Procurement on the High-Speed Rail Project

Although Generally Compliant with State Law, the Authority Should Strengthen Certain Policies and Practices

JANUARY 21, 2026

OFFICE OF THE INSPECTOR GENERAL
CALIFORNIA HIGH-SPEED RAIL

Benjamin M. Belnap
Inspector General

Mark Reinardy
Chief Deputy Inspector General

January 21, 2026

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly

State Capitol
Sacramento, California

Dear Governor and Legislative Leaders:

Over the next two years, the California High-Speed Rail Authority (Authority) plans to procure key goods and services totaling nearly $13 billion to finish building the Merced-to-Bakersfield (M-B) segment of the High-Speed Rail Project (project). With these large and time-sensitive procurements on the immediate horizon, the Office of the Inspector General, California High-Speed Rail (OIG-HSR) reviewed the Authority's practices for procuring contracted services to ensure that its practices are designed and implemented to protect the value of public funds spent on the project.

The Authority generally met state requirements for the five recent procurements we reviewed. Specifically, we found that the Authority met or exceeded advertisement requirements, awarded contracts in accordance with established criteria, and used appropriate methods to ensure that contract prices were reasonable. However, we did find areas of needed improvement. First, to maintain the project schedule the Authority needs to obtain contracted services timely, but all five procurements we reviewed were completed later than necessary by three to 10 months for the new contracts to begin when desired. According to the Authority, the late procurements had limited impact on the project—largely because of other project delays, unrelated to procurement, that pushed back the timing of contract needs. However, as the Authority seeks legislative reforms to avoid similar project delays, it will also need to control its procurement timelines more effectively to fully realize the benefits of such reforms. Second, to get the best value for public funds, it can further ensure fair competition by strengthening safeguards against organizational conflicts of interest and adhering to limits on amending existing contracts.

Designed in part to avoid procurement-related delays, the Authority recently introduced a new approach that it expects will streamline the delivery of project services and help advance the Authority's mission. This approach is to award multiple contractors an indefinite delivery, indefinite quantity (IDIQ) contract and then to issue work to those contractors on a task order basis. However, the Authority has only partially defined this approach in procedures for how it will implement IDIQ procurements. As it completes its development of those procedures, the Authority will need to consider tradeoffs between the benefits it expects to achieve from its planned processes and their potential risks, some of which we describe at the end of our report.

Authority Response

The Authority agreed overall with our conclusions and recommendations and provided additional context and perspective for some of its past practices and decisions.

Respectfully submitted,

Benjamin M. Belnap, CIA
Inspector General, High-Speed Rail

Introduction

The Authority is responsible for contracting for services to design, build, and operate California's high-speed rail service. State law establishes the Authority's ability to do so using language that is relatively broad. Significantly, the law gives the Authority the ability to choose the contracting methods it uses. As the text box shows, the law allows the Authority to enter contracts *including but not limited to* design-build contracts. According to the Authority, Public Utilities Code § 185036 provides it with broad legal authority to enter any and all contracts necessary to design, construct, and operate high-speed trains, and it indicated this unique statutory authority has been recognized by the State's Department of Finance and Department of General Services (DGS).

Because of its broad contracting ability, for many of its contracts the Authority is responsible for meeting applicable legal requirements without oversight from DGS. In general, state law gives DGS control over state departments' contracts. As part of this role, DGS approves contracts when required to do so by law, thereby serving to assist state agencies in ensuring effective compliance with applicable laws. However, state law limits DGS's control of the Authority's contracts to those that are not related to constructing the high-speed rail system or for providing related professional services including architectural, engineering, and construction project management services—collectively referred to as architectural and engineering (A&E) contracts. For example, DGS has oversight of the Authority's contract for financial advisory services, so it approved that contract. In giving the Authority control over construction and A&E contracts, state law both allows the Authority to enter those contracts without DGS's review and approval and makes the Authority directly responsible for meeting any requirements that pertain to such contracts. To fulfill that responsibility, the Authority has established various contracting policies and procedures.

The Authority's Ability to Enter Contracts Under State Law

"Upon approval by the Legislature, by the enactment of statue, or approval by the voters of a financial plan providing the necessary funding for the construction of a high-speed network, the Authority may … enter into contracts with private or public entities for the design, construction, and operation of high-speed trains. The contracts may be separated into individual tasks or segments or may include all tasks and segments, including a design-build or design-build-operate contract."

Source: California Public Utilities Code § 185036

Contracts the Authority has executed for the high-speed rail project commit billions of dollars in public funds. According to its November 2025 financial report, the Authority has 186 active contracts with a total value of approximately $12 billion. Based on the Authority's current cost estimate and schedule information, by the end of 2027 it will need to procure additional goods and services worth

approximately $12.8 billion to complete the M-B segment, as Table 1 shows. In addition, the Authority will need to replace or extend existing contracts for program delivery and rail consulting services when they expire in 2026.

Table 1. Key Procurements Needed to Complete the M-B Segment Will Commit Billions of Dollars

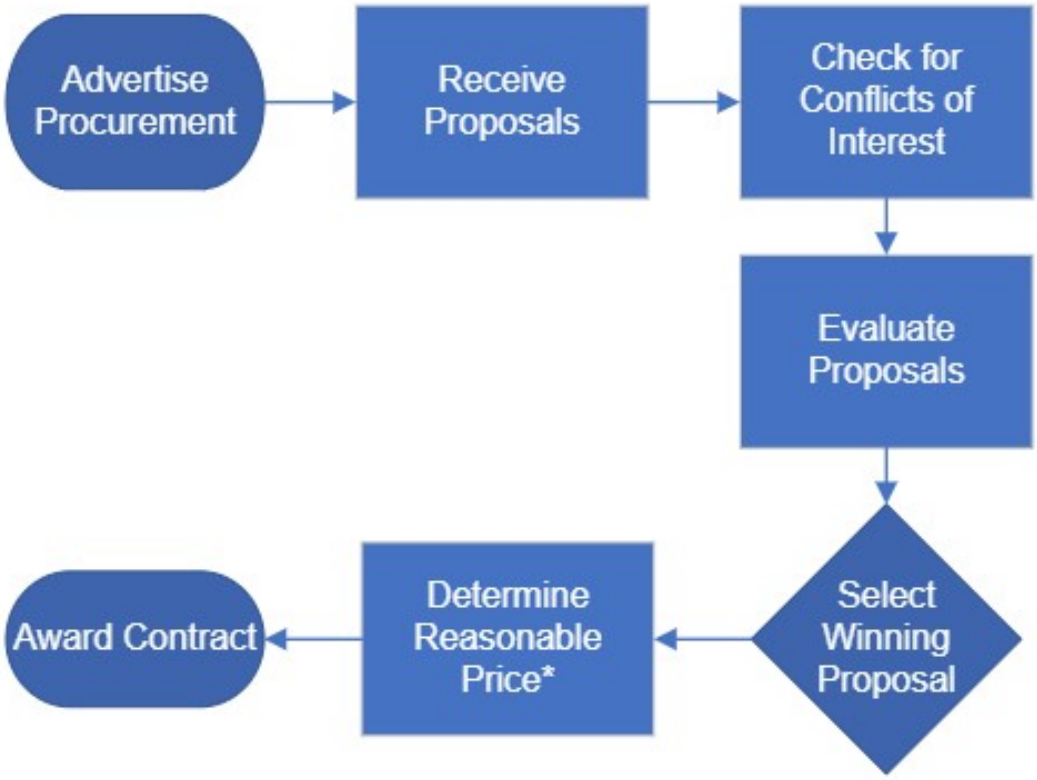
Goods and Services to Be Procured	**Status**	**Estimated Cost** (in millions, rounded)
Commodities and Equipment	In progress	$700
Trainsets	In progress	$500
Track and Systems Construction	In progress	$3,500
Extensions Utility Relocation	In progress	$700
Extensions Construction	Scheduled for 2025 - 2026	$6,000
Maintenance Facility Design and Construction	Scheduled for 2026	$400
Stations Construction	Scheduled for 2026 - 2027	$1,000
Total estimated cost of the goods and services shown		*$12,800*

Source: The 2025 Supplemental Project Update Report, the M-B schedule, and the Authority's procurement and contract records.

Funding to pay for project costs has historically come from the State through Proposition 1A and the Cap-and-Trade program, and from the federal government through rail transit grants. Going forward, beginning with the 2026-27 fiscal year and continuing through calendar year 2045, the State's renamed Cap-and-Invest program will provide a defined amount of $1 billion annually for the project.

