mission and achieving its vision;
- Stewardship of public resources to create added value, and reduce cost and associated risk;
- Elimination of organizational and functional redundancy;
- Accountability by empowering individual and organizational entities; and
- Broad-based internal and external stakeholder engagement and communication.

Within the administrative jurisdiction of the California State Transportation Agency, the Authority operates with some policy and programmatic independence. The Authority is governed by an 11-member board appointed by the governor and the leaders of the Legislature.

Board of Directors

The Board of Directors (Board) was established in 2003 by California Public Utilities Code §185020 and is comprised of nine voting members and two non-voting ex-officio members. The Board oversees the planning, construction, and operation of the nation's first high-speed rail system.

Chief Executive Officer

The Chief Executive Officer (CEO) ensures that the Authority conducts itself in accordance with applicable federal and state laws, regulations, and the policies of the Board. The CEO also ensures the Authority complies with applicable grants. The CEO is accountable for all Authority activities, responsible for communication with the Board, organizing and providing direction to the Authority to accomplish its mission, and delegating authority, as needed, to accomplish the Authority's mission.

Authority Committee Structure

The Authority maintains a structure of four governance committees – the Executive Committee, Program Delivery Committee (PDC), Business Oversight Committee (BOC), and Administrative Committee. Each committee has its own purpose, roles, organization, and operations and regularly interact with one another. The organization of these committees is necessary for the Authority to have a strong governance structure with a streamlined system for decision-making and problem-resolution processes. The PDC, BOC, and Administrative Committee report directly to the Executive Committee.

Executive Committee

The Executive Committee is the senior governance committee. Members of the committee advise the CEO, who chairs the committee, on key agency decisions and recommendations to the Board. The Executive Committee makes executive, enterprise-wide policy decisions, provides overarching Authority strategy and priorities, resolves escalated disputes, and reviews agenda items for upcoming

Board meetings.

Administrative Committee

The Administrative Committee provides governance and oversight of human resources, information technology, communications, employee engagement, administrative functions, and facilities outside of Program Delivery. The Administrative Committee ensures effective and prudent administration and support to the entire Authority.

Business Oversight Committee

The BOC provides programmatic acquisition strategy, procurement governance, and commercial oversight. It acts as the Program Baseline configuration-management control board and approves all changes of scope, timeline, and budget to any program element within the Program Baseline. This committee ensures Program Baseline compliance with federal and state regulations and statutes, and also approves any program execution or fiscal request prior to presentation to the Board. The BOC escalates issues to the Executive Committee for resolution, as needed.

Program Delivery Committee

The PDC provides governance and oversight of the Authority's programmatic execution and performance. The PDC is accountable for all aspects of program development and delivery in accordance with the Program Baseline, including scope, schedule, and adherence to budget. This committee surveils the program opportunities and risk impacts to the Program Baseline, and advises the Board, the CEO, and the Executive Committee regarding Program execution and performance.

Documenting the Control System

The Authority's success is contingent upon a clear understanding and implementation of roles and responsibilities at the organizational and individual levels. The Authority defines roles and responsibilities in the Program Management Plan; the Responsible, Accountable, Consult, Inform (RACI) matrix, and the duty statements for all Authority staff. A functional organization chart and Concept of Operations describes the Authority's organization and integrates each organizational entity. In addition, each of the four governance committees document their outcomes through published meeting minutes, which are accessible in SharePoint.

Establishing and maintaining a competent workforce

The Authority has established a Workforce and Succession Plan (PLAN-HR-01) in order to maintain a competent workforce. Workforce and succession planning is a deliberate and systematic effort to guarantee leadership continuity at every level of the organization. The Workforce and Succession Plan provides the framework to address workforce gaps and business needs, which allows the Authority to strategically position the right people in the right roles at the right time to support continued successful delivery of the Program. This plan builds upon the Authority's current workforce management practices and identifies initiatives to improve the Authority's current workforce management practices and identifies initatives to improve the Authority's ability to recruit, hire, compensate, develop, engage, and retain exceptional talent.

Information and Communication

The Chief of Strategic Communications oversees the Authority's Strategic Communications Office which includes: media relations, public records act requests, stakeholder engagement, and special projects. Special Projects Branch includes drafting of the major reports statutorily required by the Legislature such as the Business Plan, Project Update Report and Sustainability Report. Social media amplification of key news clips is managed by the Chief of Strategic Communications and the media relations section. As media inquiries come into the media relations section, staff works with program and policy leads across the organization to ensure proper and accurate messaging is used. The media relations section and special projects branch also work directly with the multimedia section for appropriate graphic and video support for specific projects and social media efforts. The media section and the Chief of Strategic Communications also work directly with the Chief Information Officer's staff to update the website and make necessary communications modifications.

