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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents its audit report concerning the High-Speed Rail Authority's (Authority) readiness to manage funds authorized for building the high-speed rail network (program) in California, including the \$9 billion in general obligation bonds the voters authorized in November 2008.

This report concludes that the High-Speed Rail Authority has not adequately planned for the future development of the program. For example, in its 2009 business plan, the Authority outlined the sources from which it expected to receive the funds necessary to meet the estimated \$42.6 billion cost of the program. The Authority stated it would need \$17 billion to \$19 billion from the federal government; however, the Authority has received a federal commitment of only \$2.25 billion. In addition, the business plan does not make clear which government would be responsible for a revenue guarantee needed to attract private investors, or how much it might cost. The program risks significant delays without more well-developed plans for obtaining funds.

The Authority also needs to improve some administrative practices. State law requires the Authority to establish an independent peer review group (review group) to review the Authority's plans, but only five of the eight members have been appointed. Thus, the Authority cannot fully benefit from the expertise the review group would provide. Additionally, the Authority does not currently categorize and track expenditures for administration, which state law limits to 2.5 percent (\$225 million) of the \$9 billion in bond funds authorized. Unless it tracks these funds and develops long-range plans for spending them, it risks running out of them prematurely.

Finally, a primary tool for monitoring the program has been inadequate and the Authority has not implemented effective controls over invoice processing and in some cases has paid for work that was not part of contracts or work plans. Three recent monthly progress reports the contractor managing the program (Program Manager) submitted to the Authority contained inconsistent information and did not compare actions performed and products created to what contractors promised to complete in their work plans. Additionally, the Authority paid at least \$4 million of invoices for which it had no evidence from the Program Manager that the contractors had performed the work invoiced. The Authority also paid more than \$268,000 for work that was not included in contractors' work plans, impairing its ability to measure performance against those plans, and it misused public funds when it paid \$46,000 for furniture not covered in the contract with its Program Manager.

Respectfully submitted,



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