The primary mechanism for ensuring that the State receives the best value for public funds spent on contracts is a competitive process for procuring those contracts. Competition allows the Authority to evaluate multiple potential contractors and select the best one to provide a particular good or service, based on factors including contractors' prices, qualifications, and proposed approach to the work. Consequently, both state law and federal grant agreements require the Authority to use competitive procurement processes and take specific actions to promote fair competition. For example, to promote competition the Authority must publicly advertise its contract opportunities, and to ensure fairness it must prevent conflicts of interest from influencing contract decisions. Figure 1 shows general procurement steps that we evaluated and discuss throughout our report.

Figure 1. General Steps to Procuring Goods and Services



*If not already determined through the competitive selection of the winning proposal.
Source: State law and contracting guidance.

To assess the strength of the Authority's procurement processes and identify potential improvements, we reviewed its policies and procedures, and the selection of completed procurements listed in Table 2. We made our selection based on factors, detailed in Appendix A, that included the significance of procurements to the project. We also reviewed a selection of recent contract amendments and describe the results of that work at the end of this report.

Table 2. Five Procurements Were the Focus of Our Review			
Procurement	**Services Procured**	**Contract Year**	**Cost*** (in millions)
Merced Extension Design	Design of the alignment for the Merced extension	2022	$151
Rail Systems Engineering	Rail engineering support, oversight, and other related services for the project	2024	$57
Track and Overhead Contact System (OCS) Design	Design of the track and OCS for the M-B segment	2024	$131
Property Acquisition	Acquisition of properties on the Bakersfield extension and CP4	2025	$13
Property Appraisal	Appraisal services for properties on the Bakersfield extension	2024	$5

Source: The Authority's procurement and contract records.
*Includes amounts adjusted by amendments after the initial contract award.

The Authority used three methods for the procurements we reviewed, the differences among which allowed it to base contract awards on different competitive factors to ensure the best value. As Table 3 shows, the request-for-qualifications method allowed the Authority to select a contractor based on ability to perform the work and then ensure the prices for the selected contractor's work were reasonable. The Authority used this approach to procure the most complex services in our selection of procurements that required significant professional judgment, which were design and engineering services. Under the two other procurement methods, the Authority used price as a factor when selecting contractors for the relatively less complex property acquisition and property appraisal services in our selection. For example, for the property acquisition contract the Authority used the request-for-proposals method to select the contractor with the highest scored proposal, with that scoring based on the Authority's evaluation of factors including contractors' plans for accomplishing the scope of work and their proposed costs. We distinguish the procurement methods in the above table and specify them in the body of this report when they are relevant to findings and conclusions we discuss. When referring to information that applies generally to the competitors for any procurement and the information they provided for the Authority's evaluation, we use the terms *proposer* and *proposal*, respectively.

Table 3. The Authority Used Different Methods to Ensure Best Value for the Five Procurements We Reviewed

	Request for Qualifications	Request for Proposals	Invitation for Bids
Procurements We Reviewed	• Merced Extension Design • Rail Systems Engineering • Track and OCS Design	• Property Acquisition	• Property Appraisal
Basis for Awarding Contract	Best qualified proposer, based on evaluation of factors such as past performance and understanding of the project	Highest scored proposal, based on evaluation of factors such as plans for the work and proposed cost	Lowest bid that meets minimum requirements
Basis for Ensuring Reasonable Price	Determination that compensation for the contract is fair and reasonable	Substantial weight given to price in relationship to all other award criteria, and price justification if there are fewer than three proposals	Award to the lowest responsible bidder, and price justification if there are fewer than three bids

Source: The Authority's procurement records and state law.

REVIEW RESULTS

- **The five procurements we reviewed were all completed later than desired, and in two instances the Authority had to adjust existing resources to avoid delaying the project schedule.**

- **The Authority promoted competition by advertising its procurements but relied too heavily on contractors to identify conflicts of interest that could impact the fairness of competition and did not fully implement some safeguards against conflicts of interest.**

- **The Authority appropriately awarded contracts for the five recent procurements we reviewed, but one of six contract amendments we reviewed added new types of services at costs that the Authority could not demonstrate represented the best value.**

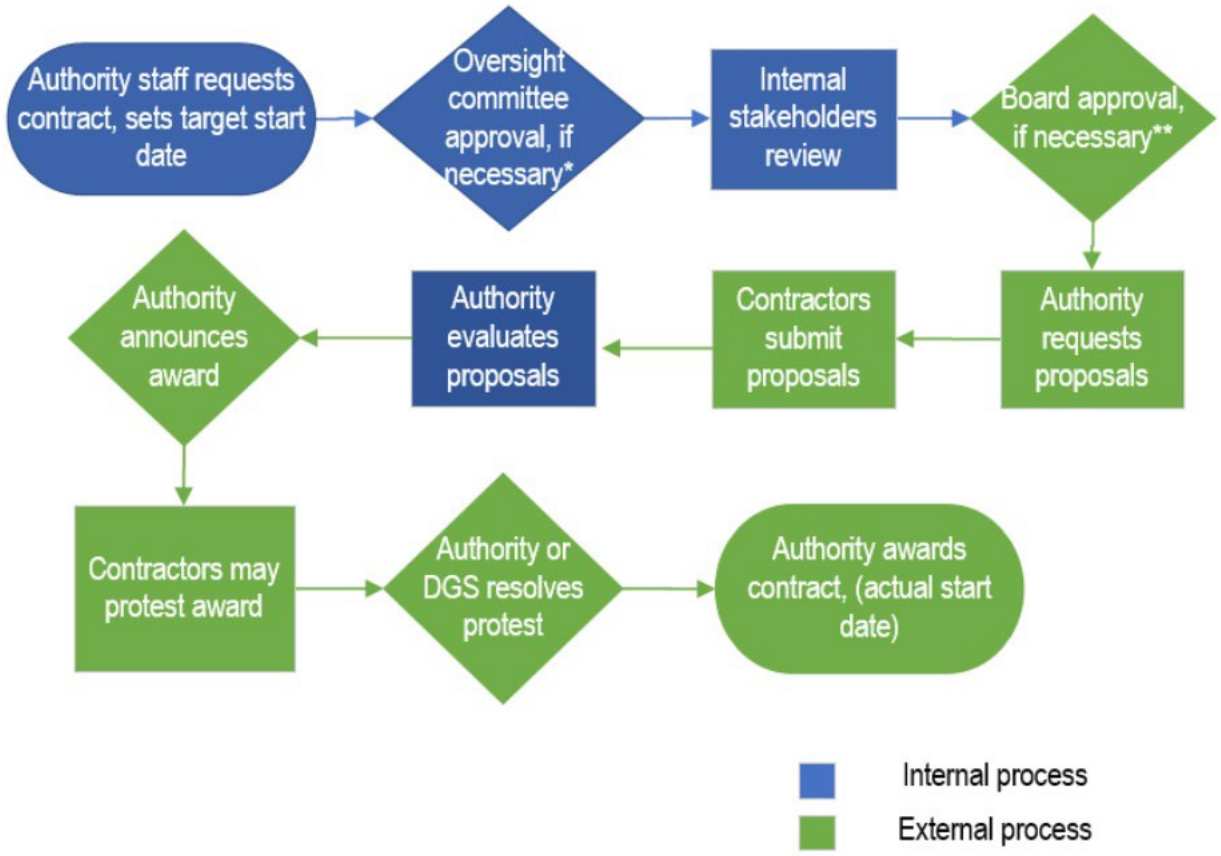
Procurements We Reviewed Were Late, Adding Costs and Impacting Resources in Some Instances

Timely completion of procurements is critical to ensure that contracted services will be performed when needed to keep the project on schedule. However, the Authority did not complete any of the five procurements we reviewed by the dates it targeted when beginning the process. In some cases, these delays threatened to disrupt project services, and to avoid falling behind schedule the Authority had to reallocate existing resources or pay for an extension of existing contracted services. Although the Authority cannot control or avoid all potential causes of procurement delays, it does have opportunities to better manage the timing of its own processes by standardizing its approach to scheduling procurements.

