



AMTRAK | Office of
Inspector General
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ANNUAL AUDIT, INSPECTION, AND EVALUATION PLAN FISCAL YEAR 2014

October 18, 2013





NATIONAL RAILROAD
PASSENGER CORPORATION



The Inspector General

INSPECTOR GENERAL'S MESSAGE

I am pleased to present the Amtrak Office of Inspector General's *Fiscal Year 2014 Annual Audit, Inspection, and Evaluation Plan*. This plan provides a road map to accomplishing our mission of conducting independent and objective audits, inspections, and evaluations to promote economy, efficiency, and effectiveness in Amtrak's programs and operations while preventing and detecting fraud, waste, and abuse. This plan outlines focus areas where we intend to undertake work, summarizes our most recent reports, discusses our ongoing work, and identifies potential future work focus areas. We extend a sincere thanks to all of those who provided input to this plan.

We are continually working to improve our planning process and welcome suggestions as well as recommendations about future work that we should consider. Please direct any suggestions or questions to me; Tom Howard, Deputy Inspector General; David Warren, Assistant Inspector General, Audits; or Calvin Evans, Assistant Inspector General, Inspections and Evaluations. We can all be reached at 202-906-4600.

A handwritten signature in black ink, appearing to read "Ted Alves". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Ted Alves

TABLE OF CONTENTS

INTRODUCTION	2
GOVERNANCE	3
ACQUISITION AND PROCUREMENT	8
INFORMATION TECHNOLOGY	11
TRAIN OPERATIONS AND BUSINESS MANAGEMENT	14
HUMAN CAPITAL MANAGEMENT	20
SAFETY AND SECURITY	22
ASSET MANAGEMENT	25
OIG MISSION AND CONTACT INFORMATION	28

INTRODUCTION

During Fiscal Year (FY) 2014, we will focus our audit, inspection, and evaluation efforts on these areas:

- Governance
- Acquisition and Procurement
- Information Technology
- Train Operations and Business Management
- Human Capital Management
- Safety and Security
- Asset Management

We identified these areas based on their importance to Amtrak in (1) achieving operational and financial excellence and (2) reducing risk. To do this, we obtained input from our staff, Amtrak's Board of Directors, Amtrak management, and Federal Railroad Administration officials. We also considered areas of congressional interest based on hearings, discussion with congressional staff, and other information sources.

For each of these areas, this plan presents a brief overview describing:

- the area's importance in reducing Amtrak's risks to achieving operational and financial well-being
- recent Amtrak OIG reports
- ongoing audits/inspections and evaluations
- potential audit/inspection and evaluation topics for FY 2014
- potential areas of focus beyond FY 2014

As resources become available to initiate new work, we will select from the potential topics identified for FY 2014. Based on current resource constraints and the likelihood of unpredictable priority work, we may not address all of the potential topics in FY 2014. Topics not addressed will be considered during our FY 2015 planning process.

GOVERNANCE

Over the past 10 years, corporate governance and risk management have received increased attention. Corporate governance is defined as a system of internal controls encompassing policies, processes, and people. It serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectivity, accountability, and integrity. Effective processes for governance and risk management are essential in helping to avoid an event that could prove catastrophic to an organization's financial and operational health. Our governance audit/evaluation work will focus on enhancing the stewardship of company resources by evaluating senior leadership's processes, policies, and activities to identify areas where corporate risk can be reduced and governance can be improved.

Recently Issued Reports (Governance)

Claims Program: Use of Best Practices Would Strengthen Management Controls (Audit Report OIG-A-2012-016, 8/14/2012)

Our objective was to review the adequacy of management controls over the claims program from initial receipt through settlement of claims. We compared Amtrak's management controls with best practices for management controls. Our comparison showed that adopting some best practices can strengthen the management control environment over the claims program. In commenting on the draft report, the Vice President, General Counsel, stated that the Law department and Claims Office agreed with all of our recommendations and have begun or plan to take corrective actions. The actions Amtrak has taken and plans to take meet the intent of our recommendations.

Quality Control Review: Amtrak's Independent Public Accountant Met Applicable Auditing Standards for the Fiscal Year 2012 Audit of the Consolidated Financial Statements (Audit Report OIG-A-2013-004, 2/1/2013)

To help ensure audit quality and compliance with auditing standards, we monitored the audit activities of the independent certified public accounting firm that audited Amtrak's consolidated financial statements for the year ended September 30, 2012. Our review disclosed no instances in which the public accountant did not comply, in all material respects, with generally accepted government auditing standards.

The public accountant concluded that the consolidated financial statements fairly presented, in all material respects, the consolidated financial position of Amtrak and its subsidiaries on September 30, 2012, and the consolidated results of their

operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Data Analytics: Most Procurement Card Controls are Effective, but Some Need to be Strengthened (Audit Report OIG-A-2013-019), 9/26/2013)

The Finance department established policies and procedures for controlling the use of procurement cards (company credit cards or PCards) that, with a few exceptions, appear to be effective based on the level of compliance by employees. Controls can be strengthened in some areas, including split transactions and single purchase limits, single and monthly purchase limits, unauthorized purchases, cancelling of unused cards, employees with higher purchase limits than requested, and uncertain continued need for a PCard. Our analysis of PCard controls did not identify any significant control vulnerabilities in areas such as former employees retaining active cards, employees having multiple cards, and purchases made on lost/stolen cards. We recommended, and the Acting Chief Financial Officer agreed, to direct the Amtrak Controls group to assess the adequacy of controls and strengthen where appropriate.

