



# HUMAN CAPITAL MANAGEMENT:

Weaknesses in Hiring Practices Result in Waste and Operational Risk

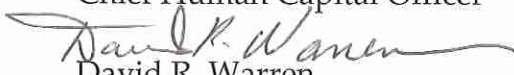
Report No. OIG-A-2012-14 | July 19, 2012





# Memorandum

**To:** A. Barry Melnkovic  
Chief Human Capital Officer

**From:**   
David R. Warren  
Assistant Inspector General, Audits

**Date:** July 19, 2012

**Subject:** *Human Capital Management: Weaknesses in Hiring Practices Result in Waste and Operational Risk* (Report No. OIG-A-2012-14)

The Office of Inspector General conducted this audit after receiving a request from Mr. Joseph Boardman, Amtrak President and Chief Executive Officer, that we review issues related to the performance of background investigations. Thorough and comprehensive background investigations are key to reducing the risk that new employees are unqualified, dishonest, unreliable, or otherwise pose a security risk. Further, recruiting, hiring, and training new employees is a costly process, and ineffective background investigations can lead to waste of these investments, if employees are terminated soon after being hired.

Our objectives were to determine whether, (1) Amtrak was making effective and efficient use of background investigations to help ensure prospective employees are qualified, honest, reliable, and do not pose a security threat; and (2) background investigation services were purchased in a manner consistent with procurement policy.<sup>1</sup> Details of our scope and methodology are provided in Appendix I.

---

<sup>1</sup> The scope of our review focused on Amtrak's hiring practices exclusive of the Amtrak Police Department.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

## **SUMMARY OF RESULTS**

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

Human Capital recruiters did not review background investigation reports and did not compare the reports' information to the employment applications' information. Consequently, individuals were hired even though the background report or other information raised concerns. In 38 of 50 cases, we found inconsistencies between the employment application and the background investigation which raised employment suitability questions, yet the applicant was hired. In 18 of these cases, the individual was terminated for performance or disciplinary reasons after a relatively short period of employment. In the other cases, the individuals are still employed. For example, the background report:

- Did not verify prior employment or education that was claimed on the application. This employee was terminated for unsatisfactory performance after 23 days.
- Did not verify any prior employment and refuted the education claimed on the application. This employee was terminated for unsatisfactory performance after 107 days.
- Refuted an applicant's claimed employment history of 10 years with a security company. The report revealed, rather, that the company confirmed the individual's employment for just 18 months. The employee was terminated for discipline in the probationary period after 42 days.
- Refuted an applicant's claim as a high school graduate. According to the report, the individual "did not graduate." The employee was terminated for discipline in the probationary period after 9 days.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

- Included an alert for a felony conviction from October 2004 for “Dealing in Cocaine.” Policy<sup>2</sup> disqualifies an applicant for a period of 7 years from conviction (October 2011). The applicant was hired in November 2010; one year prior to the policy allowing it. This employee still works for Amtrak and helps maintain a facility in which locomotives and cars are repaired.

Amtrak is not benefiting from the funds spent on background investigations. To give a potential order of magnitude, between June 1 and December 31, 2010, nearly \$135,000 was spent on background investigations that, in many cases, were not used and at least \$300,000 was spent on hiring and training the 18 persons who were terminated. Although difficult to quantify, Amtrak also experienced losses to productivity and service while it went through the process of hiring new persons for these positions.

These conditions were caused primarily by weaknesses in hiring policies, procedures, and practices and a lack of adequate controls over the hiring process in general. Policies did not include best practices such as requiring background investigations to be complete before the person reports for duty. In 92 percent of the cases we reviewed, newly hired employees started work, in some cases, where recruiters had not received the background investigation results and, in other cases, the recruiters received incomplete investigation results. Recruiters routinely did not review background investigation reports and other applicant information prior to making hiring decisions. We also noted that background investigations, contrary to procurement policy, were not being procured using contractual agreements.

We are recommending that the Chief Human Capital Officer revise Human Capital policies to require recruiters to review background investigations and applications prior to employment start and to verify that nothing in the background investigation disqualifies the applicant from employment. Specifically, Human Capital policy should require that background investigations be completed, background investigation information be fully compared with prospective employee applications, and prospective employees’ applications claims are verified. We are also recommending that the Chief Human Capital Officer establish requirements for background investigations, conduct training for employees involved in the hiring process, and

---

<sup>2</sup> Amtrak Policy 7.40.0 dated March 3, 2010, *Employee and Independent Contractor Background Check*.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

award a contract or contracts to ensure that they are completed in a timely manner and readily identify hiring concerns.

Amtrak management provided comments to a draft of this report on July 11, 2012 (see Appendix IV). Overall, management's response stated that it is committed to developing and implementing the necessary internal controls to strengthen the company's policies and procedures surrounding the hiring and background investigation processes. Management, with some exceptions, agreed with our recommendations. Management's comments are generally responsive to the intent of our recommendations.

## **INADEQUATE USE OF BACKGROUND INVESTIGATIONS CREATES VULNERABILITIES AND WASTE**

Amtrak has not effectively used the information collected from background investigations. Recruiters typically hired employees before background investigation reports were obtained and did not review the reports once they were received. They also did not check employee application information for accuracy or consistency.