Generally, the Authority manages its procurements to ensure it meets the overall project schedule. The Authority has developed procedures to guide its staff in managing procurements of goods and services, but those procedures are in draft form and have not been finalized. As a standard practice, Authority staff include target dates for completing procurements and state the desired term for the new contract when requesting approval for new contracts from its Business Oversight Committee (oversight committee), which is made up of internal stakeholders including the Authority's chief financial officer (CFO) and chief of contract administration. We assessed the reasonableness of the target dates established through the oversight committee process by comparing them with project schedule information reported in the Authority's business plans and project update reports and

found them to be consistent with one another. After the oversight committee approves a request, the Authority conducts an internal process to prepare the procurement that includes, for example, legal review to ensure compliance with applicable requirements. Then it conducts the public-facing process to advertise the procurement—with approval from its Board of Directors (Board) for procurements with a contract value greater than $25 million—and competitively award a contract. Figure 2 summarizes key internal and external steps in the Authority's procurement process.

Figure 2. Early in the Procurement Process the Authority Establishes a Target Contract Start Date



Source: The Authority's procurement procedures.
*Administrative support services agreements do not require oversight committee approval but must go to the administrative committee.
**If the procurement is over $25 million.

As Table 4 shows, the Authority did not meet the target dates it set for any of the five procurements we reviewed. However, the effects of those delays varied. For three of the procurements we did not identify any negative effects on the project schedule or cost. For example, the Authority explained that during the property appraisal procurement the design of the M-B extensions had not advanced enough to allow the Authority to begin appraisals for needed property. As such, the procurement delay from April to October 2024 did not itself delay the project.

Table 4. The Authority Did Not Meet Its Target Dates for Completing the Procurements We Reviewed

	Merced Extension Design	Rail Systems Engineering	Track and OCS Design	Property Acquisition	Property Appraisal
Target Date	July 1, 2022	March 6, 2023	April 1, 2024	March 1, 2025	April 1, 2024
Actual Date	October 4, 2022	January 2, 2024	July 2, 2024	June 19, 2025	October 25, 2024
Delay	3 months	10 months	3 months	3.5 months	7 months
Key external drivers of delay	Not applicable	Protest that the Authority decided had merit Extension requested by a proposer	Extension requested by a proposer	Not applicable	Protest that DGS decided had no merit DGS contract review period
Key internal drivers of delay	Time added by the Board to review potential conflicts of interest	Re-procurement after protest decision Time from oversight committee approval to Board approval	Additional time beyond proposer's request, added at the Authority's discretion	Longer internal review by contract manager and legal	Time from oversight committee approval to procurement staff assignment
Cost or schedule impact	None identified	$12.6 million to avoid service gap	None identified	Use of other existing resources to cover service gap	None identified

Source: The Authority's procurement records.

For two procurements, however, missing the target date required the Authority to make adjustments that added costs or used additional resources. As the table shows, the delay to the rail systems engineering procurement resulted in financial costs to the Authority, which likely would not have otherwise incurred, as it took measures to prevent a service gap. The procurement missed the target date by 10 months, and to avoid a severe impact to the progress on critical elements and deliverables, the Authority spent more than $12 million to extend rail engineering services on an existing contract without a corresponding reduction in the value of the ultimately executed rail systems procurement—thereby adding to total project costs.

Delay to the property acquisition procurement also had a negative impact, in this case on existing project resources. The Authority set a schedule in the 2024 Business Plan to begin acquiring property on the extensions in fiscal year 2024-25 and to complete the majority of that work in fiscal year 2026-27. Accordingly, with the understanding that its existing contract for those services on the Bakersfield extension would be expiring in May 2025, the Authority set March 2025 as its target date to complete the property acquisition procurement that we reviewed. However, the property acquisition procurement missed the target date by 3.5 months, and this delay ultimately resulted in a gap in contracted services of approximately half a month.

According to the Authority, the delay to the property acquisition procurement did not set the project back because during the service gap its staff and another contractor were able to cover the workload. That workload was lighter than the Authority had expected during the period because, as already discussed above, design delays meant it had identified relatively few of the parcels it would ultimately need to acquire for the extensions. The Authority acknowledged that if the delay had been longer or if the workload had been more substantial, it likely would not have had the capacity to fully take over the work and mitigate delays. We note, however, that we could not independently verify whether the schedule was unaffected because the Authority did not have a baseline acquisition schedule against which we could compare its actual progress during that half-month service interruption. The late procurement also made it impossible to transition services between the outgoing and incoming contractors as planned. Under a timely process, the Authority had planned for a period of 90 days for the existing contractor to help transition the new contractor to performing the services to prevent service interruptions. However, because of the service gap, the Authority—not the existing contractor—had to transition tasks to the new contractor and take on the workload described above.

Although several factors contributed to the procurement delays we identified, unclear communication and expectations about procurement timelines was a common driving cause. We found that the Authority's procurement procedures did not require it to develop schedules for all procurements. The Authority maintains different sets of draft procedures for different types of procurements. Its draft procedures for procuring A&E services through a request for qualifications include guidance for developing procurement schedules, while the draft procedures for procuring relatively less complex services through a request for proposals or an invitation for bid do not.

The inconsistency in procedures led to variations in scheduling approaches among staff. For example, for the qualifications-based Merced extension design contract, the Authority developed a schedule for its internal review and completed internal processes to meet the target date. However, for the property acquisition procurement the Authority used the request-for-proposals method and did not provide a schedule for internal review. Legal review took more than a month to complete rather than the approximately seven to 10 days established by the Authority in its contract processing timelines. The legal staff for the procurement explained that the lack of a clear due date, combined with additional factors such as competing workloads and staff absences for vacations and holidays, contributed to the lengthy timeline for their review. In contrast, and consistent with the

guidance in the draft procedures, the legal staff described receiving clear deadlines to meet when reviewing qualifications-based procurements.

External factors over which the Authority did not have full control also caused or added to delays. In three cases, proposers protested the Authority's decision or requested more time to respond. For example, a protest extended the rail systems engineering procurement effort. Four months of time were added to evaluate the merits of the protest, and then to subsequently redo the competition for the contract after the Authority decided that a conflict in the language of its request for proposals had affected that competition. The added time helped to ensure the fairness of the procurement process. However, at the time of the protest the Authority was already behind schedule. This was because preparing the procurement for approval by the oversight committee took longer than originally planned and the Authority had not obtained approval from its Board to advertise the procurement until one month before the target date for starting the new contract. Together, the various factors delayed this procurement 10 months beyond the Authority's target date.

We recognize that procurement timelines include some inherent uncertainty and that there are instances when a delay is unavoidable or adding time to the procurement process can provide a valuable benefit. Nonetheless, requiring staff to develop a timeline for each procurement would help the Authority ensure the efficiency of its own processes and reduce the number of situations in which external delays compound internal ones. Authority staff agreed that standardizing scheduling procedures for all procurements would be a feasible improvement to help ensure it obtains key contracts when it needs them.

Recommendation

To help ensure that procurements are completed in a timely manner, the Authority should immediately revise its draft procedures for all types of procurements to standardize the practice of establishing for each procurement a schedule that includes clear deadlines for internal stakeholders.

The Authority's Advertisements for Procurements Met or Exceeded Requirements

The Authority appropriately advertised its procurements to generate competition for contracts. Competition among multiple potential contractors is important because it gives the Authority a choice among contractors that have an incentive to offer the best quality or prices so they will win a contract. Therefore, to promote competition and ensure the best value for public funds, state law includes several requirements for advertising procurements. These requirements include advertising a procurement for at least 10 working days in the California State Contracts Register—a public website also known as Cal eProcure—with the goal of receiving at least three proposals to consider. Another requirement, which applies to A&E procurements, is that the procuring agency must advertise the contracting opportunity in professional publications.

For each of the five procurements we reviewed, the Authority met or exceeded key advertising requirements, including taking the optional step of hosting an informational conference for potential proposers, as Figure 3 shows. The State Contracting Manual describes such conferences as optional events that can be held if needed to clarify the services being procured. The Authority's draft procedures strongly recommend these conferences for A&E contracts to encourage additional participation for qualifications-based procurements. The conferences that the Authority held for some of the procurements we reviewed covered information about the criteria for the contract award, contract value, scope of work, and other details about the procurement process. The conferences also provided opportunities for potential proposers, including prime contractors and subcontractors that could team up on a proposal, to network with each other. Although the Authority met the advertising requirements we reviewed, its draft procedures for procuring contracts through a request for proposals or an invitation for bid do not specify that advertising on Cal eProcure must be for 10 days. In response to this finding, the Authority indicated that it will include this requirement in its updated procurement procedure manual.

Figure 3: The Authority Exceeded Requirements to Advertise the Procurements We Reviewed

REQUIREMENTS	Merced Extension Design	Rail Systems Engineering	Track and OCS Design	Property Acquisition	Property Appraisal
Advertise procurements for at least 10 days on Cal eProcure	50 Days	40 Days	110 Days	31 Days	15 Days
Advertise in professional journals	Yes	Yes	Yes	Not Applicable	
RECOMMENDED PRACTICE					
Host a conference for interested proposers	The Authority held a conference for each procurement.				