Data Analytics: Enhanced Controls Needed To Avoid Duplicate Payments (Audit Report OIG-A-2013-018, 9/20/2013)

As of September 20, 2013, the Finance department recovered or is in the process of recovering about \$1.9 million in duplicate invoice payments identified by this work. The Finance department is reviewing another \$4.8 million in potential duplicate payments we identified. Private-sector best practice organizations establish controls over payment processes that prevent and detect duplicate invoices prior to payment. Duplicate payments have three major negative impacts on organizations: the direct loss from overpaying for goods and services, the cost of resources to attempt overpayment recoveries if duplicate payments are subsequently identified, and the unnecessary reductions in cash balances—even if overpayments are recovered.

We recommended applying cost and benefit criteria in seeking recovery of potential duplicate payments—valued at about \$4.8 million—and directing the Amtrak Controls group to assess the adequacy of vendor payment process controls and take corrective actions as appropriate. The Acting Chief Financial Officer agreed to our recommendations.

Audit of Grant Agreement: Next Generation Equipment Committee Materially Complied with Terms of the Grant Agreement (Audit Report OIG-A-2013-012, 3/27/2013)

The Next Generation Equipment Committee (the Committee) materially complied with the criteria governing grant expenditures, met the schedule for deliverables contained in the grant provisions, and has a generally sound system of internal controls to govern its activities. However, we did identify a few relatively minor instances, totaling \$11,345, in unsupported or questioned costs for services billed by one contractor. We also identified opportunities to strengthen internal controls to help reduce vulnerabilities to waste or abuse in support service agreement approval, timely review and payment of invoices, and processing of grant reimbursement requests.

The Amtrak Acting Chief Financial Officer and the Committee's Finance Subcommittee Chairman concurred with our recommendations to seek reimbursement for the questioned costs, obtain documentation for the unsupported costs, and take action to improve certain internal controls.

Corporate Governance: Planned Changes Should Improve Amtrak's Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds (Evaluation Report OIG-E-2013-020, 9/27/2013)

The objective of this evaluation was to determine the extent to which Amtrak's capital planning process reflects sound business practices in developing project proposals, selecting capital projects to fund, and evaluating project outcomes.

We found that Amtrak's initial changes to the capital planning process are generally consistent with sound business practices used by other organizations, and those changes should improve the process. However, our analysis shows that the process could be further improved if management fully adopts sound business practices across each phase of the process. An enhanced process will help management ensure that it optimizes the use of capital funds to best support its strategic objectives.

To assist management's ongoing efforts to improve the company's capital planning process, we recommended that Amtrak take a number of actions to build the capability to fully implement the sound business practices described in this report. In these recommendations, we included steps to develop sound project proposals, review and rank proposals according to sound practices, tighten controls over the contract approval process, and implement current policy to evaluate the outcome of

capital projects. Amtrak's President and Chief Executive Officer concurred with our recommendations.

Ongoing Audits/Inspections and Evaluations (Governance)

- *Monitoring the Work of Amtrak's Independent Public Accountant (IPA) Conducting the FY 2013 Financial Statement Audit and Single Audit.* This audit is designed to determine whether the IPA performed the audit of Amtrak's Consolidated Financial Statements and Amtrak's Single Audit in accordance with standards, and to follow up on prior recommendations made to the Audit and Finance Committee and Chief Financial Officer to improve Amtrak's oversight of the IPA.
- *Capital Program Management.* This audit is evaluating the adequacy of Amtrak's capital program management practices, including policies and procedures for managing its capital programs in estimating, scheduling, overseeing, and closing out projects.
- *Top Management and Performance Challenges Report.* This report is assessing the major management challenges facing Amtrak. This is our first such report, and we plan to update our assessment of management challenges annually.

FY 2014 Potential Audits/Inspections and Evaluations (Governance)

- *Financial Statement Oversight.* This audit will determine whether the IPA performed the audit of Amtrak's Consolidated Financial Statements and Amtrak's Single Audit in accordance with standards.
- *Budgeting and Cash Management.* The objective of this audit would be to determine if Amtrak is following best practices in developing its annual budget and managing its cash.
- *Business Line Accounting System and Rules.* Amtrak is reorganizing its Operating department into business lines. The objective of this audit would be to determine if Amtrak's financial accounting system and business rules have been modified sufficiently to support business line accountability.
- *Reasonableness of Host Railroad Administrative Charges.* Amtrak pays host railroads to operate on their tracks. Included in the total costs that Amtrak pays the host railroads are certain administration charges. The objective of this audit would be to

determine if these administration charges are reasonable, well-supported, and reflect the level of services provided by host railroads.

- *Final Audit of Section 305 Grant Compliance.* The objective of this audit would be to determine if the Equipment Pool Committee formed under Section 305 of PRIIA is in compliance with the terms of the grant agreement, including the propriety of grant expenditures, and if the grant expenditures are supported with adequate documentation and in accordance with the terms of the agreement.

Potential Focus Areas beyond FY 2014 (Governance)

Potential topics for work beyond FY 2014 in governance include assessing Amtrak's progress implementing its strategic plan. In addition, we will continue to oversee the work of the independent public accountant conducting Amtrak's financial statement audits, and we will continue to develop reports on top management challenges. Other potential areas for review include Amtrak's continuity of operations planning and the corporation's change management process.