As a result, applicants with inaccurate applications and questionable background investigation results are being hired. Subsequently, many of these same employees were terminated after a short period of employment due to performance or discipline issues. This practice also resulted in a waste of funds both in the hiring process and in training new employees. Shortfalls in the background investigations process were largely due to management control weaknesses in the areas of policy, authority, and monitoring over the hiring process.

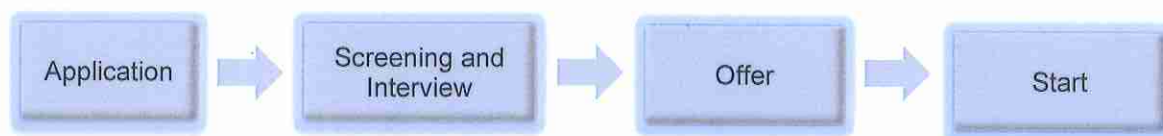
### ***Background Investigations as Part of the Hiring Process***

Human Capital recruiters are responsible for processing each new employee through the hiring process. Recruiters are located in Human Capital offices in various cities throughout the United States; they create, classify, and determine the salary range for all positions. They are responsible for reviewing applications, notifying applicants selected for testing, and administering and scoring the various tests. The recruiter also contacts successful applicants and makes a verbal employment offer.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

Amtrak's hiring process can be grouped into four employment phases: application, screening and interview, offer, and start.

**Figure 1. Amtrak Hiring Process**



Source: Office of Inspector General generated, based on our review

During the application phase, the recruiter posts the position on Amtrak's website and other public-notice locations, such as *careerbuilder.com*. Every prospective employee must fill out an employment application. In the screening and interview phase, the recruiter determines whether candidates are qualified (per the application information), ranks the qualified candidates, and selects those for testing and/or interviews. If a prospective employee is selected, the recruiter extends an employment offer. According to Amtrak policy,<sup>3</sup> an employment offer is contingent on the prospective employee passing a routine background investigation and health screening test. In the start phase, the prospective employee submits any remaining required documents to the recruiter and begins work.

Amtrak policy 7.40.0, *Employee and Independent Contractor Background Check*, states that a background investigation includes three primary tasks: (1) reviewing relevant criminal history databases, (2) verifying Social Security number, and (3) reviewing relevant databases to determine alien status under United States immigration laws. Amtrak Desktop Procedures state that background investigations will also include a prior employment report and, in some cases, a driving record report and/or a consumer credit report. A driving record report is required for positions that are expected to operate an Amtrak-owned vehicle and a consumer credit report is required for financially sensitive positions.

---

<sup>3</sup> Amtrak Policy 7.7.1 dated November 7, 2007, *Employment, Promotion & Reassignment*.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

***Background Investigations Should Be Returned and Reviewed Prior to Hiring***

Best hiring practices ensure that all new employees have a completed background investigation prior to starting work. The Implementing Recommendations of the 9/11 Commission Act of 2007 required a security background check of all Amtrak frontline employees within 1 year of its passing. The act identified, as a model, the security background check threat assessment screening program used by the United States Coast Guard under the Maritime Transportation Security Act of 2002. The Coast Guard now uses a screening program called the Transportation Workers Identification Credential, which requires a threat assessment prior to allowing individuals access to secure areas of vessels and ports. The threat assessment is essentially a thorough review of the background investigation, including a criminal check and immigration status check.

***Background Investigations were Incomplete or Not Returned Prior to Employees Starting Work***

Human Capital recruiters did not ensure that background investigation results were obtained prior to allowing the employees to start work. We reviewed applications, new hire documents, and background investigation reports for 50 Amtrak employees.<sup>4</sup> We found that in 46 cases, the timing of the background investigation reports was an issue as shown in Table 1:

***Table 1. Categories of Issues Related to Timing of Background Investigations***

Issue with Timing of Background Investigation	Number of Occurrences
Background investigation report incomplete	24
Report returned after employee started work	20
Report not obtained	2
Complete report received on time	4

*Source:* Office of Inspector General analysis of Amtrak personnel records

<sup>4</sup> The time period for the sample was June 1 through December 31, 2010.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

***Background Investigation Report Was Incomplete.*** In 24 cases, the report was incomplete as of the employees' start date. Background investigation reports were returned to Human Capital with unverified or missing items. Items not verified included prior employers, prior employment dates, highest level of education, and professional certifications. Items missing from background investigations included position-required consumer credit reports and driving record reports. For example, a background investigation report was returned 13 days prior to an employee's start date, but the report did not verify any of the applicant's claimed prior employment or education. This employee was subsequently terminated for unsatisfactory performance, after 23 days.

***Background Investigation Report Was Returned After Employee Start Date.*** In 20 cases, the background investigation report was returned after the employee started work. In seven cases, Human Capital did not initiate the background investigation until after the employee had started work. In six of these cases, the reports identified issues. In five of these six cases, the reports did not contain employment verification. In the other case, employment dates differed from those on the application. For example, a background investigation report was returned 28 days after an employee's start date. The background investigation did not verify any prior employment and refuted the claimed education on the application. This employee was subsequently terminated for unsatisfactory performance after 107 days.