Source: State law and contracting guidance and the Authority's procurement records.

Even with those efforts to advertise, the competition the Authority ultimately obtained was limited. It received fewer than three proposals for each procurement we reviewed except the Merced extension design procurement. For one procurement—the property appraisal procurement—the Authority received two proposals but determined that one was not responsive because the proposal did not meet the minimum requirements. While the limited competition was not ideal, the Authority did more than was required to advertise the procurement. In this case, the Authority decided to select the sole qualified proposer and move forward with executing the contract. It elected to do so instead of issuing a new procurement that would cost additional time but would not necessarily guarantee more competition. Considering such tradeoffs in the procurement process can be appropriate if the Authority can demonstrate that its ultimate decision was reasonable.

In fact, for procurements that have fewer than three proposals, agencies are required to document a full explanation of outreach efforts, including the names of firms solicited and a justification of the price. This explanation is important to demonstrate that the Authority's ultimate decision to proceed with fewer than three bidders was reasonable. The Authority has a template for documenting this explanation but no procedure to do so. Nevertheless, staff completed the template for all of the procurements we reviewed that received fewer than three proposals except for the track and OCS design procurement. During our review, the Authority updated its draft procedures for requests for proposals to address this particular gap by adding a procedure for documenting the required explanation.

The Authority Did Not Fully Implement Some Safeguards to Prevent Conflicts of Interest

The Authority has established safeguards that are consistent with requirements in state law and federal grant agreements for preventing financial or personal interests from influencing contract decisions (conflicts of interest). Some of these safeguards were not consistently implemented. Conflicts of interest include conflicts that individuals at the Authority may have (*individual conflicts*) and conflicts that the parties competing for a contract may have (*organizational conflicts*). The Authority implemented its safeguards to prevent individual conflicts for the procurements we reviewed, but it did not fully implement all of its safeguards for preventing organizational conflicts, and it has an opportunity to strengthen those safeguards by adopting a best practice to independently identify organizational conflicts in addition to relying on contractors to disclose them.

The Authority Used Accepted Safeguards to Prevent Individual Interests from Influencing Contract Awards

The Authority has a conflict-of-interest code that aligns with requirements in state law and federal grant agreements for preventing individual conflicts, and it followed the code and related safeguards for the recent procurements we reviewed. State law specifies that, to prevent individual conflicts, Authority personnel may not use their official positions to make or influence any decisions on the Authority's behalf in which they have a financial interest. Federal grant agreements include similar requirements. Consistent with applicable requirements, the Authority has adopted a conflict-of-interest code that applies to staff involved in awarding contracts and uses annual disclosures of individuals' financial interests as a basis for identifying potential conflicts so that it can prevent them from affecting contract decisions. For four of the five procurements we reviewed, the Authority awarded contracts by having a committee of its staff evaluate proposals (selection committee). We verified that, in accordance with the Authority's code and procedures, members of the selection committees signed conflict-of-interest agreements to disclose for Authority legal review their financial interests and any potential conflicts they were aware of and were cleared to participate in the procurement process.

The fifth procurement also included appropriate steps to prevent individual conflicts. The Authority awarded the fifth procurement—the property appraisal procurement—to the lowest responsive bidder using a process that included a public opening of the bids received. The Authority's process required the individual staff member that opened the bids to disclose their financial interests annually, in accordance with State's standard process for filing financial disclosure forms but did not require that individual to sign a conflict-of-interest agreement for the property appraisal procurement. The risk that individual conflicts would affect the contract award for this type of procurement is lower because the controlling criterion for the award—lowest price—is narrower and more objective, compared to procurements that are awarded based on a selection committee's

evaluation of proposals' cost and merit. Therefore, the Authority's approach appeared to be reasonable to prevent individual conflicts.

The Authority Relies Too Heavily on Contractors to Disclose Their Organizational Conflicts

Federal grant agreements state that the Authority's code or standards of conduct must include procedures for identifying and preventing real and apparent organizational conflicts, and the Authority has a policy for organizational conflicts that establishes such procedures. The text box defines an organizational conflict. As a hypothetical example, an organizational conflict would exist if a contractor worked on one contract to design a part of the project and then worked on another contract to evaluate that design, because there would be an appearance of impropriety and a potential impairment of the contractor's ability to provide an objective evaluation. The Authority's policy prescribes ethical standards and conduct applicable to all contractors (whether prime contractors or subcontractors) that have entered into or wish to enter into contracts with the Authority. The policy obligates any contractor—current or prospective—that has a known or potential organizational conflict to disclose it to the Authority, describing in detail the facts giving rise to the conflict and any efforts the contractor has taken or proposes to take to mitigate the conflict. The Authority then reviews that information. Under its policy, the Authority has the ultimate and sole discretion to determine whether a conflict exists and whether to require any actions that may be appropriate to mitigate it so a contractor can participate in a procurement.

Definition of an Organizational Conflict of Interest

A circumstance arising out of a contractor's existing or past activities, business or financial interests, familial relationships, contractual relationships, and/or organizational structure that results or would result in any of the following:

1. Impairment or potential impairment of a contractor's ability to provide impartial advice or perform work with objectivity.
2. An unfair competitive advantage for any contractor competing for a procurement.
3. A perception or appearance of impropriety or unfairness with respect to a procurement or contract, regardless of whether any such perception is accurate.

Source: The Authority's organizational conflict of interest policy.

Although the Authority's policy includes procedures to identify conflicts, its approach—specifically, the reliance on contractors to disclose conflicts—carries risk that the Authority may not identify all organizational conflicts that can be reasonably known. Figure 4 shows one such example we observed. The example involved two subcontractors that participated in proposals for the track and OCS design procurement while they were also working on the Merced extension design contract. The Authority's policy generally prohibits a contractor from working on multiple contracts related to the same project section, which in some cases could lead to an unfair competitive advantage. For example, a contractor working for the Authority may have information that could unfairly benefit it during another procurement related to the same project section. Under the Authority's policy, both subcontractors depicted in Figure 4 should have disclosed their potential conflicts, but only one did so. In accordance with its policy, the Authority determined that the disclosing subcontractor had a conflict that needed to be mitigated, and it provided written authorization for that subcontractor to participate on the condition of meeting specified mitigation requirements. Because the other subcontractor did not disclose the potential conflict and the Authority performed no check of its own, the Authority was not aware of the potential conflict and did not make any conflict determination or require any mitigations for that subcontractor. Ultimately, the subcontractor that failed to provide the required disclosure was not part of the winning proposal, but the weakness of this one-sided approach to identifying conflicts remains a concern.

To address that weakness, the Authority could do more to obtain additional assurance that no conflicts exist. From our review of disclosure documents provided by 125 proposers, we identified 12 instances of a proposer participating in a procurement without disclosing information about a potential conflict that the Authority's procurement records indicated might exist. In each of those instances, the Authority could have used the information in its procurement records, just as we did, to perform its own check for potential conflicts that contractors did not disclose. In fact, federal regulations, which we consider to be a source of best practice on this issue, require federal entities to perform just such a check. The Authority told us that in the past it has attempted to identify potential organizational conflicts based on information it maintains. However, it does not do so consistently because such efforts are not required by its policy. Strengthening the safeguard to include its own check for potential conflicts is important because any perceived or actual conflict could damage the integrity of the Authority's procurements.

Figure 4: Proposers Inconsistently Disclosed Potential Organizational Conflicts

The Authority's policy states that no contractor may submit or participate in a proposal for a contract that relates to the same project section where it currently provides or previously provided services unless, either:

1) It requests and receives permission from the Authority to participate OR
2) All relevant work on the original contract has been terminated or completed, the new work does not require the contractor to approve or accept its prior work, and the relevant work products under the original contract are made available to all other proposers.

Merced extension design area

Track and OCS design area

Two subcontractors participated in proposals on the Track and OCS design contract while working on the Merced extension design contract, which both cover the same project section.

Proposer A did not disclose its involvement in the overlapping section and did not request a determination.

Proposer B disclosed the potential conflict and requested a determination from the Authority.

The Authority determined Proposer B had a potential conflict that required mitigation. It made no determination and required no mitigation for Proposer A.

Source: Authority organizational conflict of interest policy and procurement records.

