California High-Speed Rail
BRIEFING: DECEMBER 10, 2020 BOARD MEETING AGENDA ITEM #2

TO: Chairman Richards and Board Members

FROM: Jamey Matalka, Director of Risk Management and Project Controls

DATE: December 10, 2020

RE: Establishment of an Enterprise Risk Management Program

Summary

At the direction of the Chief Executive Officer, the Authority has commenced the development of an Enterprise Risk Management (ERM) program. The ERM program will outline the roles and responsibilities within the organization along with the supporting system of governance, processes, data and analytical tools, and internal organizational structure and capabilities necessary to implement a best-in-class ERM program.

This memo and associated presentation to the Board defines ERM and its benefits and presents the leadership and governance structure that will oversee the development and implementation of the ERM program.

Background

With the passage of the FY20-21 State Budget, the Authority's Form-to-Function proposal was authorized. The associated reorganization of the Authority included the creation of the Risk Management Office (RMO). The RMO is led by the Director of Risk Management and Project Controls—which was recently filled in October 2020. The RMO will be responsible for the development and administration of the Authority's ERM program.

Prior Board Action

No prior board actions.

Discussion

The Authority is in the process of establishing an ERM program. The framework will build upon the current risk management practices of the Authority and advance those practices to a Target Operating Model. One of the key aspects of this framework will be the creation of an Enterprise Risk Committee. The committee is an oversight body comprised of Authority executives. The ERC will evaluate and prioritize emerging risks, review management risk responses and provide transparent reporting.

Enterprise Risk Management Defined

There are several definitions of ERM from standard setting bodies, such as the Committee of Sponsoring Organizations of the Treadway Commission and the International Organization for Standardization. In

summary, it can be defined as the culture, capabilities and practices that organizations apply in setting and carrying out the enterprise strategy with the purpose of actively managing risk to realize and preserve value.

It is important to note, ERM is not simply an inventory of risks within the Authority and is also broader than the Authority's system of internal controls. The principles apply at all levels of the organization and across all functions covering strategy-setting, governance, internal processes, organizational structure and capabilities, data and analytics, communication and performance metrics. ERM is intended to be fully integrated with an organization's structure and system of governance to enable risk-based decisions and provide reasonable assurance to the Board regarding the achievement of the enterprise objectives.

Benefits of Enterprise Risk Management

ERM provides a range of benefits, including:

- Improve ability to identify, plan management actions, and respond to risks that can originate from many parts of the organization and impact other parts
- Improve line of sight of executive leadership, reduce surprises, and take advantage of potential opportunities and mitigation strategies
- Facilitate internal communications and collaboration by establish a common language of risk that cuts across disciplines, organizational silos, consultant teams, and geographies
- Increase productivity by reducing the frequency and magnitude of crises – every risk can be considered as a request on resources
- Improve transparency and traceability of data inputs, outputs and forecasts
- Establish a "single source of truth" for risk data
- Improve stakeholders' management and communications

Risk Management Office Mission and Vision

Mission

Foster a risk-aware culture to focus decisions on the proactive management of risks in support of the Authority achieving its statewide goals.

Vision

Our vision is an organization where every decision is informed and guided by a sound understanding of risk.

Key Objectives

State specific oversight on risk, with independent risk analysis and data gathering.

Integrate risk management into all significant activities and functions of the Authority supplementing and augmenting every aspect of our organization to empower and support our people in continuously improving our understanding of risks and our ability to manage them.

Risk Governance and Enterprise Risk Committee Overview

In consultation with the Authority's leadership, staff proposes to establish an Enterprise Risk Committee to oversee the ERM program. The committee will be administered by the RMO, and report to the Finance and Audit Committee on program implementation and, once in steady state, on key enterprise risks and management responses.

The proposed committee composition includes Authority executives from all functional areas of the organization (See Attachment). The ERC is an oversight body and will evaluate and prioritize emerging risks, review management risk responses and provide transparent reporting.

The RMO has primary responsibility for aggregating risk information for the committee's review. The RMO will support the executive team by providing expertise, analysis, and process improvement recommendations, and management monitoring to ensure that risk and controls are effectively managed. The RMO shares oversight responsibilities with the ERC and will establish the standardized risk management processes and validates that these processes are being followed.

Each functional group within the Authority owns its respective business risks and is responsible for the implementation of the necessary controls and risk response. Each functional group will report on risk information through the RMO and the RMO will assess the adequacy of risk assessment, the effectiveness of risk evaluation and response, and the sufficiency of risk reporting and monitoring.

In addition, the RMO will work collaboratively with the Internal Audit Office and the Quality Section, sharing information and collaborating on various issues.

Risk-Centered Target Operating Model

The RMO will develop a Risk Management Plan defining the core components of the Target Operating Model (TOM) for the ERM program. The goals will be to fully integrate into the Authority's culture and build upon the risk management practices currently in place. The table below identifies the core components of that model.

TOM Components	Core Functions
Leadership	- Establish an organizational culture of excellence anchored on risk management leading practices to support better strategic decisions - Align internal groups on the core mission of ERM - Actively manage culture change by taking gradual steps over-time and ensuring our people have the training required to make ERM practices part of their daily work
Governance	- Facilitate executive decision making and improve line of sight - Standardize decision making processes to ensure decisions are informed by sound risk data
Processes	- Establish systematic, consistent, repeatable, data driven processes aligned with our mission and vision - Create an ERM system that is tailored to our needs, is lean, and agile
Organization & Human Capital	- Set up a team of risk management experts to support the entire organization - Clarify lines of reporting with respect to risk management - Provide adequate training to empower our people to become risk management champions - Leverage current resources, tools, and systems to the greatest extent possible
Data & Analytics	- Standardize Quantitative Risk Assessment analytical tools and dashboards - Establish a "single source of truth" for all risk data through sound data governance and standardized analytical tools and processes - Improve confidence in data and forecasts

Roadmap to Enterprise Risk Management Implementation

Short-Term

- Establish the Risk Management Office, including a Request for Proposal for leading industry risk support
- Establish the Enterprise Risk Committee, and its administration
- Develop the Enterprise Risk Management Plan, leveraging the Committee of Sponsoring Organizations of the Treadway Commission Framework, as mandated by the State

Mid-Term

- Present Enterprise Risk Management Plan to Enterprise Risk Committee
- Populate Enterprise Risk Register and draft Risk Report for Enterprise Risk Committee, focusing on cost and schedule

Long-Term

- Develop a risk training program
- Enhance workforce capabilities

Legal Approval

The Enterprise Risk Management program is lawful and fits within the Authority's statutory responsibilities.

Budget and Fiscal Impact

This is an informational item only, and by itself, does not have a budget or fiscal impact.

The Director of Risk Management and Project Controls is an authorized and budgeted state position. Support for the Risk Management Office will be absorbed within current resources.

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: **Brian Annis** **Chief Financial Officer**	Signature verifying budget analysis: Original Signed December 3, 2020
Reviewer Name and Title: **Alicia Fowler** **Chief Counsel**	Signature verifying legal analysis: Original Signed December 3, 2020

Recommendations

This item is informational

Attachments

PowerPoint Presentation: Enterprise Risk Management