ACQUISITION AND PROCUREMENT

Over the next 30 years, Amtrak is planning to spend more than \$150 billion to improve its infrastructure and equipment along the Northeast Corridor. The infrastructure improvements are designed to bring the Northeast Corridor to a state of good repair by 2025, including repair or replacement of bridges, catenary, signals, and tracks. The equipment improvements include the purchase of 70 new electric locomotives, additional high-speed train sets, and, ultimately, the next generation of high-speed rail.¹ For FY 2014, Amtrak has requested more than \$1.8 billion for infrastructure improvements and equipment acquisitions. To ensure a high probability of success for these programs, Amtrak must effectively engage its Procurement and Materials Management department to acquire the goods and services necessary to achieve these objectives.

To promote economy and effectiveness in Amtrak's planning for and oversight of the acquisition and procurement of goods and services, our planned work for FY 2014 will focus on vendors and suppliers of parts and materials and on controls over various procurement processes and agreements. We will also conduct audits of individual procurement actions across the main acquisition and procurement phases: planning, project selection, contract award, implementation, and closeout. Our work will identify opportunities for Amtrak to improve the use of its resources and identify cost savings that may ultimately reduce Amtrak's reliance on federal subsidies.

Recently Issued Reports (Acquisition and Procurement)

Acela Car Purchase: Questioned Costs Identified in Price Proposal (Audit Report OIG-A-2013-002, 12/4/2012)

A potential contractor's price proposal contained amounts that, in some cases, were not based on well-supported and/or reasonable cost data. As a result, we questioned those costs. We made two recommendations aimed at helping lower the negotiated contract price and retaining the audit provision in the terms and conditions of the final contract. Management agreed with our recommendations and, considering our work and other factors, decided to forgo purchasing the additional Acela cars. Based on this information, a portion of the cost avoidance is attributable to our report.

¹ Additional information pertaining to Amtrak's vision for the Northeast Corridor can be found in *The Amtrak Vision for the Northeast Corridor: 2012 Update Report*.

American Recovery and Reinvestment Act: Opportunities Exist to Recover Funds and Reduce Future Costs by Improving Procurement Policies (Audit Report OIG-A-2013-016, 7/29/2013)

The policies, procedures, and practices used by the Procurement and Materials Management department provided assurance that change orders to its ARRA contracts were, with minor exceptions, adequately supported and allowable under the contracts' terms and conditions. To the credit of Procurement and Materials, we found an error rate of only 1.2 percent. This low error rate was in part attributable to Procurement and Material Management's enhancement of the review process for ARRA funds—by engaging contractors to review the fairness and reasonableness of proposed change order values. The errors we identified amounted to approximately \$824,042. Management concurred with three of our four recommendations. We revised the fourth recommendation in response to Amtrak's comments.

Ongoing Audits/Inspections and Evaluations (Acquisition and Procurement)

- *Review of Procurement and Materials Management Department Activities as Compared to Best Practices.* Our objective is to gain an understanding of Procurement and Materials Management department's processes and compare them to best practices. Our work is limited to identifying criteria and observing conditions in the areas we reviewed and is intended to identify areas in which the OIG will conduct future, detailed audits.

FY 2014 Potential Audits/Inspections and Evaluations Topics (Acquisition and Procurement)

- *Amtrak's Management of its Supplier Base (Strategic Sourcing).* Amtrak relies on many suppliers and vendors to provide equipment, parts, and supplies needed to maintain and operate its rolling stock and infrastructure. The objective of this audit would be to review how well Amtrak is strategically managing the health of its supplier base during a period of increased globalization and consolidation within the industry.
- *Management and Availability of Spare Parts.* The objective of this audit would be to identify best practices in material management and compare them to Amtrak's practices in managing spare parts for certain types of equipment.
- *Adequacy of Controls over Payment Requests.* Amtrak policy states that the use of payment requests is restricted to low-dollar, non-recurring purchases. Recent discoveries suggest that payment requests may be widely used to circumvent established procurement procedures, which is a violation of policy. This audit will

determine the extent to which payment request procedures are being followed and the impact on Amtrak when they are not.

- *Best Practices for Identifying and Developing Procurement Skills.* In FY 2012, Amtrak spent \$2.4 billion, or 54 percent of its budget, on goods and services. To ensure that it is procuring the highest quality goods and services at reasonable prices, the corporation's procurement workforce must have the necessary skills and training. This audit would review Amtrak's procurement training practices and skill sets and compare them to industry best practices. The objective of this audit would be to assess the adequacy of Amtrak's workforce planning program in identifying the requisite skills and developing the capability and capacity of its procurement personnel.
- *Adequacy of Controls over Master Service Agreements.* The objective of this audit would be to determine the extent to which controls exist over Master Service Agreements and how well they are being followed and enforced.

Potential Focus Areas beyond FY 2014 (Acquisition and Procurement)

Potential topics for work beyond FY 2014 in the acquisition and procurement area include continuing to review Amtrak's acquisition and procurement policies, processes, and practices to identify systemic risks and make recommendations for improvement. Our efforts would include conducting pre-award audits of selected major procurements, and evaluating Amtrak's contracting procedures to determine if they are following industry best practices.

INFORMATION TECHNOLOGY

Passenger railroad businesses are labor-, capital-, and data-intensive. These businesses rely increasingly on modern information technology (IT) to improve labor and asset productivity and deliver safe and reliable customer service. At the same time, businesses are increasing their use of data analytic tools to enhance internal controls and improve the effectiveness and efficiency of their operations. Amtrak recognizes that many of its information systems and IT infrastructure in reservations and ticketing, supply chain, and operations require steady investment and continuous improvement to prevent obsolescence and critical failure. These systems and infrastructure are essential for the continuity and growth of business operations. Our work will focus on ways to improve the effectiveness and efficiency of IT programs and the use of data analytic tools.