The Authority Did Not Fully Implement Some Conflict Safeguards

The Authority did not fully implement certain necessary safeguards against conflicts of interest, including steps related to identifying conflicts and effectively mitigating them. For example, the Authority did not fully implement its procedures for identifying organizational conflicts for one of the five procurements we reviewed. As part of identifying possible organizational conflicts for a given procurement, the Authority typically requires contractors to submit as part of their proposal a form certifying under penalty of perjury that they have disclosed any interest required under its policy. However, although the Authority required the form for four of the five procurements we reviewed, it did not require that form for the property appraisal procurement. As a result, no proposers submitted it and the Authority did not independently review information about any potential conflicts for this procurement. In response to our questions about this lapse in the Authority's safeguards, staff informed us that in the past the Authority had not included the form for the type of procurement in question—invitations for bid. Based on this information, we reviewed an additional procurement that the Authority conducting using an invitation for bid, and we verified that it also had not required proposers to submit the certification form for that procurement. The Authority said it would correct the problem, and we verified that it did so for the invitations for bid that it recently advertised for procurements of high-speed rail materials.

The Authority also did not have a standard procedure to inform contract managers of mitigations it determined were necessary to prevent organizational conflicts of interest, and it did not effectively communicate this information in one of five scenarios we reviewed where mitigations were required. As described above, the Authority's policy allows it to authorize proposers with potential conflicts to participate in a procurement under specific conditions, including taking any actions the Authority deems necessary to mitigate the potential conflicts. However, the policy does not specify how to inform relevant contract managers of required mitigation actions so that they can monitor whether the actions occur, and neither do the Authority's draft procurement procedures.

For the property acquisition procurement, the Authority was not actively monitoring implementation of the mitigations it had required. We asked the manager of the property acquisition contract about the status of actions to mitigate a potential conflict that the Authority determined existed for a subcontractor that was part of both proposals it received for the property acquisition contract. The contract manager was not aware of any required mitigation actions until we asked about them and had therefore not been monitoring their implementation. Because the firm was included as a subcontractor in both proposals for this procurement, the risk of unfair competitive advantage for one proposal over the other as a result of the conflict appeared limited. The Authority also required certain mitigations—specifically, terminating work on other contracts with the Authority—to ensure that the objectivity of the subcontractor's work would not be impaired. While the subcontractor terminated these contracts, as the mitigation required, the managers for these contracts were also not notified of these mitigations and so were not aware that they needed to be implemented. Although we did not identify in this case or others that an actual conflict resulted from the gaps we

identified in the Authority's procedures, our review of a limited number of procurements cannot provide general assurance about the effectiveness of the Authority's existing practices.

Recommendations

To better ensure the effectiveness of its efforts to identify and prevent organizational conflicts, the Authority should do the following:

- Immediately adopt the practice of using readily available information to proactively and independently identify potential conflicts for all procurements. To facilitate this practice and quickly verify whether a proposer has an existing contract with the Authority that could create a potential organizational conflict of interest, the Authority should create an information repository, such as an excel spreadsheet or other simple database, to centralize its information about active and prospective contractors and subcontractors.

- Revise its policy by March 2026 to state that, in addition to requiring disclosures from proposers, it will use readily available information to proactively and independently identify potential conflicts.

- Immediately inform all contract managers of steps they should take to identify any conflict mitigations they should be monitoring, in addition to the conflict determinations that are part of their existing contract records.

- Adopt in policy or procedure by March 2026 a standard method for informing contract managers of mitigations that the Authority has determined are necessary to prevent organizational conflicts

The Authority Evaluated Proposals and Awarded Contracts in Accordance with Established Criteria

The Authority helped to ensure fair competition and prudent use of public funds by awarding contracts according to the required criteria. Table 3 shows that depending on the procurement method the Authority used, state law establishes different criteria for awarding contracts. In its advertisements for the five procurements we reviewed, the Authority included the required criteria for awarding each contract. We reviewed the scoring and evaluation forms for the five procurements to verify that the Authority assessed proposals against the stated criteria. We found that it did so, and that it awarded contracts to the appropriate proposers based on those evaluations. For example, to select the winning contractor for the property acquisition procurement, the Authority's selection committee assessed proposers' plans for accomplishing the scope of work; their information about team organization and staffing, project management, and key personnel; their plans for involving small businesses; and the price they offered for the work. The committee awarded points accordingly and selected the proposer with the highest score to be the Authority's contractor.

The Authority Used Appropriate Controls to Ensure that Contract Prices Were Reasonable

The Authority determined that contract prices were reasonable in order to ensure prudent use of public funds. Under state law, the Authority is responsible for determining or justifying the reasonableness of contract prices, as shown in Table 3. For contracts procured through the invitation-for-bid and request-for-proposal methods, state law directs the Authority to ensure reasonable price by virtue of ensuring competition among parties and by making price a decisive or substantial factor for awarding the contracts, and we found the Authority did so. Specifically, the Authority awarded the property appraisal contract to the lowest bidder that met minimum requirements, and it made cost proposals worth 30 percent of the total score it used to select a contractor for the property acquisition procurement.

For the qualifications-based procurements for A&E services, state law does not prescribe how the Authority should determine reasonable price, but the Authority used a method that we found to be appropriate. The Authority developed budget estimates for the design and engineering work to set the ceiling for contract costs. Then, to ensure that the prices offered by selected contractors were reasonable, the Authority's Internal Audit Office assessed whether the cost proposal was complete, accurate, and adequately supported. For example, the Internal Audit Office compared the contractors' proposed labor rates to their payroll records to ensure that the rates were consistent with their actual costs. The Authority used the results of this assessment to negotiate terms with selected contractors before executing its contracts for A&E services.

The Authority Improperly Amended One Contract

The Authority improperly amended one of six other contracts we reviewed, thus limiting competition for the services that the amendment added. As discussed throughout this report, state law and contracting guidance generally require competitive procurement of contracts but allow for amendments to existing contracts with some limitations. Additionally, state law requires state agencies to award A&E contracts on the basis of demonstrated competence and qualification for the type of services required and at a fair and reasonable price. To implement this method of selection, state law requires state agencies contracting for A&E services to adopt regulations that assure that these services are procured on the basis of demonstrated competence and qualifications for the types of services to be performed and at fair and reasonable price. The Authority's adopted regulations allow for amendments to its A&E contracts to modify the general terms, conditions, specifications, due date, and reasonable compensation for the services for which the Authority issued a request for qualifications and selected the most highly qualified firm. These regulations help ensure that the Authority obtains best value for amended A&E contracts by relying, in part, on the competitive selection of the original contract in which the vendor demonstrated the best ability to provide the specified services.

We reviewed six amendments—selected as described in Appendix A—and determined that five were allowable but one added a new type of service to the A&E contract it amended, which was not allowable under the Authority's regulations required by state law. The contract in question was for a project construction manager (PCM) to provide oversight of the design-build contractor on Construction Package 4 (CP4). The Authority procured that contract in 2015 using a request for qualifications for project construction management services. In June 2025, the Authority amended that contract for the eleventh time, extending the contract by six months and increasing the contract total by $5.8 million, including $600,000 for the PCM to design a new railhead the Authority desired to construct. However, this addition was not allowable because design services were not part of the original contract scope, and so the Authority did not select the PCM to provide design services through the required competitive procurement process. Because the Authority did not comply with competitive requirements, it does not have sufficient assurance that it obtained the best value for the $600,000 that it budgeted for the inappropriately added design work. The Authority has also exposed itself to legal and reputational risks. The legality of the amendment's addition of design services could be challenged, one outcome of which could be the invalidation of that addition with potential financial ramifications, such as having to recoup payments from the PCM. Further, noncompliance with state procurement laws could erode trust in the Authority's stewardship of public funds.[1]

[1] To better understand how and when the Authority decided to use the PCM for design work, we requested from both parties all communications between them regarding the amendment for the timeframe the amendment was being developed. Although the Authority provided responsive communications, the PCM has not responded to our request. We will continue to follow up.

Instead of amending the PCM contract contrary to the requirements of state law, the Authority should have used one of multiple other allowable options. First, the Authority could have procured a new contract. Conducting a new competitive procurement for the additional design work would have allowed all qualified contractors to compete for the work and the Authority to choose the best one. Alternatively, the Authority could have amended an existing contract that already included design services—such as either of its two contracts for the design of the Merced and Bakersfield extensions. Properly amending an existing contract could have helped the Authority obtain services quickly, while also complying with the law and avoiding the potential financial and reputational risks of noncompliance.