The Office of Strategic Communications is also tasked with managing numerous areas of internal communication including but not limited to:

- Updating the internal intranet portal "The Terminal". Staff is currently in the process of making necessary updates and ensuring that relevant fact sheets and data are current.
- Coordinating with Regional Directors and key senior staff to ensure that proper talking points and graphics are disseminated for use.
- Spearheading an internal database for organization of speakers requests so all policy areas are coordinated and approved before speaking publicly to any groups.
- Working with policy staff on preparation for speaking engagements and Board presentations.

Strategic Communications is also tasked with creation and dissemination of the following digial newsletters: monthly construction update, small business newsletter, regional updates, and #iwillride updates. These publications serve as a primary tool for dissemination of information both internally to staff as well as externally to press, stakeholders, the Legislature and the general public.

The Strategic Communications Office works closely with regional staff and the small business team to support with presentation material, staffing and overall set up for community meetings, working groups and environmental meetings. Stakeholder engagement, including coordination with foreign delegations, is also coordinated from the Strategic Communication Office; this includes formal presentations, field tours, executive staff meetings and coordination with the California State Transportation Agency and the Governor's Office as needed.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the High-Speed Rail Authority monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:
Pam Mizukami, Chief Deputy Director.

Quality Management System (QMS)

The Authority utilizes a Quality Management System (QMS) to ensure requirements and expectations are met in a manner that supports the continuous improvement of Authority processes. The Authority's quality program describes the requirements and process for identifying, documenting, and

tracking quality and compliance-related concerns, non-conformances, and corrective action requests. The quality program uses non-conformance reports (NCRs) to document and assign ownership of the non-conformance. The Quality Management Team monitors, tracks, and reports the status of these non-conformances through resolution in a centralized tracking system and elevates critical issues through the Authority's governance system. The QMS monitors the effectiveness of the risk management and internal control systems to include how management responds to vulnerabilities. The QMS establishes and documents the organizational structure, responsibilities, procedures, processes, and resources needed to meet the Authority's quality policy and objectives described in the Quality Manual. Once the Authority resolves the non-conformance or vulnerability, the Quality management Team will close the NCR and monitor that area for future non-conformances through annual audits.

The Quality Management Team will utilize periodic meetings within the Authority governance system to ensure that the Authority addresses potential issues, documents outcomes, and communicates this information through published meeting minutes.

RISK ASSESSMENT PROCESS

The following personnel were involved in the High-Speed Rail Authority risk assessment process: executive management.

The following methods were used to identify risks: brainstorming meetings, and consideration of potential fraud.

The following criteria were used to rank risks: likelihood of occurrence, and potential impact to mission/ goals/objectives.

The Authority's Audit Office assisted executive management in performing an organization-wide risk assessment. The purpose of this risk assessment was 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 interviews were conducted by the Audit Office to identify administrative risks the Authority faces. The Audit Office grouped risks based on areas of focus.

Executive management evaluated the risks identified as to each risk's potential impact and its probability of occurrence. Further, executive management grouped high impact and high probability risk topics into the five risks presented in the Risks and Controls section below.

Executive management focused on overall departmental risks. The Authority takes fraud-related issues very seriously and implements policies and procedures in order to ensure that there are checks and balances in place to reduce the potential for fraud. Program and project risk assessment is performed within the Program Management and Oversight Branch within the Program Delivery Office. The Authority has a 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 construction, organizational, stakeholder, budget and schedule risk, or any other potential inabilitites 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, and
- Rationalize allocation of resources including cost and schedule contingencies.

RISKS AND CONTROLS

Risk: Program Delivery and Performance

Executive management identified the challenges associated with the delivery ability and performance of the program, as the Authority outlined in the 2018 Business Plan, as a risk to the Authority. These challenges stem from a lack of a unified vision for the use of available funding from the outside, a lack of participation by our federal partner, and third-party coordination that has continually changed the project scope.

Due to a significant need and competing priorities for public infrastructure in California, clear priorities of the available funding to implement the California High-Speed Rail vision have not been agreed upon. Without clear priorities, the Authority is not able to fully develop and execute a long-term "building block" approach to fully deliver the high-speed rail system.