Recently Issued Reports (Information Technology)

Information Technology: Opportunities Exist to Improve Services, Economies, and Contract Performance (Audit Report OIG-A-2013-013, 4/16/2013)

The IT department achieved some of the expected results from the Information Technology Infrastructure Initiative program, but the department could have more effectively planned and managed its approach to acquiring IT services, better administered the contract, and held the contractors more accountable for meeting contract terms. As a result, the IT department has not consistently received the level of IT support services it contracted for, continues to incur higher than necessary IT support costs, and faces an increased risk of costly interruptions to key business operations. For example, although the IT department did not fully track program savings and contract and internal costs, we noted that the contract's original scope of services was reduced to meet approved budget levels. Further, we identified up to \$27 million in potential savings through the end of the contract, and \$4.4 million in payments that could have been avoided with closer management attention.

Management agreed with all of our recommendations and identified ongoing and planned actions to address them, as well as the officials responsible for implementing them. Management recognized the nature and significance of these weaknesses and quickly began working aggressively to address them.

Strategic Asset Management Program: Opportunities to Improve Implementation and Lessons Learned (Evaluation Report OIG-E-2012-012, 5/31/2012)

Although Strategic Asset Management (SAM) program managers anticipated a certain level of implementation issues, the number, significance, cost, and time

needed to address them have all been greater than anticipated. Significant issues continue to surface, indicating that the system is not yet stable. As a result, more than a year after deployment, the company is still dealing with the adverse effects on business operations and financial performance.

This situation occurred primarily due to design and configuration shortfalls, insufficient requirements-gathering and testing, inadequate training, and underdeveloped user-support organization. Organizational silos and communication gaps also contributed to the implementation issues. The complexity of the design approach was an underlying contributor to the issues in each area. The dedicated work of many business users and the SAM team has helped to address many implementation issues. Nonetheless, challenges remain, and the time and cost needed to stabilize the new system, realize its benefits, and transform business processes are uncertain.

Ongoing Audits/Inspections and Evaluations (Information Technology)

- *Data Analytics.* The IT audit team is playing a key role in leading the data analytics work that is being conducted in other focus areas. The team provides technical assistance as needed to other audit and investigative teams. The team will also develop short- and long-term plans to expand the use of data analytics capabilities within the OIG.

FY 2014 Potential Audits/Inspections and Evaluations Topics (Information Technology)

- *Next Generation Reservation System (ResNG).* The objectives of this audit would be to determine if (1) the appropriate governance structure and processes are in place to ensure the successful implementation of the program and realization of the program benefits projected; (2) adequate program management controls exist and best delivery practices are being followed to meet the program scope, budget and schedule; and (3) relevant risks have been identified and corresponding mitigating controls have been designed for key business processes and system interfaces.
- *Centralized Electrification and Traffic Control (CETC) System:* Amtrak's Centralized Electrification and Traffic Control (CETC) system controls rail traffic, signaling, and power supply in the Northeast Corridor (NEC). CETC is comprised of two subsystems: the Central Traffic Control (CTC) subsystem, which controls the interlockings and signals for train operation and separation, and the Supervisory Control and Data Acquisition (SCADA) subsystem, which continuously monitors the status of the power distribution systems and operates breakers and switches to

de-energize or restore power to various track sections as required. Our audit objective will be to review the general and application controls of the CETC system to ensure safe and reliable operation of trains in the NEC.

- *Data Analytics.* Our office will continue a multi-year data analytics project to assess the effectiveness of internal controls in Amtrak's various business processes, such as Purchase to Payment, Materials Management, Payroll, Human Capital, and Claims. This project relies heavily on advanced data analytic technology to review the entire population of business transactions with the goal to identify opportunities to control risks and improve the efficiency and effectiveness of business operations. We are planning to incrementally build and refine analytic tests to prevent, detect, and deter instances of fraud, waste, and abuse in the company.

Potential Focus Areas beyond FY 2014 (Information Technology)

Potential topics for IT work beyond FY 2014 include assessing the economy, efficiency, and effectiveness of some of Amtrak's key IT programs—such as the e-Ticketing System, Food and Beverage Point of Sale System, and the Infrastructure Management System—in addition to continued data analytics support.

TRAIN OPERATIONS AND BUSINESS MANAGEMENT

Amtrak operates more than 300 daily trains on more than 21,000 miles of rails—serving 528 stations in 46 states, 3 Canadian provinces, and the District of Columbia. In 2013, Amtrak moved more than 31 million intercity passengers. In addition to evaluating Amtrak’s compliance with laws and federal regulations, we are continually looking for opportunities for Amtrak to improve the effectiveness and efficiency of its train operations and business management.

Recently Issued Reports (Train Operations and Business Management)

Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan (Audit Report OIG-A-2012-020, 9/7/2012)

We identified two areas where food and beverage program management could be improved—accountability for program results and program-wide planning. These management weaknesses stem from a fragmented program management structure. Two departments share responsibility for food and beverage service, but neither has a goal to reduce direct operating losses. On July 19, 2012, the Vice President, Operations, announced the establishment of a new position—the Chief of Customer Service in the Transportation department—and the transfer of Marketing and Product Development’s food and beverage service activities to Operations as of October 1, 2012. We recommended that Amtrak develop a 5-year plan for reducing its direct operating losses on food and beverage service, including specific initiatives and annual operating loss reduction goals while retaining needed services. Amtrak concurred with our recommendation.