We must also note that one potential reason why the Authority did not explore any of these other allowable alternatives is that the Authority had already directed the PCM for CP4 to begin design work on the railhead before the contract amendment concept had been presented to the Authority's oversight committee; in fact, the PCM had already completed railhead designs a month before final execution of the contract amendment. Even so, there were concerns and questions raised by participants in the Authority's contract amendment oversight process, which included, for example, questions from the Authority's Internal Audit Office about whether the design work described above and a new performance fee described below were outside the parameters of the original contract. However, these concerns were raised in the context of a contractor having already been selected and nearing completion of the design work in question.

As indicated above, the amendment to the PCM contract also added a questionable performance fee. Specifically, the amendment provided a $1 million performance fee to be awarded if the PCM resolved all subcontractor claims by the end of December 2025 at or below 50 cents on the dollar of the claimed amount. The original PCM contract already included a provision that the PCM manage and advise the Authority on all CP4 claims. The documentation we reviewed indicated that the Authority wanted to provide additional incentive for the PCM to resolve CP4 claims quickly, but this documentation did not demonstrate how the Authority determined this fee was reasonable and allowable. As we described in our discussion of contract costs, the Authority's process for determining the reasonableness of A&E contracts involves comparing contractors' rates to financial information that demonstrates their actual costs. However, the amendment does not state any relationship between the $1 million amount of the performance fee and the PCM's actual costs. The structure of that fee is unique in comparison to performance fees in the Authority's PCM contracts for CP1 and CP2-3, which pay a percentage of the contractors' invoiced billings based on various performance metrics. Because of the unique structure of the amended performance fee for the CP4 PCM, we would have expected a documented legal analysis of its allowability under state law. However, as discussed below, we found no legal approval of this amendment.

The Authority has a process for conducting legal review of contracts to ensure they are compliant, but it did not effectively use that process for the PCM contract amendment. Similar to the process for new contracts that Figure 2 showed, the Authority's process for amendments begins with identifying a need for an amendment and making a request for it. If the oversight committee approves the request, then the Authority conducts an internal process to prepare the amendment

that includes legal review. Because the Authority is responsible for ensuring that its contracts comply with the law, resolving comments from legal review and obtaining legal approval is a critical safeguard in its process. For the PCM contract amendment, the Authority conducted legal review, but its documentation does not show that it fully resolved the comments from that review or obtained legal approval of the amendment.

According to the CFO, the Authority maintains an internal governance process that includes legal review and analysis of each contract or contract amendment request. The Authority's legal office (Legal) reviewed the initial setup of the amendment in question during the oversight committee process and provided an "acknowledged" response. After modifications were made to the final strategy of the amendment, Legal updated its response to "reviewed, no comments." Although this information is true, its use as a response to our concern is flawed in that it conflates two distinct Legal review processes. In March 2025, Legal reviewed a description of the amendment during the oversight committee review. However, once the oversight committee provided its approval to proceed with the amendment, Authority policy required—and the Authority conducted—a full review of the actual amendment language by legal counsel and other internal stakeholders. That full review of the amendment occurred in late April and May of 2025. Thus, Legal's March 2025 acknowledgement and "review, no comment" responses referenced by the CFO should not be construed as legal review and approval of the amendment itself.

To avoid future misunderstandings, the Authority should improve its method of documenting legal approval of amendments. The Authority's process is to document legal reviews in writing that may be captured in emails or memos that are part of its procurement and contract records, but the results of the Authority's legal review were not indicated on the actual amendments we reviewed. In contrast, for contracts that were subject to DGS's oversight, we observed that the outcome of required legal review by DGS was documented very clearly with a stamp of approval on the contract document itself.

The Authority also needs to strengthen its safeguards against noncompliance by consistently implementing its existing procedures for legal review. Of the six contract amendments we reviewed, the Authority had no documentation that legal review occurred for two that were amended in Fall 2025. From our limited review, this problem appears to be recent, as we determined that the Authority had consistently done legal review of the next-most-recent amendment to each of the relevant contracts. Inconsistently adhering to its procedures puts the Authority at increased risk of failing to comply with legal requirements. Operating in a manner that heightens that risk is a serious issue, given the significant amount of money that the Authority will be committing through the upcoming procurements shown in Table 1, and it is an issue the Authority must immediately address.

Recommendations

To ensure that its contracts and contract amendments comply with state law, the Authority should do the following:

- Immediately adopt a practice of clearly documenting on its contracts and contract amendments whether legal review and approval has occurred and revise relevant procedures accordingly.

- By March 2026, ensure that staff with delegated authority to sign contracts or amendments have taken training to understand the Authority's contracting policies and procedures so that they can adhere to those policies and procedures.

The Authority Is Using a New Procurement Approach that It Has Not Yet Fully Defined

The Authority has been reconsidering its procurement strategy since 2024, and it recently introduced new procurements to obtain services through contracts for an "indefinite delivery, indefinite quantity," known as *IDIQ* contracts. Unlike the procurements we reviewed—which involved advertising specific work opportunities and awarding contracts to specific contractors to do that work for a set price—the Authority's IDIQ procurements involve advertising opportunities for a broad type of work and awarding contracts to multiple contractors that will then be eligible to compete for discrete jobs specified in subsequent *task orders* that describe the work and determine costs. The Authority believes the IDIQ approach falls within its broad ability to contract under state law and that the approach will provide a significantly streamlined alternative for delivering project services, reducing delays, and advancing the Authority's mission.

The Authority started using the IDIQ approach without establishing procedures for that approach. In Fall 2025, the Authority released on Cal eProcure a request for proposals for an IDIQ contract to perform repair and minor construction work called the Multiple Award Task Order Contract, or MATOC. The Authority also released a request for expressions of interest in an IDIQ contract for A&E services, and it plans to request proposals for that IDIQ contract in early 2026. The Authority's chief of contract administration has experience using the IDIQ approach for federal agency procurements. However, none of the draft procurement procedures that the Authority had in place when it initiated IDIQ procurement activity addressed the IDIQ approach.

Not having procedures in place when awarding IDIQ contracts and task orders would increase the risk of using inconsistent or inappropriate practices that could result in unfair or wasteful outcomes. Procedures for issuing IDIQ task orders are especially important because task orders, not contracts, will commit funds to pay for specific work. As of January 2026, the Authority had mitigated this risk for the MATOC by finalizing an ordering guide to provide staff with information about how to use the MATOC to award task orders. The Authority's efforts to establish this guidance will help it ensure that staff award task orders properly and effectively. For example, the guidance identifies that contract managers issuing task orders are responsible for obtaining applicable reviews, including legal reviews, and it provides instructions and a template for evaluating contractors so that the Authority can encourage good performance.

Some of the unique aspects of the task order process could introduce risks. The MATOC ordering guide and preliminary information the Authority provided in answer to questions we asked about the intended process for issuing task orders include certain areas, shown in Table 5, where the IDIQ process will likely differ at the initial contracting level versus the more targeted task order level. For example, in the area of advertising, the Authority plans to post contract opportunities publicly on Cal eProcure but does not plan to post task order opportunities on that website. The Authority's planned approach for task orders may be more efficient and less administratively burdensome than the

approach for contracts, but it will result in less public transparency about the nature and timing of specific services the Authority is procuring. Similarly, streamlining the process for announcing task order awards and not providing an opportunity to protest those awards may be more efficient for the Authority. However, potential tradeoffs could be perceived or actual unfairness in the task order award process, and such tradeoffs should be weighed against expected benefits.

Table 5. The Planned IDIQ Approach Includes Less Public Information and Does Not Include a Protest Opportunity in Its Task Order Process

Process Area	Contract Process	Task Order Process
Advertisement	Advertise publicly	Advertise directly to IDIQ pool of contractors
Award	Announce publicly	Announce directly to IDIQ proposers
Protest	Allow unsuccessful proposers to file a protest	No opportunity for unsuccessful proposers to file a protest

Source: The Authority's MATOC ordering guide and responses to OIG questions about its planned IDIQ approach.

The approach shown in the table has been finalized for the MATOC through procedures in the Authority's ordering guide, but the approach may vary for the A&E IDIQ as the Authority is currently developing IDIQ procedures. For example, the Authority told us that although it believes advertising task order awards publicly is not required and would detract from the efficiency of the IDIQ approach, it may decide to do so based on input from stakeholders. Specifically, the Authority said small businesses that participated in its industry forums on the IDIQ procurements expressed interest in being informed about task order opportunities so they could potentially participate in proposals as subcontractors. The Authority told us that it intends to finalize procedures for the A&E IDIQ before the formal award of that contract, which is slated for the third quarter of 2026.