Lack of participation by our federal partner on the project could result in the Authority not delivering the program in accordance with the approved scope, budget, and schedule.

Coordination with key stakeholders and lack of established agreements with third-party agencies have resulted in scope changes during both the environmental clearance and the construction phases. The scope changes have delayed and increased the cost of delivering the Authority's projects.

Control: Prioritization of Available Funding

The Authority has laid out a path forward for a "building block" approach to construction that enables implementation of the high-speed rail system based on the sources of funding and when that funding is available. The Authority has incorporated a detailed delivery plan into its updated master program schedule (updated Baseline) and is prepared to present that delivery plan to the Board for approval.

Control: Organizational Readiness and Capacity

The Authority is reviewing how to evolve to best move the high-speed rail program forward, including the ratio of state to consultant resources that result in the most effective and efficient organization. The Authority is developing clear organizational roles and responsibilities for its integrated team, which will be detailed in the updated Program Management Plan.

The Authority's review of the number and role of state and consultant staff will increase state staff and expertise in the management of mega-design and construction contracts, including developing a better understanding and enforcement of contract provisions.

To better align knowledge and abilities to manage risks, the Authority is also focused on advancing project development work prior to executing construction contracts, which will allow construction

contractors to utilize their construction expertise. The Authority is developing plans to deliver pre-construction work in future sections - including right-of-way acquisition agreements and utility relocation - prior to executing construction contracts. To support this vision and advance the work, the Authority has enhanced its program controls, right-of-way and third-party agreement teams.

Control: Coordination with Key Stakeholders

The Authority has strengthened its stakeholder coordination efforts at the regional, state and federal levels. At the regional and project section levels, the regional directors lead the coordination with local and regional stakeholders to address community needs and concerns related to potential impacts in their regions. The Authority holds regular stakeholder and/or public meetings to facilitate communication opportunities and build relationships between the Authority and its myriad stakeholders. The Authority CEO and Board engage in ongoing communication with legislators and state agencies to ensure they are sharing current and accurate information at multiple levels. At the federal level, the Authority continues to provide deliverables to the Federal Railroad Administration and federal agencies involved in the high-speed rail program, and to encourage the FRA to engage in the project.

The Authority has also focused on developing and executing agreements with key stakeholders impacted by the high-speed rail program. With executed agreements that include a clear scope, the Authority will stabilize its program scope, which will result in fewer delays and fewer cost increases.

Risk: Information Technology

The Authority identified IT services and solutions developed and implemented by contracted staff as a risk. An additional risk is the Authority's continued reliance on a single vendor for most IT support.

Insufficient oversight, the lack of enterprise technology standards or roadmap, a single contract for all technology support services, and a lack of documentation created by the vendor during implementation can result in service disruption due to the complexity of transition at or near the end of contract. In addition, software licenses held by the vendor on behalf of the Authority do not provide the protections contained in the state's IT General Provisions and other terms and conditions associated with a state procurement.

Control: IT Project Solutions Delivery and Software Development Lifecycle Standards

The Authority's IT Office implemented IT Project Management and Software Development Lifecycle standards and practices which require system design documentation, as well as operations and maintenance plans for all future system development. The Authority provided contracted staff guidelines and templates, and a process was implemented for submission of the documentation for review and approval of the Authority's IT Project Management Office. Application Administrators and infrastructure support staff have submitted documentation - including architectural diagrams, administration manuals, and system design and workflow diagrams - regarding contractor-developed systems developed prior to the Authority implementing these standards.

Control: Defining Roles and Responsibilities of Information Technology Staff

The Authority's IT Office has reviewed the roles and responsibilities assigned to contracted IT staff to determine where state staff could perform the work and identify roles where ongoing vendor support is needed. We also performed an analysis of the workload and identified where permanent state positions can replace contracted staff. We will work with the Administration to add staffing and to identify funding to enable the transfer of, or acquisition of, software licensing agreements and to engage alternate vendor support of the Authority's business applications in order to ensure business continuity as the existing vendor agreement ends. Additional staffing needs will be documented and the IT Office will work with the Administration on any future budget change proposals needed to reduce reliance on contracted staff.

Risk: Funding Uncertainty

The Authority has a unique funding structure with an above-average risk due to fluctuating and uncertain revenues. To date, the Authority has been funded from the following three primary revenue sources:

- Proposition 1A bonds totaling $9 billion were approved by voters in 2008;
- Cap and Trade funds through a continuous appropriation of 25 percent of state auction proceeds, approved by the Legislature in 2014.
- Federal grants from the High-Speed Intercity Passenger Rail (HSIPR) program from federal fiscal years 2009 and 2010.