Completion of Amtrak Invoice Review Work

The following five reports conclude our body of work reviewing invoices from host railroads. The cumulative effect of this work has yielded significant results. Over time, we have reviewed invoices totaling about \$1.1 billion and identified more than \$91.3 million in overpayments to host railroads. As a result, Amtrak has realized more than \$38.4 million in savings from settlements with host railroads and has the opportunity to potentially recover another \$23.8 million in overpayments identified in 13 reports issued since August 2001.

Amtrak Invoice Review: Undetected Inaccuracies Resulted in Overpayments (Audit Report OIG-A-2013-006, 2/15/2013)

BNSF Railway (BNSF) invoices to Amtrak for on-time-performance payments from July through December 2006 were not consistently accurate. The invoices were not

accurately calculated in accordance with the operating agreement between Amtrak and BNSF. The invoice inaccuracies went undetected, and Amtrak overpaid BNSF more than \$2.1 million for the 6-month period. We recommended that Amtrak's Acting Chief Financial Officer take action to recover the \$2,115,440 that Amtrak overpaid BNSF for on-time-performance incentives.

Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (Southern Pacific)
(Audit Report OIG-A-2013-007, 3/13/2013)

Southern Pacific's invoices to Amtrak for services from January 1997 through December 1999 were inaccurate in 7 of the 19 service categories reviewed. The inaccuracies included charges that were not adequately supported, amounts that were not specifically allowed by the amendment agreement, and duplicated services. As a result, Amtrak overpaid the host railroad \$1,205,626 for services for the 36-month audit period.

In an earlier report, we reported that Amtrak completed implementing recommendations to improve the invoice-review process, including new invoice-review policies and procedures. We believe that the actions Amtrak has taken, if sustained, should improve the review process and help ensure that invoice errors are detected before payments are made. We recommended that Amtrak take action to recover the \$1,205,626, and Amtrak's Acting Chief Financial Officer agreed.

Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)
(Audit Report OIG-A-2013-008, 3/26/2013)

BNSF invoice charges generally complied with the terms of the operating agreement for the use of tracks, facilities, and services provided to Amtrak. However, the amounts invoiced by BNSF were not always accurate, and some contained errors that were not detected by Amtrak. We identified approximately \$97,000 in overpayments for six service categories audited. For those service categories, invoice errors went undetected because Amtrak's host railroad invoice administration group did not have an adequate invoice-review process in place during the audit period. For a seventh service category — station utility — Amtrak continued to pay BNSF for utility costs at as many as 16 stations while it was also directly paying the utility service providers for the same services. We identified overpayments of more than \$1.3 million for station utilities costs.

We recommended that Amtrak take action to recover more than \$1.4 million in overpayments identified in this report, and Amtrak's Acting Chief Financial Officer agreed. In addition, Amtrak's Chief Transportation Officer agreed to direct the development and implementation of procedures to improve its controls over monitoring station utility operational changes.

Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (Metro North)
(Audit Report OIG-A-2013-010, 3/27/2013)

Metro North invoice amounts were not consistently accurate. The inaccuracies were found in invoices that were not calculated in accordance with the operating agreements between Amtrak and Metro North. The operating agreements serve as the basis for determining incentive payments to host railroads. Our review of six Metro North invoices from the 72-month period (January 2005 through December 2010) disclosed invoice inaccuracies of almost 19 percent—more than \$150,900 of the more than \$804,000 of invoices reviewed. Metro North agreed with the methodology of applying the 19 percent error rate to all invoices for the audit period, because the types of errors found were consistent over the selected months reviewed. Doing so resulted in estimated invoice inaccuracies totaling about \$1,223,000 for the period. Amtrak's invoice-review process did not detect any errors prior to making the on-time-performance payments for this period.

We recommended and management agreed to enter into appropriate conversations with Metro North to pursue any amounts that are recoverable under the law and within the terms of the applicable operating agreement between Amtrak and Metro North.

Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (Union Pacific)
(Audit Report OIG-A-2013-011, 3/28/2013)

Union Pacific's invoices to Amtrak for on-time-performance incentives and service payments from June 1995 through December 1999 were not always accurate or adequately supported. The invoice inaccuracies went undetected, and Amtrak overpaid Union Pacific by \$3.2 million for on-time-performance incentives for the 55-month period. We also identified inaccurate invoices for services amounting to \$79,069, and an invoice credit due Amtrak for \$46,389 that has not been collected. These amounts are in addition to about \$41,000 in on-time-performance incentives and services errors detected by Amtrak's invoice-review process.

We recommended and management agreed to pursue any amounts that are recoverable under the law and within the terms of the applicable operating agreement between Amtrak and Union Pacific.

Asset Management: Amtrak is Preparing to Operate and Maintain its New Locomotives, but Several Risks to Fully Achieving Intended Benefits Exist (Evaluation Report OIG-E-2013-021, 9/27/2013)

Amtrak is replacing its fleet of electric locomotives at a cost of \$466 million. Because of the significance of these locomotives to the company's plans for improving its financial performance and because they are scheduled to begin revenue service in October 2013, we assessed the extent to which Amtrak is prepared to effectively and efficiently operate and maintain the new locomotives in service.

We found that Amtrak has taken some significant actions and developed plans to introduce the new locomotives into revenue service once they are delivered; however, as of July 1, 2013, some important actions and plans that could reduce Amtrak's risk had been delayed or had not been finalized, including:

- improving its facilities to test and maintain the locomotives, raising questions about whether these improvements are needed and, if so, the most cost-effective way to fund the construction
- scheduling the retirement of the current locomotives, potentially causing Amtrak to continue to spend more than necessary on maintaining and overhauling locomotives that it plans to remove from active service over the next three years
- finalizing practices for maintaining the new locomotives, which could impact their availability or reliability if they are not completed before the locomotives are put into service
- procuring spare parts, increasing the risk that either parts might not be available when needed or might cost more than necessary

To help the company prepare to efficiently operate and maintain the new locomotives, we recommended several actions. These include assigning authority and responsibility for managing and synchronizing these efforts to ensure that all plans are finalized in a cost-effective and timely manner—and also to ensure that all associated tasks are documented in a policy to guide this and future procurements.

Amtrak's Vice President of Operations agreed with our recommendations, and the company has taken actions that appear to be mostly consistent with the intent of our recommendations.

Ongoing Audits/Inspections and Evaluations (Train Operations and Business Management)

- *Food and Beverage Service.* We are focusing on identifying ways to help mitigate the food and beverage direct operating losses by examining best practices used by other public- and private-sector entities that provide food and beverage services to passengers, such as other passenger railroads, cruise lines, and airlines.
- *PRIIA Implementation Progress Follow-up.* We previously reported on Amtrak's progress in implementing the Passenger Rail Investment and Improvement Act of 2008. The act requires a follow-up review to be completed by October 2013.
- *Follow-up Audit on Progress in Achieving Compliance with the American with Disabilities Act.* Our objective is to assess Amtrak's progress toward achieving ADA-compliance at stations it serves. Our primary focus is to assess the progress made addressing issues raised in our prior report.
- *Controls over the Disposition of Equipment Purchased with ARRA Funds.* Our objective is to assess the adequacy of controls over the disposition of equipment purchased with ARRA funds, such as computers, furniture, and tools.

FY 2014 Potential Audits/Inspections and Evaluations Topics (Train Operations and Business Management)

- *Crew Scheduling and Extra-Board Management.* The objective of this evaluation would be to review Amtrak's crew scheduling and extra-board management practices, compare them to best practices at other railroads and transportation providers, and make recommendations to improve the efficiency and effectiveness of these practices.
- *Fuel Management.* The objective of this review would be to review Amtrak's fuel management practices, compare them to best practices at other railroads and transportation providers, and make recommendations to improve the efficiency and effectiveness of these practices.

Potential Focus Areas beyond FY 2014 (Train Operations and Business Management)

Potential topics for work beyond FY 2014 in the train operations and business management area include evaluating Amtrak's efforts to improve the performance of its locomotive fleets and reviewing Amtrak's advertising program.

HUMAN CAPITAL MANAGEMENT

Amtrak employs approximately 18,000 agreement-covered (union) employees and approximately 3,000 non-agreement-covered (management) employees throughout the United States. The company faces many of the same challenges and opportunities faced by most other companies of its size in efficiently and effectively managing this large, diverse workforce. Because Amtrak is a service organization and the largest intercity passenger rail operator in the United States, the effective development and management of its talented employees are critical to its success. Our work will focus on identifying opportunities for Amtrak to improve the efficiency and effectiveness of its human capital management policies and practices.

Recently Issued Reports (Human Capital Management)

Human Capital Management: Weaknesses in Hiring Practices Result in Waste and Operational Risk (Audit Report OIG-A-2012-14, 7/19/2012)

We found significant management control weaknesses in Amtrak's hiring practices in general, particularly in its use of background investigation information. These weaknesses have led to a waste of resources and the hiring of employees with past performance and other concerns, which create risks to Amtrak's operations, employees, and passengers. A review of hiring practices for 50 cases, with an emphasis on the use of background information, showed that the practices did not effectively ensure that newly hired employees were qualified, honest, reliable, and did not pose a security threat.

We recommended that the Chief Human Capital Officer revise Amtrak policies to require recruiters to review background investigations and applications prior to employment and to verify that nothing in the background investigation disqualifies the applicant from employment. We also recommended that the Chief Human Capital Officer establish requirements for background investigations, conduct training for employees involved in the hiring process, and award a contract to ensure that the investigations are completed in a timely manner and readily identify hiring concerns. Amtrak management generally agreed with our recommendations.

Management of Overtime: Best Practice Controls Can Help in Developing Needed Policies and Procedures (Audit Report No. OIG-A-2013-009, 3/26/2013)

Amtrak has started to focus management attention on improving controls over the approval and use of overtime. However, much work remains to be done, and current management controls over the approval and oversight of overtime are

inadequate. This situation leaves the company highly vulnerable to overtime fraud and abuse.

Addressing this long-standing issue requires new approaches to policies and procedures and our report identified a number of best practice time and attendance controls and risk mitigation approaches. We recommended that Amtrak incorporate these practices and approaches into the policies and procedures being developed to support the legislative cap overtime waiver and management of overtime in general. Amtrak's Vice President, Operations, and Acting Chief Financial Officer provided comments on a draft of this report and concurred with our recommendations.

Ongoing Audits/Inspections and Evaluations (Human Capital Management)

None.

FY 2014 Potential Audits/Inspections and Evaluations Topics (Human Capital Management)

- *Managing Health Care Payments.* The objective of this review would be to review Amtrak's practices for controlling and managing health care payments, compare them to industry best practices, and make recommendations to improve the efficiency and effectiveness of these practices.
- *Short-term Incentive Payments.* The objective of this non-audit service would be to provide reasonable assurance to the Board of Directors that Amtrak met the performance metrics for non-agreement employees to earn short-term incentive payments for FY 2013, before the Board approves the payments.
- *Executive Compensation.* The objective of this review would be to develop comparative data on executive compensation levels at similarly-sized quasi-governmental entities for Amtrak's Board of Directors in its compensation deliberations.

Potential Focus Areas beyond FY 2014 (Human Capital Management)

Potential topics for work beyond FY 2014 in the human capital management area include continued focus in areas related to Amtrak's management of overtime and employee absenteeism, and a follow-up evaluation of our previous work on human capital management and employee development.

SAFETY AND SECURITY

Since 2005, the Department of Homeland Security Transit Security Grant Program has provided more than \$97 million in grant funding to Amtrak to protect critical infrastructure. The Amtrak Police Department has used this grant funding for planning and assessments, infrastructure protection, training and public awareness, and exercises. Our work in this area will focus on Amtrak's efforts to improve the efficiency and effectiveness of Amtrak's safety and security policies and practices.

Recently Issued Reports (Safety and Security)

Railroad Safety: Amtrak is Not Adequately Addressing Rising Drug and Alcohol Use by Employees in Safety-Sensitive Positions (Evaluation Report OIG-E-2012-023, 9/27/2012)

We initiated this evaluation to determine whether Amtrak is ensuring that its employees in safety-sensitive positions are complying with federal regulations governing the use of drugs and alcohol. Specifically, we evaluated (1) the extent to which Amtrak's random testing shows that these employees are using drugs and alcohol, and (2) whether Amtrak is exercising due diligence in controlling the use of drugs and alcohol by these employees.

We found that Amtrak's employees in safety-sensitive positions are testing positive for drugs and alcohol more frequently than their peers in the railroad industry, and the rate has been generally trending upward since 2006. Furthermore, Amtrak is not exercising due diligence to control the use of drugs and alcohol by these employees. To manage the risks associated with its increasing rate of drug and alcohol use and to meet the federal requirement for exercising due diligence, we recommended that Amtrak take a number of steps, including:

- Increase the rate at which it randomly tests its employees in safety-sensitive positions.
- Routinely review testing data.
- Demonstrate that senior management is engaged in the drug and alcohol program.
- Ensure that the physical observation program meets or exceeds Federal Railroad Administration program guidance.
- Ensure that the supervisors of these employees are adequately trained to identify signs and symptoms of drug and alcohol use and that their training is properly recorded.

Amtrak's President and CEO concurred with all of our recommendations and established time frames in which Amtrak will implement them. We considered his

comments responsive to our recommendations and plan to follow up on the company's implementation.

Railroad Safety: Amtrak Has Made Progress in Implementing Positive Train Control, but Significant Challenges Remain (Evaluation Report No. OIG-E-2013-003, 12/20/2012)

In October 2008, Congress passed the Rail Safety Improvement Act of 2008 (RSIA),² which requires each railroad hosting intercity or commuter rail passenger service to install and operate a Positive Train Control (PTC) safety system by December 31, 2015. The objective of this evaluation was to report on the extent to which Amtrak is addressing the most significant challenges to successfully implementing PTC by the congressional deadline.

We found that Amtrak is attempting to mitigate the risks in various ways, but overcoming some of these challenges by the end of 2015 will require increased attention and emphasis. These formidable challenges are interrelated; successfully addressing them will require a well-coordinated and integrated effort across several Amtrak departments to implement PTC by the deadline and achieve the safety benefits derived from PTC systems envisioned in RSIA.

Therefore, we made eight recommendations to improve the management of PTC implementation, including that the Vice President, Operations, designate a senior executive to manage the overall program or fully empower the Deputy Chief Engineer for Communications and Signals with clear responsibility and authority to manage implementation of PTC as an integrated program.

Amtrak's Vice President, Operations, provided us with comments on a draft of this report in which he concurred with all of our recommendations and established time frames in which Amtrak will implement them.

Ongoing Audits/Inspections and Evaluations (Safety and Security)

None

FY 2014 Potential Audits/Inspections and Evaluations Topics (Safety and Security)

- *Safe-2-Safer*. The Safe-2-Safer Program is an enterprise-wide safety and culture improvement effort designed to transform Amtrak into a behavior-based organization that systematically reduces risk at all work locations. Amtrak is

² Public Law 110-432, Division A, was enacted on 10/6/2008.

planning to expand the program in order to leverage the program's infrastructure and systems to drive similar behavior changes to improve customer service and business performance. The objective of this evaluation would be to review the program's performance to date and identify lessons learned to help facilitate the success of its planned expansion.

- *Survey of Amtrak's Security Program.* The objective of this audit is to conduct a high-level review of Amtrak's Security Program to understand its objectives and scope. We will then use this survey to identify topics for future, more focused, audits and evaluations.

Potential Focus Areas beyond FY 2014 (Safety and Security)

Potential topics for work beyond FY 2014 in the safety and security area include a follow-up review of Amtrak's progress implementing Positive Train Control and focused reviews in specific security areas.

ASSET MANAGEMENT

Amtrak owns more than 2,000 pieces of rail equipment, with a replacement value of over \$12 billion. In addition, the company owns more than 1,300 facilities, 1,186 bridges, 17 tunnels, over 600 miles of right-of-way—and the associated signals, catenary, and track—valued at a total of over \$17 billion. Optimizing the utilization of these assets will help Amtrak achieve its corporate goals and improve its overall financial health. Our work will focus on identifying opportunities for Amtrak to improve the utilization and management of its physical assets.

Recently Issued Reports (Asset Management)

Asset Management: Integrating Sound Business Practices into its Fleet Planning Process Could Save Amtrak Hundreds of Millions of Dollars on Equipment Procurements (Evaluation Report No. OIG-E-2013-014, 5/28/2013)

In March 2012, Amtrak issued a plan to spend \$13 billion over the next 15 years to replace and augment most of its current fleet of locomotives and cars.³ The objectives of this review were to evaluate the extent to which Amtrak's fleet planning process had (1) adequately determined the corporation's equipment needs, (2) determined a cost-effective approach to meeting equipment needs, and (3) integrated its equipment acquisition plans with its financial plans.

We found that:

- Although Amtrak has taken encouraging initial steps to analyze ridership demand for its next generation of high-speed rail train sets, it has not developed a disciplined process for determining its equipment needs. As a result, it still has not adequately analyzed its other equipment requirements.
- Amtrak has not demonstrated that replacing its current equipment with new equipment will increase revenue or reduce maintenance costs sufficient to outweigh the expense of procuring new equipment. Similarly, Amtrak has not adequately analyzed options to refurbish or repurpose existing equipment rather than buying new equipment, or to incorporate more efficient equipment types into its fleet, such as multi-level passenger cars.

³ Amtrak's *Fiscal Year (FY) 2012 Fleet Strategy Version 3.1: Building a Sustainable Fleet for the Future of America's Intercity and High Speed Railroad* included planned acquisitions of 392 locomotives, 1,373 passenger cars, 80 auto-carriers, and 20 high-speed train sets.

- Amtrak did not adequately integrate its fleet acquisition plans with its strategic plans, most notably its financial plans. As a result, it is unclear how Amtrak plans to fund future equipment acquisitions because the funding requirements in the *FY 2012 Fleet Strategy* were inconsistent with the 5-year financial plan.

To assist management's efforts to improve the fleet planning process, we recommended that Amtrak's President and Chief Executive Officer implement the recommendations from our prior report to ensure that the weaknesses in Amtrak's fleet planning processes are addressed, prohibit future equipment purchases until these weaknesses are addressed, review the ongoing electric locomotive procurement to determine whether funds could be better spent elsewhere, and consider asking Congress to suspend any requirements for an FY 2013 fleet strategy document for a year in order to address the recommendations in this report. On May 14, 2013, Amtrak's President and Chief Operating Officer provided comments in which he generally concurred with all of our recommendations.

Real Property Management: Applying Best Practices Can Improve Real Property Inventory Management Information (Audit Report No. OIG-A-2013-015, 6/12/2013)

To identify opportunities for improvement, we compared best practices for real property inventory management information systems to Amtrak's practices. Real property management responsibilities at Amtrak are divided among a number of departments. However, none of the departments has a comprehensive real property inventory management information system that could be used to accomplish all the diverse strategic real property goals of all departments. Further, the real property inventory management information the departments maintain is incomplete and contains inconsistent data.

Finance department officials told us that the corporation has efforts underway to improve the quality of its real property information. We recommended that Amtrak take action to develop a comprehensive real property inventory management information system considering the best practices identified in this report. The President and Chief Executive Officer agreed with our recommendation.

Ongoing Audits/Inspections and Evaluations (Asset Management)

- *Northeast Corridor Infrastructure Project Planning and Development*. Our overall objective is to keep apprised of NEC infrastructure planning and implementation issues. Our specific objective is to provide stakeholders timely information and

recommendations based on an independent review of emerging issues. The first issue we are reviewing is the progress and challenges in managing and implementing the ongoing Concrete Casing project, which is part of the planned Gateway Program.

- *Rolling Stock Fleet Utilization.* Amtrak carries about 75,000 riders per day on up to 300 daily trains, using an active fleet of more than 1,400 cars and 350 locomotives. To capture additional demand on trains with high ridership, Amtrak is proposing new fleet purchases. If Amtrak could better allocate its existing fleet to match its demand, it could reduce the new fleet purchases required. This evaluation is reviewing Amtrak's current practices for fleet allocation and utilization and comparing them with best practices at other transportation companies.

FY 2014 Potential Audits/Inspections and Evaluations Topics (Asset Management)

- *Next Generation High-speed Train set Procurement.* Amtrak is planning to award a contract to purchase new high-speed train sets for the Northeast Corridor before the end of FY 2014. The objective of this evaluation would be to review the business case for the procurement to determine if it adequately supports the purchase and if the business case has been developed in line with the sound business practices that we have identified in our previous reports.
- *Management of Vehicles and Construction Equipment.* Amtrak owns or leases about 2,300 vehicles and about 1,600 pieces of construction equipment. This evaluation would review how Amtrak manages and controls these vehicles and equipment, compare Amtrak's practices with industry best practices, and identify ways that Amtrak could save money by more efficient management of these assets.

Potential Focus Areas beyond FY 2014 (Asset Management)

Potential topics for work beyond FY 2014 in the asset management area include examining the management of Amtrak's infrastructure assets in the Northeast Corridor, including Amtrak's plan for addressing the backlog of maintenance required, and its plans for future capacity improvements.

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission	The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits, inspections, evaluations, and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.
Obtaining Copies of OIG Reports and Testimony	Available at our website: www.amtrakoig.gov
To Report Fraud, Waste, and Abuse	Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous): Web: www.amtrakoig.gov/hotline Phone: 800-468-5469
OIG Contact Information	Ted Alves, Inspector General E-mail: Ted.Alves@amtrakoig.gov Tom Howard, Deputy Inspector General E-mail: Tom.Howard@amtrakoig.gov David Warren, Assistant Inspector General, Audits E-mail: david.warren@amtrakoig.gov Calvin Evans, Assistant Inspector General, Inspections and Evaluations E-mail: calvin.evans@amtrakoig.gov All: Mail: 10 G Street NE, Suite 3W-300 Washington D.C. 20002 Phone: 202-906-4600