In addition to fully defining its IDIQ approach, the Authority also needs to finalize its draft procedures for the other types of procurements we have discussed throughout this report. The Authority had not finalized those draft procedures during our review because it was reorganizing its procurement units and their assignments. However, procedural guidance is a critical tool that should be in place whenever the Authority is processing procurements, and the Authority has a responsibility under its policies to ensure that its procedures are consistent with current law and other applicable guidance and that staff adhere to those procedures. By completing and finalizing its procurement procedures in full, including the IDIQ procedures, the Authority can better fulfill its responsibility to ensure that it complies with the law, safeguards the public interest, and mitigates risks that could jeopardize the successful delivery of project services through key upcoming procurements.

Recommendations

To mitigate the risk of inconsistent or inappropriate practices and help ensure effective use of various procurement methods to meet the Authority's needs, the Authority should do the following:

- Fulfill its plan to establish procedures for the A&E IDIQ procurement before it formally awards that contract.

- Commit to a timeline for finalizing draft procedures for other types of procurements that will enable the Authority to provide its staff with definitive guidance for processing those procurements by the time they are tasked with doing so.

Appendix A

Scope and Methodology

The purpose of this review was to assess whether the Authority's procurement practices are well designed and were implemented effectively for a selection of recent procurements. We performed the review during the period of May 2025 to January 2026. The three review objectives were as follows:

1) Identify the Authority's procurement policies and procedures and evaluate whether they are designed to effectively protect the interests of the State;

2) Review a selection of procurements and contracts to determine whether Authority personnel followed established policies and procedures and to evaluate whether doing so effectively protected the interests of the State; and,

3) Develop recommendations for ensuring best value and reasonable risk from large upcoming procurements.

We performed the following to address the objectives:

1. Reviewed the Authority's contracting responsibilities under state law and determined the methods it may use to procure contracts to deliver the project.

2. Summarized the estimated cost and timeline for future work the Authority will need to procure to complete the M-B segment. Obtained the Authority's perspective on the development and objectives of its new procurement strategy.

3. Determined the Authority's procedures for obtaining the best value for procurements, including promoting competition, preventing conflicts of interest, and ensuring reasonable prices, and evaluated whether the procedures align with relevant state law and federal grant agreements.

4. Determined how the Authority ensures that it completes procurements by the time necessary to maintain the project schedule.

5. Reviewed a selection of procurements to determine how many proposals the Authority received and whether the Authority complied with selected competition requirements. We made the selection of five procurements shown in Table 1 based on significance to the project, recency, and risk factors such as indications of lengthy timelines.

6. Reviewed the Authority's procurement timelines and tracking sheets to determine how long the selected procurements took. We identified where delays occurred in the established

procurement processes and interviewed Authority personnel to determine the causes and impacts of delays.

7. Reviewed disclosures of conflicts of interest for individuals involved in awarding contracts for the selected procurements and determined whether the Authority followed applicable procedures for preventing conflicts of interest.

8. Assessed whether the Authority consistently implemented its approach for preventing organizational conflicts of interest for the selected procurements. We identified potential conflicts that were disclosed and reviewed a risk-based selection to assess whether the Authority followed its established policies and procedures for making conflict determinations.

9. Interviewed Authority personnel to determine how the Authority obtained assurance that all reasonably known potential conflicts were disclosed and, as applicable, to identify the reasons for any inconsistencies we identified in the implementation of the Authority's policies and procedures.

10. Identified the Authority's criteria for evaluating proposals received for the selected procurements and reviewed scoring documentation to determine whether the Authority followed its established criteria for awarding the contracts.

11. Determined whether the Authority implemented its procedures for ensuring reasonable price for contracts that resulted from the selected procurements.

12. Reviewed a selection of six contract amendments to determine whether the selected amendments were allowable based on key criteria in state law and contracting guidance. We made the selection of six amendments based on consideration of the type of contract amended, the dollar value of amendments, total number of amendments per contract, whether contractors had multiple contracts with the Authority, and risk factors such as indications of change to contract scope, dollar value, or time.

Note: State law authorizes the OIG-HSR to review the Authority's proposed agreements to ensure that they are in the best interest of the State, the High-Speed Rail Authority's statutory mission, and state priorities. To date, the OIG-HSR has fulfilled this responsibility by evaluating and providing feedback to the Authority regarding certain terms and conditions of significant solicitations (e.g. requests for proposals). The subject matter and methods of these evaluations have no overlap with, relevance to, or impact on the objectives of this review or the procedures performed in completing it.

Appendix B

Authority Response

We have included the Authority's response to our review results and recommendations in its entirety. Following the Authority's response, we have also included a series of comments necessary to clarify and provide additional perspective. The numbers of those comments correspond to the numbers we have placed in the margin of the response.

CALIFORNIA
High-Speed Rail Authority

Gavin Newsom
[illegible]
Tolis Dunishaldin
[illegible]
Ian Choudri
[illegible]

January 16, 2026

Benjamin Belnap
Inspector General, California High-Speed Rail
770 L Street, Suite 920
Sacramento, CA 95814

Dear Mr. Belnap:

We are in receipt of your draft report of the Office of the Inspector General's review of the Procurement on the High-Speed Rail Project, and this letter provides our response to that review.

We acknowledge receipt of the Office of the Inspector General's report. The Authority agrees with the report's conclusion that the procurements reviewed generally complied with applicable state requirements and were conducted to preserve fair competition and prudent stewardship of public funds.

In addition, the report identifies areas where the Authority can improve its practices, and notes that in some cases, the Authority has already adopted the recommendation or is in the process of doing so.

We appreciate the report's recognition of several new CEO priorities initiated to streamline project delivery through improvements to procurement practices that had previously slowed execution.

While the Authority agrees with the overall findings, several conclusions would benefit from additional context and clarification.

Sincerely,

Mark Tollefson
Chief of Staff
California High-Speed Rail Authority

770 L Street, Suite 620, Sacramento, CA 95814 • T: (916) 324-1541 • F: (916) 322-0827 • www.hsr.ca.gov

were completed later than the target dates identified at the outset of the procurement process, as noted in the review. The initial target dates were based on preliminary assumptions made at the time of request and did not always account for the full lifecycle duration required for internal approvals, solicitation development, evaluation, and contract execution. In addition, four of the five contracts were processed prior to the new executive team joining the Authority in 2025. 1

While the procurements were completed later than initially desired, the Authority notes that procurement durations were generally consistent with expected timelines for the applicable solicitation methods (e.g., Invitation for Bids and Requests for Proposals), and that multiple internal and external factors contributed to schedule extensions, including protests, proposer-requested extensions, internal review sequencing, and governance approvals. In each instance, the Authority implemented interim measures to preserve continuity of services and prevent downstream impacts to active project work.

In response to the OIG's recommendation, and in coordination with the Contracting Office and the Business Oversight Committee, the Authority will strengthen front-end planning and governance by standardizing the development of procurement schedules for all procurement types. This includes closer scrutiny of proposed start dates during business case and internal approval reviews to ensure they are realistic, aligned with procurement method-specific timelines, and supported by clearly defined internal milestones.

The Authority is also evaluating updates to its internal procurement request forms and guidance to improve schedule accuracy, including encouraging the use of defined contract term periods rather than fixed start dates where appropriate. These actions improve schedule discipline, reduce misalignment between initial requests and execution, and ensure procurements are completed in a timely, competitive, and compliant manner.

Response to Recommendation II: "The Authority Did Not Fully Implement Some Safeguards to Prevent Conflicts of Interest" (Page 21)

On the findings related to the implementation of the Authority's organizational conflicts policy, we appreciate the acknowledgment of our ongoing efforts to ensure compliance within existing logistical constraints, and that the cited examples resulted in no unfair competitive advantage and no improper awards. The Authority will continue to optimize access to current and complete information related to potential conflicts, and work with relevant stakeholders to update the Organizational Conflict of Interest Policy to reflect the suggested changes.

Response to Recommendation III: "The Authority Improperly Amended One Contract" (Pages 26-27)

As part of its overall review of procurement practices, the OIG reviewed the Authority's process for contract amendments. The review found that the Authority met all tested standards for five of
2 the six amendments reviewed, but identified two issues with one amendment. These issues fall into two categories: scope addition and key performance indicator (KPI) creation.

Regarding scope addition, the OIG asserted that the Authority limited competition by not competitively procuring additional design scope of work, potentially jeopardizing the value of public funds by not ensuring best value for $600,000 in ancillary design work. In addition, the OIG noted that this work could have been incorporated into an existing design contract in another geographic location.