Each of these funding sources presents challenges: Proposition 1A bond funds are capped at $9 billion; Cap and Trade funds are auction proceeds that are subject to variation in quarterly proceed amounts, leading to uncertainty on timing and amount of revenue; and Congress has not consistently appropriated funds for the HSIPR program, the last appropriation was in 2010. Adding to this risk, on May 16, 2019, the Authority received a letter from the Federal Railroad Administration stating a final decision had been made to de-obligate the 2010 grant, which totals $928.6 million. The Authority disagrees with this decision and has commenced legal proceeding to retain the grant.

Control: Monitoring Funding Availability

The Authority actively monitors its funding availability and forecasts expenditures to mitigate any short-term funding issues. This process includes monitoring Cap and Trade auction proceeds and working with the Department of Finance and the Legislature to gain access to Proposition 1A bond funds when appropriate.

Control: Monitoring Cash Utilization

To address Cap and Trade funding uncertainty, the Authority will track and monitor its cash utilization. The Authority also works with the Department of Finance and the Legislature on various approaches, such as internal borrowing authority and other mechanisms to stabilize the Cap and Trade funding stream.

Control: Work with California Congressional Delegation

To address Federal funding uncertainty, the Authority will work with California's Congressional delegation to restore and stabilize funding for the HSIPR program. The goal is for the HSIPR program to operate more consistently with federal highway or federal transit programs. In addition to funding stability, the federal transit program also includes the ability to enter a "Full Funding Grant Agreement," which is a commitment to fund large projects over multiple appropriation cycles. This type of mechanism would be helpful to advance high-speed rail programs across the nation.

Control: Work with Attorney General and California Congressional Delegation

To resolve risks to the federal 2010 grant, the Authority will work with the Office of the Attorney General, and the the Congressional delegation, to retain the grant.

Risk: Organizational Structure

The Authority must modify its organizational structure to reflect the workforce necessary to provide proper state oversight and meet the requirements of California Government Code section 19130.

The Authority currently employs state employees in administrative functions and many consultant employees in technical and managerial roles.

The Authority formed its new leadership team in February 2018 and has focused heavily on transitioning the Authority from a planning organization to a robust program delivery organization. The Authority completed its Program Management Plan in August 2018. This plan represents the Authority's executive team's comprehensive effort to better define roles and responsibilities for state and contract staff under an integrated program management approach.

Control: Program Management Plan

The Authority will update its Program Managment Plan on a periodic basis to reflect changed roles and responsibilities as the Authority transitions to a robust program delivery organization.

Control: Form to Function

The Authority formed a formal workgroup of executive personnel to review the Authority's workforce and develop a transition plan that will ensure proper alignment of state and contract staff to functionality, consistent with a strategic integrated approach to achieve the objectives of maximizing organizational efficiency and stewardship of taxpayer funds. The Authority will create a plan to designate contracted positions for work that is highly specialized and not generally found in state government, or is temporary, urgent, or emergency in nature.

The Authority will assign routine state government functions to state positions in accordance with California Government Code section 19130.

Control: Workforce and Succession Plan

The Authority will revise its Workforce and Succession Plan to align the Authority's leadership continuity needs with the new organizational framework.

Risk: Stakeholder Support and Engagement

Stakeholder support is key to the success of High-Speed Rail in California. Stakeholder engagement can lead to increased stakeholder support for the Project.

Control: Coordination with Key Stakeholders

The Authority continues its stakeholder coordination efforts at the local, regional, state and federal levels. Regional directors lead the coordination with local and regional stakeholders to address community needs and concerns pertaining to alignment selection, environmental impacts and mitigation efforts. Regular stakeholder and/or public meetings facilitate communication opportunities and relationships between the high-speed rail program and its myriad stakeholders.

The Chief of Strategic Communication has implemented regular meetings with key environmental, labor, and transit leads for the state of California. Under her leadership, staff keep stakeholders apprised of updates via quarterly newsletters, monthly construction updates, social media platforms, and one-on-one meetings as needed. There is also an ongoing effort to ensure the Authority is well represented statewide at conferences, speeches and events that can help further the Authority's mission and ensure public notification of project progress. The Authority's CEO and Board engage in ongoing communication with state legislators, members of congress, and the Federal Railroad Administration to share the most current and accurate information.

CONCLUSION

The High-Speed Rail Authority strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Brian P. Kelly, Chief Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency