December 29, 2025

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the High-Speed Rail Authority Office of the Inspector General submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Mark Reinardy, Chief Deputy Inspector General, at (916) 402-8948, Mark.reinardy@oig.hsr.ca.gov.

GOVERNANCE

Mission and Strategic Plan

VISION

The Office of Inspector General, California High-Speed Rail (OIG-HSR) is a team of professionals with a clear understanding of the high-speed rail project that conducts rigorous, unbiased reviews to improve the project and keep project stakeholders appropriately informed.

VALUES

The OIG-HSR's team members conduct themselves in accordance with the highest degree of professional standards and the following values:

- Building Trust – We cultivate trust by conducting every review in an open, objective manner and by effectively managing conflict using a respectful and productive approach.

- Producing Results – We continually develop our understanding of the high-speed rail project so that our reviews address the practical realities of the project, increase clarity for decision makers, and result in measurable progress.

- Fostering Growth – We continually improve as a team and as individual team members by holding ourselves to high standards of performance, by seeking and effectively responding to feedback, by trusting one another to make decisions and learn from mistakes, and by fostering professional growth in a way that respects the need for work-life balance.

OIG-HSR's Statutory Role: The Inspector General may, under policies developed by the Inspector General, initiate an audit or review of the Inspector General's own accord regarding oversight related to delivery of the project, and the selection and oversight of contractors related to the project. Following a completed audit or review, the Inspector General may perform a follow-up audit or review to determine what measures the High-Speed Rail Authority (Authority) implemented to address the Inspector General's findings and to assess the effectiveness of those measures. In considering what audits and reviews to perform, the Inspector General may consider input received from the Legislature, the Governor, and the Authority. *Public Utilities Code 187030 (a).*

Control Environment

The leadership of the OIG-HSR establishes an effective control environment through: the demonstration of ethical professional behavior at the executive and management level; adoption of and adherence to relevant external professional standards consistent with the office's mission and statutory responsibilities; rigorous hiring and training/professional development processes for staff, including industry certifications; the development and implementation of internal policies and procedures, including quality assurance and quality control, and; communication with and appropriate accountability to stakeholders.

Management establishes and demonstrates integrity and ethical values: The Inspector General (IG) for California High-Speed Rail is appointed through a multi-branch process defined in state law and intended to ensure the appointee is selected based on professional qualification and without regard to political affiliation. Upon taking office in late 2023 and appointing senior management, the first ever IG for this office led the development of the OIG-HSR's mission and values, which are posted on the office's website and published in its annual work plans and reports. These values emphasize professionalism, objectivity, accuracy, and collaboration, and are affirmatively embraced by OIG-HSR staff and reinforced at all levels of management. Examples include weekly management meetings, presentations to stakeholders in the executive and legislative branches of state government, subject-specific internal discussions about work being conducted by the OIG-HSR, a focus on open and honest feedback across and among all levels of the organization, and management's support of staff's professional development.

Oversight is provided by a board, outside entity, or top executive: Integral to its nonpartisan, objective oversight mission, the OIG-HSR is established in state law as an independent governmental entity and does not report to any state agency or the Authority's executives or board of directors. As described above, the office is led by the IG, an individual with decades of experience in objective government oversight and ethical conduct. Relevant external professional standards, ultimately to include peer review and accreditation by the national Association of Inspectors General, provide additional assurance of the IG's leadership and

oversight. In addition, OIG-HSR is subject to, and complies with, all laws, regulations, and orders of relevant executive branch agencies in the performance of the office's budget, staffing, and procurement activities.

Organizational structure to ensure appropriate levels of responsibility and authority: The OIG-HSR has an established organizational and reporting structure, supported by comprehensive position classifications and duty statements at every level of the office. These duty statements describe, in detail, the roles of each OIG-HSR employee in fulfilling the office's statutory responsibilities and meeting professional standards. The office's supervisory structure is broadly consistent with those at other government oversight and auditing agencies and are designed to ensure redundant levels of quality control over OIG-HSR work products—including audit and investigatory reports and associated findings and recommendations. Further, the OIG-HSR's structure bifurcates the office's audit/review and investigatory activities, ensuring confidentiality of sensitive information and systematic protections for identity of whistleblowers and complainants.

Maintaining documentation of the control system: Similarly situated departments at the local, state, and federal level utilize industry-specific software to ensure the quality of work products and document compliance with relevant professional standards. As a new state office without purchase authority or IT project delegation, OIG-HSR has already spent nearly two years working with state control agencies to procure equivalent software for the office's use. That process, which has been lengthy and involved, remains ongoing. In the absence of formal tools, the OIG-HSR has implemented a file organization structure intended to mimic those contained in the software products in question and uses that system to support the tracking and oversight of OIG-HSR review and investigatory work products leading up to the publication of public reports. This approach—which is limited to the use of Windows drives and files—admittedly provides less assurance about critical considerations like confidentiality and version control. It also prevents the OIG-HSR from readily tracking metrics related to productivity and reporting on its performance. With the ultimate adoption of needed software solutions, OIG-HSR will address these issues and finalize formal procedures for utilizing those tools to document compliance with office policy and professional standards.

Establishing and maintaining a competent workforce: Since its inception in late 2023, the OIG-HSR has labored continuously to build its workforce from scratch. Currently, the office has filled nearly all approved management positions and most staff-level positions. To do so, the OIG-HSR developed positions and duty statements specific to its statutory responsibilities and its professional obligations to conduct accurate, objective oversight of the very large and complex high-speed rail project. All OIG-HSR employees are expected comply with the office's training policy—which sets minimum standards for professional development activities—and management supports that policy by prioritizing opportunities for training in technical areas and on-the-job development. Current management and staff hold

professional certifications issued by the Association of Inspectors General, the International Association of Internal Auditors, the Association of Certified Fraud Examiners, and others. OIG-HSR has filed with CalHR its intent to formally recognize these and other certifications relevant to the construction management industry but has not yet been granted authority to offer the requested differentials. OIG-HSR faces other challenges to recruiting and retaining a competent workforce. Currently, the office does not have access to specialized classifications used by similarly positioned state offices that perform external oversight activities. As such, although the office's rigorous hiring process and commitment to ongoing professional development mean that its current personnel are exceptionally talented and singularly competent, the staff-level classifications OIG-HSR is currently allowed to utilize include irrelevant pre-requisites that negatively impact its ability to ensure a sufficient number of total staff with similarly relevant experience and credentials despite two years of active effort.

Enforcement of accountability: OIG-HSR employs administrative professionals and coordinates with state control agencies as appropriate to ensure compliance with all polices, rules, regulations and laws. The OIG-HSR's culture is one of accountability in the form of promoting transparency and learning from mistakes to improve its own operations and those of the high-speed rail project.

Information and Communication

To fulfill its statutory responsibilities and implement its core values, the OIG-HSR maintains ongoing lines of internal and external communication.

Internal Communication: The OIG-HSR is a relatively small department, with 16 approved positions, including the IG. The office leverages this size and its established culture and practices to facilitate effective communication among all personnel and between levels of governance. Consistent with its values, the OIG-HSR emphasizes the provision and receipt of constructive feedback up and down the organizational chart, going beyond formal performance appraisal processes. It is a universal expectation that OIG-HSR managers and leaders solicit feedback from those they supervise and act on that feedback to the extent appropriate.

Communication across levels of the office is also implemented through meeting and training structures with unique purposes. The OIG-HSR conducts weekly meetings attended by all members of management at which strategic decisions, workload, resource planning, and all manner of emerging issues are discussed. As part of its process for developing findings and public reports, all staff assigned to a given project meet at set intervals with management and executive leadership, inclusive of the IG, on each review the OIG-HSR conducts. The purpose of these meetings is to ensure accurate understanding of work performed, facts identified, and conclusions reached, all of which are discussed in the context of professional standards

related to objectivity, sufficiency of evidence, and relevance to external user of OPI-HSR's published reports. Finally, all levels of OIG-HSR staff participate in annual conference events related to professional development and team building.

External communication: Inherent in the OIG-HSR's duties and professional standards is the need to communicate constantly and effectively with stakeholders for the high-speed rail project, including the High-Speed Rail Authority itself. Key purposes—and corresponding parties/element—of that communication are as follows:

Risk assessment: As discussed further below, the foundation for the OIG-HSR's planned work in a given year is its annual assessment of risks to the successful delivery of the high-speed rail project. The office's documented procedures for this assessment include collecting extensive input from High-Speed Rail Authority staff and management, as well as any concerns raised throughout the year by other project stakeholders—including those in the executive and legislative branches.

Quality assurance: Consistent with professional standards and best practice, OIG-HSR maintains constant communication with relevant Authority subject matter experts during the performance of a review, audit, or investigation. The purpose of this communication is severalfold: to ensure OIG-HSR's complete understanding of relevant criteria and technical subject matter, to ensure accuracy through the verbal and written sharing of OIG-HSR's conclusions and underlying evidence, and to assess the practicality and value of OIG-HSR recommendations. Through ongoing communication with state lawmakers and staff, OIG-HSR further works to understand key policy concerns surrounding the project and, to the extent relevant and appropriate, tailor recommend solutions accordingly.

Administrative functions: Under state law, the Authority provides certain administrative resources to the OIG-HSR, including physical office space and IT support. Given the small size of the OIG-HSR, performing certain other administrative activities internally, such as accounting and payroll, would be highly inefficient. As such, OIG-HSR has developed and intends to execute an interagency agreement with the Authority that governs the provision of these services in a way that allows the OIG-HSR to function effectively but does not jeopardize—in actuality or appearance—the OIG-HSR's independence from the Authority.

Strategic goals of the OIG-HSR: As a newly created state department, OIG-HSR lacks key authorities granted to other longer-established state entities, such as procurement authority. In addition, OIG-HSR continuously identifies and pursues tools to enhance its ability to fulfill its statutory responsibilities. As such, as part of the ongoing development of the office, OIG-HSR executive leadership and administrative management are in near-constant communication with relevant state control agencies and policymakers to support the development of the office.

The above processes are all implemented in practice. OIG-HSR is in the process of documenting certain of the processes via the development of internal policy and procedures.

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 Office of the Inspector General monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Mark Reinardy, Chief Deputy.

As a new department, OIG-HSR is still in the process of establishing processes and tools that support its ability to monitor performance—and the effectiveness of internal controls—on an ongoing basis. Areas of ongoing development include the finalization of operating procedures for its audits and investigations divisions and the corresponding implementation of written QA/QC procedures, during which knowledgeable staff external to specific engagements will assess the quality of those engagements' processes against internal policies and external criteria, including professional standards published by the US Government Accountability Office and the Association of Inspectors General (AIG). Eventually, these internal QA/QC processes will be supplemented by external peer review, or accreditation, by the AIG. As part of this broader effort, the OIG-HSR is pursuing the procurement of industry-specific software that will allow it to better measure and demonstrate compliance with key internal controls.

On a performance basis, the OIG-HSR continuously monitors for issues identified with the quality or accuracy of external reports. From a process perspective, management assess conformance to the office's annual work plans in the context of staffing resources and responding to emergent priorities, including the recent off-cycle publication of an Authority annual report the OIG-HSR is required by statute to review. Pending the procurement and implementation of software described above, the OIG-HSR currently has limited capabilities to assess other important performance measures, such as those related to efficiency. Once that software is in effect, the OIG-HSR will be able to set effective baselines for performance in these areas and monitor condition going forward.

Consistent with the description of the OIG-HSR risk assessment process in the following section, the office will pursue the development of a formal schedule and process for assessing these performance considerations going forward.

RISK ASSESSMENT PROCESS

The following personnel were involved in the High-Speed Rail Authority Office of the Inspector General risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, other/prior risk assessments, external stakeholders, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

The OIG-HSR has established a formal, documented process for assessing risk to the high-speed rail program itself. That process includes all of the above-referenced personnel and methods and is conducted annually. The process culminates in a quantitative ranking of risk areas that accounts for all listed criteria and forms the foundation for the office's annual work plan. The OIG-HSR currently monitors and discusses internal risks using the same considerations, which were documented for this report. Going forward, as it continues its ongoing development of operating policies and procedures, the OIG-HSR will incorporate internal risk assessment activities into those processes where relevant.

RISKS AND CONTROLS

Risk: Roles and Responsibilities

Unclear roles and responsibilities among staff risks creating confusion and introducing inefficiencies in achieving office's oversight mission.

Control: Organizational structure and responsibilites

Development and implementation of organizational structure and duty statements for all positions.

Control: Work planning

Development of annual work plans outlining areas of planned work for the fiscal year; ongoing coordination among management about resources, assignments, and timelines.

Risk: Quality Control and Assurance

If quality controls and assurances processes are not documented and implemented, risks arise to accuracy of OIG-HSR work products as well as the office's adherence to professional standards.

Control: Policies and procedures

Policies and procedures for audits and investigations divisions that outline the project lifecycle and workflow processes, including levels of documented review and sign-off.

Control: IT tools

Software developed for government audit and investigation activities will help ensure adherence to procedures, protect integrity of work products, etc.

Control: Internal QA processes

Performance of quality assurance reviews on completed work products by office managers that did not work on those products. Purpose will be to ensure adherence with office procedures and relevant external professional standards.

Control: External peer review

Periodic external review by the Association of Inspectors General will provide additional, independent verification of compliance with professional standards, including those focused on accuracy of work.

Risk: Tone at Top

If OIG-HSR leaders do not demonstrate and reinforce sound professional practices and ethics, risks arise to the integrity of the office's work and its oversight responsibilities.

Control: Mission and values

OIG-HSR leadership and management have developed written mission and values, published in annual reports and work plans, that focus on the independence, impartiality, honesty, openness to feedback, and technical expertise required to fulfill the office's statutory responsibilities. These values are reinforced in formal and informal settings and demonstrated to office staff through leadership's interactions with employees and stakeholders.

Control: Professional development and leadership

OIG-HSR's values place an emphasis on professional development. Leadership demonstrates a commitment to development by promoting and participating in professional events alongside staff, promoting open communication and feedback at all levels of the organization, and promoting staff's development via direct interaction with policymakers and stakeholders.

Risk: Staff Qualifications

If OIG-HSR staff are not sufficiently qualified and trained in the sensitive and technical work they must perform, risks arise to the accuracy, impartiality, and timeliness of the office's work products.

Control: Hiring standards

OIG-HSR has implemented a comprehensive and rigorous hiring process to ensure hired staff have the qualifications and skills required to perform the sensitive and technically complex work the office conducts.

Control: Training

OIG-HSR has adopted a training policy that adheres to or exceeds industry professional standards for ongoing professional development. Leadership and management monitor and enforce compliance with the policy, and create and promote opportunities for staff at all levels of the organization to engage in subject matter-specific training and pursue certifications from national professional organizations. OIG-HSR has also applied for authority to offer pay differentials for staff holding or obtaining one or more relevant professional certifications.

Control: Indepedence

OIG-HSR's organizational values and the professional standards to which it adheres require the independence, in fact and appearance, of staff conducting the office's work. OIG-HSR has reinforced these standards with an internal independence policy governing steps the office and staff must follow to ensure this independence is maintained.

Risk: Adequacy of IT Tools

As a newly created and wholly independent state entity, currently lacks the authority to procure widely used audits and investigations software. The lack of such software raises risks to the office's ability to securely and efficiently complete its duties in line with state law and professional standards, including the requirement to keep confidential the identity of whistleblowers and records related to active OIG-HSR investigations.

Control: Procure software

The OIG-HSR is in the process of going through the California Department of Technology's Project Approval Lifecycle in order to procure the needed IT tools. That process has been ongoing for more than one year.

Risk: Performance Measurement Tools

OIG-HSR lacks sufficient software to support recordkeeping efforts related to efficiency and timeliness.

Control: Acquisition of software

As mentioned under a previous risk, OIG-HSR is engaged in the state's PAL process to procure software used by similar organizations at various levels of government.

Risk: Performance Reporting

Due to the lack of recordkeeping and timekeeping software described under a previous risk, OIG-HSR lacks the tools to reliably report to external control agencies and stakeholders regarding performance metrics such as resources allocated per engagement.

Control: Acquisition of software

OIG-HSR is working through the state's PAL process to acquire software used by similar organizations to track relevant metrics.

Risk: Administrative Independence

Although designated in state law as an independent government entity, the OIG-HSR lacks some elements of structural independence contemplated in relevant professional standards and enjoyed by certain governmental organizations with similar missions and oversight duties. As such, the office is exposed to political risks to its budget, personnel, and procurement requests. If realized, these risks could prevent the OIG-HSR from having the full range of resources needed to fulfill its statutory mandate.

Control: Timely and complete budget submissions

The OIG-HSR has implemented practices to ensure timely, accurate, and complete communication of budgetary needs to the Department of Finance. OIG-HSR holds regular meetings with Finance staff to discuss emerging needs and resource issues, among other topics.

Control: Education of stakeholders

OIG-HSR leadership continuously looks for opportunities to detect and describe potential independence issues to state lawmakers and other stakeholders that hold an interest in the success of the office.

Control: Reporting to stakeholders

In addition to ongoing education on independence issues, OIG-HSR demonstrates the value of its independent oversight of the high-speed rail project through statutorily required assessments of the Authority's business plans and project update reports, the results of operational reviews initiated and conducted by the office, and annual reports highlighting the strategic and administrative successes and challenges faced in operating a new state oversight entity.

Risk: Statutory Provisions

OIG-HSR lacks certain statutory provisions, such as those related to the confidentiality of ongoing or sensitive work, that already apply to other offices of inspectors general.

Control: Stakeholder engagement

OIG-HSR continues to work with state lawmakers and other stakeholders to strengthen its statutes in accordance with industry best practices.

Risk: Recruitment and Retention

OIG-HSR has experienced challenges hiring a sufficient number of qualified staff, in part because of a lack of access to appropriate classifications within the stat civil service system. Although all staff hired to date are highly qualified, vacancies delay planned and urgently needed oversight work and inappropriate classifications create hiring/recruitment challenges and increase risk of turnover. Finally, hiring efforts in this context take a disproportionate amount of the office's few administrative resources. Identified solutions to date have been rejected by control agencies or raise additional concerns related to independence and resource intensity.

Control: Advocacy and engagement

OIG-HSR leadership has continuously developed, proposed, and advocated for clear and defined solutions to its hiring challenges, such as though access to existing classifications used and controlled by other similarly positions state departments, pay differentials for subject matter certifications, and so forth. Over the long term, OIG-HSR expects to pursue the creation of office-specific classifications with the state system; however, that process takes multiple years, considerable internal staffing resources, and is not guaranteed to be approved and implement by state control agencies.

Risk: Oversight and Coordination

If OIG-HSR does not communicate with parties it oversees in a continuous, timely, honest, and productive manner, risks arise to the accuracy and usefulness of its oversight reports and the implementation of its recommendations.

Control: Engagement during reviews

OIG-HSR has implemented a standard lifecycle for its audits and reviews activities that are intended to ensure adequate input from the Authority to help ensure the accuracy and usefulness of OIG-HSR's work. This lifecycle includes initial conferences with Authority subject matter experts and responsible management to explain the purpose and scope of a given review, coordination with those experts throughout the review process (including written confirmation of key facts and perspective), and a series of informal and formal conferences at the end of a completed review to share conclusions and recommendations and obtain feedback. The OIG-HSR also shares written drafts of to-be-published reports with Authority leadership on multiple occasions to provide additional assurance and, and our office obtains written responses from the Authority that we publish within our reports when they are made public. Taken together, these practices help ensure quality and transparency for any given OIG-HSR review.

Control: Ongoing planning and coordination

In addition to engagement-specific practices, OIG-HSR also coordinate with the Authority on an ongoing basis in formal and informal contexts. In terms of the former, OIG-HSR includes Authority management and staff in its annual risk assessment process, obtaining input about areas most pressing to the project. OIG-HSR shares with Authority leadership the work plan that it generates as an output of that risk assessment practice. The purpose of this annual meeting is to explain OIG-HSR's rationale for the areas it plans to review in the coming year, get additional Authority perspective on the scope of those reviews, and provide the Authority with advance notification of the timeframes under which its staff will be asked to cooperate with OIG-HSR on a given review. In addition to this forward-looking process, OIG-HSR works with Authority personnel on an ongoing basis, and particularly during the period in which our office performs reviews of the Authority's annual reports, to assess the status of recommendations OIG-HSR has made.

Risk: Reputational Risks and Pressure

OIG-HSR reports are generally issued publicly and can generate negative media or political attention to the high-speed rail project, including when OIG-HSR's findings and conclusions are inaccurately reported by outside parties. Resulting risks can also include unintended harm to project and, alternatively, political pressure threatening the independence of PIG-HSR's public disclosures in order to "protect" the project.

Control: Adherence to professional standards

OIG-HSR has adopted professional standards that include specific requirement related to objectivity and impartiality of the office and its staff, thereby helping ensure the integrity of its work. OIG-HSR has also adopted an independence policy that operationalized these standards and sets clear expectations for conduct from all OIG-HSR employees. OIG-HSR is in the process of developing written policies and procedures documenting the specific means by which OIG-HSR ensure compliance with other key standards related to the sufficiency and appropriateness of the evidence upon which it bases its conclusions.

Control: Mission and values reinforcement

As described elsewhere in this report, the OIG-HSR has adopted written value statements that include and emphasis on the impartiality and fairness of its work. These values are reinforced through staff's own personal assessments of possible bias or conflict, quality control processes that include multiple layers of review and validation, coordination with Authority personnel described elsewhere in this report, and the tone set by OIG-HSR leadership and their decades of collective experience performing nonpartisan program evaluations.

Control: Structural independence of the OIG-HSR

As described elsewhere, in this report, the OIG-HSR is named as an intendent entity in state law but still faces possible threats to its functional independence via approval of its staff classification, budget, and procurement activities. OIG-HSR continues to work with lawmakers and stakeholders to address these threats to independence, but in fact and appearance, to better demonstrate the nonpartisan and impartial nature of its work.

CONCLUSION

The High-Speed Rail Authority Office of the Inspector General 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.

Ben Belnap, Inspector General

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