3 At the time, the Authority considered three available options: (1) Amend the contract primarily for construction management, which included design engineers; (2) Amend the contract primarily focused on design work in different geographical areas; or (3) Issue a competitive bid for a limited amount of design work. The Authority believed that the amended contract included the appropriate expertise within its base scope to perform the ancillary design work. However, we recognize that reasonable questions may be raised regarding the decision. Option 3 carried significantly higher soft costs and uncertainty regarding whether the resulting cost would be lower than the chosen option, or whether the procurement would have been successful given the limited amount of work. Option 2 involved higher fees (from other contracted design entities) than option 1 and additional ramp-up time for engineers to understand site and location specifics, both of which were already known under option 1. Faced with these three options, the Authority chose the most economical path thus achieving both cost and time savings.

In the future, the Authority's new MATOC and IDIQ procurement strategies will provide the Authority with additional options, and similar situations are not expected under the Authority's updated framework.

Regarding the KPI issue identified as questionable in the report, it is important to consider the context surrounding performance-based fees. These fees are unique to each situation and
4 require a significant degree of judgement and expertise in their development. This context is relevant when assessing the appropriateness of the KPI.

5 KPIs represent an effort advanced by the Authority to drive improved performance and behaviors and, ultimately, improve project delivery. The Authority used a performance-based fee structure in this instance to resolve longstanding subcontractor claims, reduce the risk of protracted litigation, and expedite close-out activities that had historically resulted in significant time and cost overruns.

In this case, the KPI was established to resolve several outstanding subcontractor disputes and claims, avoid or settle litigation or arbitration, ensure small businesses were paid for valid claims, and close out what could otherwise have been a lengthy and costly process. The KPI was time-bound and projected to deliver greater cost savings than historically achieved in resolving claims and disputes. Achieving this outcome required the owner's representative to

Response to Recommendation IV: "The Authority is Using a New Procurement Approach that It Has Not Yet Fully Defined" (Page 30)

The procurement of the MATOC and IDIQ vehicles was a deliberate decision by the Authority based cost, schedule, and risk of the overall program. IDIQ and MATOC vehicles are established procurement tools used by federal agencies (including the Department of War (DOW)), state department of transportations, and other large public infrastructure owners (Sound Transit and Los Angeles World Airports (LAWA)). These contract vehicles are used to manage high volume projects while maintaining competition. The Authority's adoption of IDIQ and MATOC vehicles reflects a deliberate policy decision to align procurement strategy with the scale, complexity, and urgency required to transition the program to the necessary level of construction and systems execution.

The Authority concurs with OIG's observation that the procedures for task order administration were in development at the time the MATOC solicitation was released. Responses to the MATOC request for proposals were due December 2025 and the Authority is currently evaluating contractors for award. Since that time, the Authority has finalized a MATOC Ordering Guide that establishes proper procedures required for effective task order administration. The Ordering Guide clarifies and provides standardization to the process of soliciting and awarding task order under the MATOC. For the AE IDIQ, the Authority will finalize all ordering procedures prior to contract award later this year. These procedures will also incorporate any lessons learned from the MATOC solicitation, evaluation, award, and administration.

Traditionally, individual task orders are not publicly advertised in all IDIQ programs in a tradeoff to balance procurement and administrative efficiency versus public visibility. The Authority will take additional steps to improve program transparency and accountability. First, the Authority intends to utilize robust on-ramp procedures to allow industry multiple opportunities (at least once a year throughout the life of the contract) to become a part of the MATOC and IDIQ vehicles. Secondly, the Authority intends to publicly post awarded task orders to allow industry the opportunity to sub-contract with the awardee.

In addition, the IDIQ and MATOC vehicles directly mitigate risks identified in the OIG report. These contract types ultimately reduce reliance on contract amendments that may raise concerns of possible scope creep or competition concerns while minimizing the risks of gaps in services and provide the Authority with a mechanism to rapidly address emerging project needs or emergencies. The Authority views IDIQ and MATOC vehicles as established procurement tools that reduce reliance on contract amendments, mitigate competition risk, and enable timely response to emerging project needs within a controlled and transparent framework.

OIG-HSR Comments on the Authority's Response

1. For the following reasons, the Authority's description in its response of its established target dates for each procurement unfairly diminishes their value as a performance metric for the timeliness of the procurement process that followed:

    - Calling the target dates "initial" gives the impression that the Authority may have established subsequent, more realistic target dates for the procurements; there were no such dates in its documentation approving the procurements we reviewed.

    - As we state on page 9 of our report, Authority executives, including the chief financial officer and chief of contract administration, reviewed and established the target dates as part of the business oversight committee's review and approval process. Authority executives would have been well positioned to know the full lifecycle of the procurement and contract execution process, as well as the project's timelines and priorities.

    - As we also explain in the report, we compared the target dates to project schedule documentation and found that they were consistent with the dates when procurements needed to occur to avoid delays; in some cases, these dates were tied directly to dates when previously awarded contracts for those same services were set to expire.

2. To be clear, our report does not take issue with the creation of a key performance indicator for the Project Construction Manager (PCM) in this amendment. As we indicate on page 25, other PCM's had performance fees tied to key performance indicators, which if met, paid them an additional percentage of their invoiced actual costs. Rather, our report questions the tying of a flat $1 million performance fee, for which we found no rationale or legal approval, to the key performance indicators in the amendment in question. This performance fee structure was unique in that it had no demonstrated mathematical connection to the PCM's actual cost for time spent resolving CP4 claims.

3. The Authority indicates that, at the time this amendment was developed, it considered three available options and ultimately chose the most economical. However, we found no evidence of the Authority weighing of these options in the Authority's procurement records or any other documentation the Authority provided. Further, at no point other than in its response did the Authority put forward its argument that amending another contract that already included design work in its scope would have been more expensive than amending the PCM contract for CP4. As such, we are not positioned to validate the assertions related to these relative costs made in the Authority's retrospective analysis of why it chose to add railhead design work to the PCM contract for CP4. Moreover, even if adding design work to the PCM contract was less expensive, the Authority should not have considered it an available option because it was a direct violation of state law.

4. We are confused by the Authority's assertion in its explanation of the $1 million performance fee that the exercise of judgement and expertise is necessary context for assessing the fee's appropriateness. Exercising good judgement and drawing on qualified expertise is a baseline need for all Authority decisions and functions. Experts across all Authority functions, including engineering staff and legal counsel, routinely demonstrate the rationale for their judgments through established processes that guide and document the decisions they make. Nothing about the financial-related key performance indicators and associated performance fee in this amendment was so nuanced or complex that those executing the amendment could not have demonstrated their rationale for proceeding, nor does it excuse doing so without legal approval.

5. As indicated in rebuttal #2 above, we do not take issue with the concept and purpose of key performance indicators; we take issue with the process behind and unclear basis for the $1 million performance fee in this amendment. Specifically, unlike other PCM performance fees, there was not in the procurement files we reviewed any clear connection between the PCM's actual costs and the performance fee. Subsequent to providing our draft report to the Authority for response, we obtained communication between the Authority and the PCM for CP4 and found an email that described the performance fee as a "50/50 split" in which the PCM would provide $1 million in base level support and would receive another $1 million if it settled claims by a particular date and at 50 cents on the dollar. Despite this additional clarity, we still question how the Authority determined that this fee structure was necessary and reasonable to properly incentivize the PCM to perform a claims support service it had been performing since 2015.

Whistleblower Hotline

Report fraud, waste, & abuse

The Office of the Inspector General receives and investigates complaints or information from any person concerning the existence of an activity related to the high-speed rail project constituting:

- A violation of laws, rules, or regulations.
- Mismanagement.
- Gross waste of funds.
- Abuse of authority.
- Substantial and specific danger to the public health and safety.

Public Utilities Code 187032 prohibits the Inspector General's office from disclosing the identity of any employee of the High-Speed Rail Authority or one of its contractors who submits a complaint without the consent of that employee unless the Inspector General determines that the disclosure is unavoidable during the course of the investigation, or the disclosure is made to an official of the Department of Justice responsible for determining whether a prosecution should be undertaken.

To report a concern:

Call our Whistleblower Hotline
(916) 908-0893

Visit our website
www.hsr.ca.gov/office-of-the-inspector-general

OFFICE OF THE INSPECTOR GENERAL

CALIFORNIA HIGH-SPEED RAIL

Contact Information

Office of the Inspector General

(916) 908-0893

InspectorGeneral@oig.hsr.ca.gov