***Background Investigation Report Was Not Obtained.*** In two cases, the background investigation was not obtained. The recruiters did not provide a reason for the oversights, as they were unaware of them until we brought them to their attention. The recruiters initiated the investigations during our review; however, once returned, neither was complete. Specifically, though both employees hold financially sensitive positions in Amtrak's Finance Department, Human Capital did not obtain the required consumer credit reports for them. At the time of this report, these employees still hold financially sensitive positions at Amtrak.

***Complete Background Investigation Report Was Received on Time.*** In four cases, the background investigation was completed before the employee's start date. A completed background investigation includes the following searches in reference to the employee: county, state, and federal criminal and civil records; education verification; employment verification; and Social Security number trace. Financially sensitive positions require a



*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

consumer credit report. All positions requiring the operation of a company vehicle require a driving record report. In all four cases, and as of our reporting date, the individuals are still employed by Amtrak.

### ***Candidates Hired Despite Employment Concerns Identified in Background Investigations***

Human Capital recruiters hired candidates even though background investigations identified questions of employment suitability. Background investigation reports in 38 cases refuted or did not support applicants' claims or did not meet Amtrak requirements. Issues included criminal history alerts, prior employment not verified, education level not verified, and consumer credit or driving record reports required but not obtained. Table 2 categorizes the 5 types of issues that were identified.

***Table 2. Issues Found in Background Investigations***

Background Investigation Issue Identified	Number of Occurrences <sup>a</sup>
Prior employment not verified or refuted	35
Required consumer credit report not obtained	14
Level of education not verified or refuted	13
Criminal history alert present	5
Required driving record report not obtained	1

<sup>a</sup> The chart does not total 50 because some cases had multiple issues.

Source: Office of Inspector General analysis of Amtrak personnel records

***Prior Employment Not Verified or Refuted.*** In 35 cases, we identified issues with the background investigations' verification of prior employment. These issues fell into three main categories: (1) the prior employment verification was not performed, (2) employment dates differed significantly from those in the application<sup>5</sup>, and/or (3) one or more employers could not be verified. According to the Senior Director, Workforce Management, previous employment is sometimes hard to verify, and

<sup>5</sup> We defined *significantly* as 6 months or greater.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

Amtrak does not hold up the hiring process for it. When prior employment history was either pending or not performed, recruiters had little or no verification that the applicants' qualifications and skills matched those presented in the employment applications and/or job interviews. For example:

- One background investigation report refuted an individual's claimed position and employment term. The individual claimed to have been employed by a security company as a "Team Leader/Sales Representative" for over 10 years. The background investigation report revealed that the individual's title was "Representative" and the period of employment was only 18 months. The employee was subsequently terminated for disciplinary reasons after 42 days.
- A background investigation report refuted an individual's claim that he had never been disciplined, discharged, terminated, or asked to resign by an employer. The report revealed that the individual, at the time of the application, was serving two 30-day suspensions pending dismissal later in the month. The employee was subsequently terminated for unsatisfactory performance after 87 days.

***Required Consumer Credit Report Not Obtained.*** In 14 cases, recruiters did not obtain a consumer credit report when required. Amtrak Desktop Procedures require Human Capital to obtain a consumer credit report for all "financially sensitive positions." The procedure defines a financially sensitive position as one that has the ability to impact Amtrak revenues or budget by either directly handling money with the customer or having the authority to exercise control over Amtrak's financial resources. For example:

- A background investigation report did not contain a required consumer credit report for an individual applying for an on-board service trainee position. This financially sensitive position requires daily access to cash and passenger credit cards. The report also identified discrepancies relating to the individual's claimed employment history. The employee was subsequently terminated for disciplinary reasons after 60 days.
- Another background investigation report likewise did not contain a required consumer credit report. This individual had applied for a service attendant/train attendant position. This financially sensitive position requires daily access to cash and passenger credit cards. The employee was subsequently terminated for disciplinary reasons after 67 days.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

*Level of Education Not Verified or Refuted.* In 13 cases, the background investigation report did not verify or refuted the applicant's highest level of education. For example:

- A background investigation report refuted an individual's claim to being a high school graduate. The report stated that the individual "did not graduate." The employee was subsequently terminated for disciplinary reasons after 9 days.
- Another report refuted an individual's claim to be a college graduate. The report stated the individual only attended college for 16 months and did not graduate. In addition, the report did not contain verification of the person's most recent employer. The employee was subsequently terminated for disciplinary reasons after 61 days.

*Criminal History Alert Present.* In five cases, recruiters hired the person even though a background investigation report contained a criminal history alert. The most egregious example: An employee application included a prior criminal conviction for a "possession charge"; however, the background investigation included an alert for a felony conviction from October 2004 for "Dealing in Cocaine." Human Capital policy<sup>6</sup> requires that a criminal conviction for distribution of, or intent to distribute a controlled substance disqualifies a prospective employee for a period of 7 years from conviction (in this case, until October 2011). This individual was hired in November 2010, 6 years after the conviction and 1 year before being eligible, according to the policy. The policy further states that if the prospective employee was incarcerated for any of the offenses listed, that individual is disqualified for a period of 5 years from the date of release. The report did not indicate whether this individual had been incarcerated, but our research of public records revealed his incarceration, with release in January 2007. At the time of this report, this employee still works for Amtrak and helps maintain a facility in which locomotives and cars are repaired.

*Required Driving Record Report Not Obtained.* Amtrak Desktop Procedures require Human Capital to obtain this report for employees in particular positions and all positions based in Los Angeles, CA. In one case, the recruiter did not obtain the required driving record report for a Los Angeles employee. The report also identified

---

<sup>6</sup> Amtrak Policy 7.40.0 dated March 3, 2010, *Employee and Independent Contractor Background Check*.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

discrepancies relating to the individual's claimed employment history. At the time of this report, this individual is still employed by Amtrak.

***Funds Were Wasted and Performance Issues Resulted from Inadequate Use of Background Investigations***

When Human Capital personnel obtained the background investigations but did not use the information, the result was a waste of funds. Recruiters spent \$134,657 on background investigations in the period June 1 through December 31, 2010. However, no benefit was realized from the funds spent or the information obtained when recruiters did not review the reports. According to the recruiters, they only review the report to identify "red flag" alerts on the background investigation report cover page. An alert means that section(s) within the report contain discrepancies or unverified information or otherwise require attention. By not using the background investigation reports effectively, Amtrak created a vulnerability to its personnel, passengers, and assets.

Recruiters' practice of reviewing the cover page for alerts seems to have no effect on the hiring process. In 18 of the 50 cases we reviewed, an individual was hired even though the report's cover page *contained* one or more alerts. In 9 of these instances, the report was returned prior to the individual starting work. In over three quarters of these instances, the report did not verify the applicant's prior employment. In the remaining 9 cases, the background investigation and corresponding alerts were returned after the person had already started work. The Senior Director, Workforce Management stated that recruiters are supposed to follow up and make sure the items are cleared; however, recruiters can decide to hire an applicant even though flagged items are not followed up. We asked whether employees were ever terminated based on the results of a background investigation returned after the hiring date and were told that the recruiters were not aware of any cases.

The waste was compounded when recruiters hired individuals with background investigation indicators of poor performance, dishonesty, or unreliability, and Amtrak terminated their employment for performance and disciplinary reasons. An additional amount of at least \$300,000<sup>7</sup> was wasted when recruiters hired 18 individuals, who were

---

<sup>7</sup> This \$300,000 amount includes Amtrak-estimated costs to train new employees; not included in this estimate are the costs for these employees' salaries and benefits.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

terminated after a short period of time. Each of these 18 cases included one or more of the indicators discussed in this report. Although difficult to quantify, Amtrak also experienced losses to productivity and service while it went through the process of hiring new persons for these positions.

### ***Controls over the Background Investigation Review Process were Inadequate***

The underlying cause of the timing issues, inadequate reviews, and oversight problems are weak policies and procedures that are not consistent with best practices and a generally weak control environment for the hiring process.

Amtrak policy does not establish clear requirements for the timing of background investigations. The two policies that address background investigations contain ambiguous statements regarding when investigations are to be completed. Policy 7.7.1, *Employment, Promotion and Reassignment*, Section 4.1.7, states that employees in non-agreement positions cannot enter duty without successfully passing the routine background investigation.<sup>8</sup> However, Policy 7.40.0, *Employee and Independent Contractor Background Check*, Section 3.1, states that a background investigation will be conducted for every employee within 30 days of receiving an offer of employment. Human Capital personnel are left to decide which policy to follow. As noted earlier, hiring best practices are to complete background investigations before the person reports for duty.

Further, the policies do not establish authority or responsibility for using the background investigations. Clearly defining lines of authority and responsibility is a required component of a good internal control environment, according to *Standards for Internal Control in the Federal Government*.<sup>9</sup> Such lines of authority and responsibility could include specific requirements for completing background investigation reviews and a level of supervisory oversight to ensure that they are performed. While Amtrak Policy lists interim and permanently disqualifying felonies, Amtrak has not addressed the other components of pre-employment screening that could lead to disqualification from employment, such as discrepancies in prior work history, education level, and the consumer credit and driving record reports. The policies do not provide recruiters

---

<sup>8</sup> This policy does not address background investigation requirements for agreement-covered employees.

<sup>9</sup> *Standards for Internal Control in the Federal Government*, U.S. Government Accountability Office (AIMD-00-21.3.1, November 1, 1999).

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

guidance on when such discrepancies rise to the level of denying or terminating employment.

Amtrak has not designated an accountable monitoring position to ensure that all information has been obtained and verified. Establishing one dedicated authority for monitoring and accountability would provide the necessary oversight for the effective use of background information. Such oversight would help prevent Amtrak from hiring employees with past performance issues or other concerns. Further, such a position would add consistency in hiring decisions when, and if, issues similar to those identified in this report arise. *Standards for Internal Control in the Federal Government* states that controls should generally be designed to ensure that ongoing monitoring occurs in the normal course of operations.

## **BACKGROUND INVESTIGATIONS WERE NOT PERFORMED BASED ON CONTRACTUAL REQUIREMENTS**

Human Capital staff did not comply with Amtrak Procurement Policy<sup>10</sup> when obtaining background investigation services. The policy requires a contract be in place for all recurring purchases totaling over \$5,000. However from June 1 through December 31, 2010, Human Capital spent \$125,219 on background investigations without using a contractual agreement. Human Capital staff stated they used payment requests to pay for the services. As a result, many of the background investigations Amtrak purchased did not sufficiently identify its hiring concerns, were not timely, and were not complete.

We briefed the Chief Human Capital Officer and officials from the Procurement and Materials Management Department on the preliminary findings and they agreed that background investigations should be under contract. The Chief Human Capital Officer stated that his office is working with the Procurement and Materials Management Department to identify a vendor.

---

<sup>10</sup> Amtrak Policy 8.21.0 dated November 30, 2004, *Request for Payment*.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

### ***Background Investigations Purchased without Contract***

Contrary to policy, for the period we reviewed, the Human Capital Office spent \$125,219 for background investigations through payment requests. Only about \$10,000 was spent on background investigations that were provided under a contract agreement. Human Capital ordered background investigations from three companies during the period of this audit. Amtrak had a contract with one of those three, but Human Capital paid for the majority of transactions with this vendor and the other vendors through payment requests. Payment requests use the Amtrak internal payment system for organizations that are outside a contractual agreement.<sup>11</sup> The companies and dollars expended for background investigations are summarized in Table 3:

***Table 3. Companies, Costs, and Methods Used in Obtaining Background Investigations, June 1–December 31, 2010***

Background Investigation Company	Amount Under Contract	Amount Under Payment Request	Total Amtrak Expenditure
IMI Data Search, Inc.	\$ 9,438.60	\$ 79,160.40	\$ 88,599.00
Info Check, Inc.	0	36,600.35	36,600.35
Kroll Background America, Inc.	0	9,458.03	9,458.03
<b>Total</b>	<b>\$9,438.60</b>	<b>\$125,218.78</b>	<b>\$134,657.38</b>

Source: Amtrak Strategic Asset Management System

According to Human Capital staff, they used payment requests because that “is the way it’s always been done.” When asked why some transactions were under contract and some not, staff responded that they were not aware a vendor contract was in place. Having a contract in place would provide for consistent terms and agreements for the background information requested. Also, a contract would be the basis to hold the background investigation firms accountable.

<sup>11</sup> Amtrak Policy 8.21.0 dated November 30, 2004, *Request for Payment*.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

## CONCLUSION

Deficient Human Capital hiring policies, practices, and procedures have led to waste and the hiring of personnel with prior records of poor performance or other concerns. This condition further creates risks to Amtrak's passengers, employees, and general operations. This situation reflects a breakdown in the internal control environment for hiring in general and particularly in the use of background investigations and other information in the hiring process.

## RECOMMENDATIONS

We recommend that the Chief Human Capital Officer take the following actions:

1. Revise Human Capital policies to establish the requirements for use and review of background investigations and applications during the hiring process. Specifically require that
  - a) background investigations be completed, with no pending information, prior to allowing prospective employees to start work;
  - b) a comprehensive comparison of background investigation information against prospective employee applications be made prior to allowing prospective employees to start work;
  - c) prospective employees' applications claims be verified prior to allowing prospective employees to start work;
  - d) policies clearly define the parameters for decision making when discrepancies exist in prior work history, education level claimed, and consumer credit and driving record reports;
  - e) an accountable officer be designated to monitor the use of background investigations in hiring decisions; and
  - f) training be provided to all staff involved in the hiring process on hiring policies and procedures.
2. Work with the Procurement and Materials Management Department to establish a contract, or contracts, with applicable terms and conditions, for all future background investigation transactions.



*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

## MANAGEMENT COMMENTS AND OIG ANALYSIS

Amtrak management provided comments to a draft of this report on July 11, 2012 (see Appendix IV). Management's response stated that it is committed to developing and implementing the necessary internal controls to strengthen the company's policies and procedures surrounding the hiring and background investigation processes. As discussed below, management, with some exceptions, agreed with our specific recommendations and proposed actions and milestone dates. Management's comments are generally responsive to the intent of our recommendations.

- With regard to recommendation *1a*, management stated that it agreed and would communicate it to all Human Capital members, by August 1, 2012.
- With regard to recommendation *1b*, management suggested that comprehensive reviews of identified "red flags" will be performed. However, management did not agree that the consistency of application and background information should be reviewed, saying that it is inefficient for Amtrak employees to review information that has already been reviewed by the background check vendor. We agree in concept, however, our work showed that while the vendors did identify some red flags they did not always flag inconsistencies between the application and background investigation. Given the magnitude of the inconsistencies we identified, we continue to believe this type of review is an important component of an effective background investigation process and should be consistently conducted either by the vendor or by Amtrak.
- With regard to recommendation *1c*, management stated that it was redundant to recommendation *1a*. We agree that there is some overlap between the two recommendations and note that an effective background investigation process consistent with recommendation *1a* would ensure that employee claims are verified. However, our review of the existing process disclosed a significant number of cases where an applicant was hired even though the investigation did not verify or refute one or more of the applicant's claims. Given this, we continue to believe that as an important component of an effective background investigation process, management should explicitly ensure that applicants' claims are verified prior to allowing prospective employees to start work.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

- With regard to recommendations *1d, e, and f*, management stated that it will create and implement a matrix to define types of background investigations corresponding with positions. The response identified a position to monitor the effectiveness of the background investigation process in hiring decisions, and stated that training will be provided to all staff involved in the hiring process on hiring policies and procedures.
- With regard to recommendation 2, management agreed with the recommendation and acknowledged the importance of a robust background investigation process and its effect on the security of Amtrak facilities, employees, and customers, as well as the efficiency of the company's operations. Management also stated that it has started the request for proposal process and expects to select a vendor by October 2012. Management will ensure that the selected vendor understands and adheres to the company's expectations regarding the conduct of background investigations.

We are encouraged by management's proposed actions. Consistent with our standard process, we will periodically follow up to assess management's progress in implementing this report's recommendations.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

## **Appendix I**

### **SCOPE AND METHODOLOGY**

This report provides the results of an Amtrak Office of Inspector General review of Amtrak's use of background investigations in its hiring process. The objectives were to determine whether, (1) Amtrak was making effective and efficient use of background investigations to help ensure prospective employees are qualified, honest, reliable, and do not pose a security threat; and (2) background investigation services were purchased in a manner consistent with procurement policy. Our review did not include the Amtrak Police Department. We performed audit work starting in January 2011 and completed it in June 2012. We examined Amtrak's actions, policies, and procedures applicable to the period June 1 through December 31, 2010.

We reviewed Amtrak policies and processes for matching prospective employee applications against the returned background investigation reports. This included identifying how Amtrak decides which vendor will perform the investigation and at what point in the hiring process the health evaluation and background investigation are initiated. We reviewed Amtrak's internal website for reference material related to Human Capital and Procurement and Materials Management roles. We evaluated Amtrak's Human Capital Management Department's Desktop Procedure Overview guidelines and held interviews with various personnel from Human Capital, Procurement and Materials Management, and the Amtrak Police Department. We conducted interviews with the background investigation vendors who perform Amtrak's employment background investigations.

To assess Amtrak procedures and gain an understanding of recruiter performance, we selected a sample of 50 cases for review in which Amtrak hired or rehired an employee. Amtrak Police Department employees were not included in the sample. We used a judgmental sampling technique to select 48 cases and reviewed two cases provided in Amtrak President and CEO Joseph Boardman's request for audit. We judgmentally selected the 48 cases to ensure adequate coverage of new hires/rehires and a representative sample of different crafts/positions, agreement/non-agreement workers, and various Human Capital recruiter office locations. We chose Amtrak employees hired beginning June 1, 2010, because in May 2010 Amtrak significantly changed its processing and administration of new-hire documentation by establishing the Employee Service Center in Wilmington, Delaware. Based on the significant changes in

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

Amtrak's process, we wanted to focus on the most recent cases and practices. We chose December 31, 2010, as the end date as the audit was initiated in January 2011. While the two cases from Mr. Boardman's request occurred prior to June 1, 2010, we wanted an underlying understanding of the conditions that allowed for those instances and whether the new process was fundamentally different from the prior practice.

During this review, we researched best practices for performing background investigations in the transportation industry. To obtain an understanding of their pre-employment processes, we interviewed personnel from Amtrak Police Department, Washington Metropolitan Area Transit Authority, Burlington Northern Santa Fe Railway Company, the Federal Railroad Administration, United States Department of Transportation, and the Office of Personnel Management. We also conducted research relating to existing laws and practices for background investigations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Internal Controls**

In conducting this audit, we assessed certain internal controls pertinent to the audit objectives with respect to the new hire/rehire process. Our audit reviewed the management controls used to implement Amtrak's policies and instructions and day-to-day activities. Our review included assessing the policies, procedures, and processes used by Human Capital in the pre-employment hiring process. We reviewed the pre-employment due diligence work performed by Human Capital as outlined in the Desktop Procedure Overview guidelines. We also reviewed controls related to how Amtrak paid the companies which performed background investigation services.

We identified weaknesses in Amtrak's controls over its hiring process and this report identifies those weaknesses and provides recommendations to address them.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

## **Computer-Processed Data**

We relied on data obtained from the Accounts Payable Department, which generated a report from Amtrak's Strategic Asset Management System. The data provided payment transactions from Amtrak to background investigation vendors. We relied on the following data fields from this report: vendor name, paid date, invoice amount, and purchase order number (to obtain the payment method). To verify the accuracy of this information, we randomly sampled a number of transactions with each vendor and compared the data fields with the corresponding invoices. As we did not identify any exceptions in our data sampling, we concluded that the data are sufficiently reliable to be used in meeting the assignment objectives.

## **Prior Audit Reports**

We identified the following Office of Inspector General reports as being relevant to this audit's objectives:

*Human Capital Management: Controls Over the Use of Temporary Management Assignments Need Improvement* (Inspection and Evaluation Report OIG-E-2012-009, March 28, 2012). The report focused on Amtrak Human Capital Department controls over the use of Temporary Management assignments needing improvement. It discussed the initiating of controls to ensure that employees are properly promoted to Temporary Management Positions, to limit the improper use of certain job codes, and to ensure that employees do not exceed the 180-day limit for these assignments.

*Human Capital Management: Lack of Priority has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices* (Evaluation Report E-11-04, July 8, 2011). The report focused on Amtrak Human Capital Department lack of priority which has slowed OIG-recommended actions to improve Human Capital Management, Training, and Employee Development Practices. It discussed the limited progress in implementing the recommendations in the prior reports: (1) *Training and Employee Development* (Inspection and Evaluation Report E-09-06, October 26, 2009) and (2) *Human Capital Management* (Inspection and Evaluation Report E-09-03, May 15, 2009).

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

*Transportation Worker Identification Credential: Internal Control Weaknesses Need to be Corrected to Help Achieve Security Objectives* (U.S. Government Accountability Office, GAO-11-657, May 10, 2011). The Government Accountability Office evaluated the extent to which (1) Transportation Worker Identification Credential processes for enrollment, background checking, and use are designed to provide reasonable assurance that unescorted access to these facilities is limited to qualified individuals; and (2) the effectiveness of the Transportation Worker Identification Credential has been assessed. The Government Accountability Office recommended that the Department of Homeland Security assess the Transportation Worker Identification Credential program's internal controls to identify needed corrective actions, assess effectiveness, and use the information to identify effective and cost-efficient methods for meeting program objectives.

*Training and Employee Development* (Evaluation Report E-09-06, October 26, 2009). The report focused on Amtrak Human Capital Department efforts in the areas of training and development. It discussed the number of employees trained and the associated costs.

*Human Capital Management* (Evaluation Report E-09-03, May 15, 2009). OIG evaluated how well Amtrak identified its manpower needs and then recruited, hired, developed, and retained individuals with the skills needed to accomplish Amtrak's mission and strategic goals. This report made several recommendations for improvements in Amtrak's management of human capital.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

**Appendix II**

**BACKGROUND INVESTIGATION TIMELINESS**

OIG Sample Number	Amtrak Offer Date	Date Background Investigation Ordered	Date Background Investigation Returned	Employee Start Date	Number of Days Between Employee Start and Background Investigation Return
6	May 13	Not Obtained	NA	June 1	Not Obtained
19	May 13	Not Obtained	NA	June 1	Not Obtained
26	Nov 16	Jan 19	Feb 2	Nov 17	77
44	June 15	June 22	July 19	June 21	28
35	Aug 27	Sept 8	Oct 4	Sept 13	21
12	May 18	June 10	June 28	June 7	21
13	May 24	June 8	June 28	June 14	14
18	Oct 22	Oct 27	Nov 12	Nov 1	11
2	June 14	June 21	June 30	June 21	9
46	July 30	Aug 5	Aug 11	Aug 2	9
45	July 9	July 15	July 28	July 19	9
10	Oct 22	Nov 5	Nov 8	Nov 1	7
32	Oct 25	Nov 4	Nov 15	Nov 8	7
11	Aug 16	Aug 20	Aug 26	Aug 23	3
43	Dec 29	Dec 10	Dec 16	Dec 13	3
31	Oct 1	Oct 7	Oct 13	Oct 11	2
3	N/A	Nov 10	Nov 30	Nov 29	1
9	Sept 10	Sept 20	Sept 21	Sept 20	1
27	Nov 8	Nov 4	Nov 16	Nov 15	1
39	Oct 14	Oct 22	Oct 25	Oct 25	Same Date
8	Nov 16	Nov 8	Nov 17	Nov 17	Same Date
16	Sept 24	Oct 12	Oct 14	Oct 14	Same Date
1	April 9	April 16	April 21	April 26	Incomplete
4	Sept 14	Aug 20	Sept 3	Oct 4	Incomplete
7	Sept 24	Aug 27	Aug 31	Oct 4	Incomplete

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012











OIG Sample Number	Amtrak Offer Date	Date Background Investigation Ordered	Date Background Investigation Returned	Employee Start Date	Number of Days Between Employee Start and Background Investigation Return
14	Oct 4	Sept 20	Sept 30	Oct 25	Incomplete
15	Dec 20	Dec 1	Dec 8	Dec 20	Incomplete
20	Aug 9	Aug 3	Aug 11	Aug 18	Incomplete
21	Aug 17	Aug 30	Sept 3	Sept 9	Incomplete
23	July 23	May 26	June 8	Aug 9	Incomplete
24	Sept 9	Aug 16	Aug 24	Oct 4	Incomplete
25	Oct 11	Oct 13	Oct 15	Nov 1	Incomplete
28	N/A	May 10	May 12	June 26	Incomplete
29	Unknown	Aug 23	Aug 26	Aug 30	Incomplete
30	June 28	June 16	June 24	July 12	Incomplete
33	Nov 2	Oct 12	Oct 18	Nov 1	Incomplete
34	June 22	June 9	June 16	June 21	Incomplete
37	May 10	May 5	May 11	June 7	Incomplete
38	May 17	May 19	May 24	July 6	Incomplete
40	Nov 2	Oct 22	Oct 26	Nov 1	Incomplete
41	Oct 11	Oct 13	Oct 15	Nov 1	Incomplete
42	Nov 16	Nov 8	Nov 15	Nov 17	Incomplete
47	July 29	July 30	Aug 3	Aug 16	Incomplete
48	Oct 21	Oct 22	Oct 28	Nov 1	Incomplete
49	Oct 28	Oct 12	Oct 14	Nov 2	Incomplete
50	Dec 16	Dec 21	Dec 22	Dec 27	Incomplete
5	June 1	June 21	June 25	July 19	Returned Prior to Start
17	Oct 12	Oct 5	Oct 18	Nov 1	Returned Prior to Start
22	Oct 11	Oct 12	Oct 14	Oct 18	Returned Prior to Start
36	Aug 30	Aug 31	Sept 7	Sept 13	Returned Prior to Start


















*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012


**Appendix III**

**BACKGROUND INVESTIGATION ISSUES**

OIG Sample Number	Criminal History Alert?	Prior Employer Verification?	Education Verification?	Consumer Credit Report, if Required?	Driving Record Report, if Required?
1		I			
2		I			
3					
4		I			I
5					
6	Background Investigation Not Obtained				
7		I			
8		I			
9				I	
10		I			
11		I	I		
12		I			
13		I		I	
14		I		I	
15					
16					
17					
18				I	
19	Background Investigation Not Obtained				
20					
21					
22					
23				I	
24				I	
25		I		I	

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

Sample Number	Criminal History Alert?	Prior Employer Verification?	Education Verification?	Consumer Credit Report, if Required?	Driving Record Report, if Required?
26					
27					
28		I	I	I	
29		I			
30		I	I		
31			I		
32					
33				I	
34		I		I	
35		I	I		
36					
37		I			
38					
39		I	I		
40		I		I	
41				I	
42		I			
43					
44				I	
45					
46					
47					
48		I		I	
49					
50		I			

 = Issue that was an alert on the background investigation cover sheet

**I** = Office of Inspector General-identified issue or omission found in the background investigation

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

**Appendix IV**

**COMMENTS FROM AMTRAK'S  
 CHIEF HUMAN CAPITAL OFFICER**

**NATIONAL RAILROAD PASSENGER CORPORATION**  
 60 Massachusetts Avenue, NE, Washington DC 20002  
 tel 202 906 3069 fax 202 906 2174

Memo



<p>Date July 11, 2012</p> <p>To David R. Warren          Assistant Inspector General,          Audits</p>	<p>From <i>AB</i>          A. Barry Melukovic          Chief Human Capital Officer</p> <p>Department Human Capital</p> <p>Subject <i>Human Capital Management:          Weaknesses in Hiring Practices Result          in Waste and Operational Risk (Draft          OIG Report)</i></p> <p>cc Gordon Hutchinson, Acting Chief          Financial Officer          Eleanor Acheson, Vice President,          General Counsel          DJ Stadler, Vice President, Operations          Joseph H. McHugh, Vice President,          Government Affairs and          Communications          Jeff Martin, Chief Logistics Officer          Jessica Scritchfield, Senior Director,          Internal Controls/Audit</p>
---	--

This memo serves as management's response to Draft Office of Inspector General Report *Human Capital Management: Weaknesses in Hiring Practices Result in Waste and Operational Risk* which was issued to this office on June 7, 2012. Management has reviewed the OIG's report in its entirety and is committed to developing and implementing the necessary internal controls to strengthen the company's policies and procedures surrounding the hiring and background investigation processes.

**Recommendation 1:**

Revise Human Capital policies to establish the requirements for use and review of background investigations and applications during the hiring process. Specifically, require that

- a) background investigations be completed, with no pending information prior to allowing prospective employees to start work;

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

Page 2

- b) a comprehensive comparison of background investigation information against prospective employee applications be made prior to allowing prospective employees to start work;
- c) prospective employees' application claims be verified, without outstanding issues, prior to allowing prospective employees to start work;
- d) policies clearly define the parameters for decision making when discrepancies exist in prior work history, education level claimed, and consumer credit and driving record reports;
- e) an accountable officer be designated to monitor the use of background investigations in hiring decisions; and training be provided to all staff involved in the hiring process on hiring policies and procedures.

**Management Response:**

- a) Management agrees with the recommendation. This will be communicated to all HC members by the CHCO by August 1, 2012.
- b) Management suggests that a comprehensive review will be performed for any "red flag" identified by the background check vendor. It will be inefficient for an Amtrak employee to review information that has already been reviewed by the background check vendor.
- c) Management believes Recommendation 1c is redundant to Recommendation 1a.
- d) Human Capital in partnership with the Legal department will create and implement a matrix defining which background checks will be required for which types of positions. The Director, Human Capital Operations will take responsibility for this task. Based on Legal review, credit checks will be limited to senior financial positions (Director and above).
- e) The Leader, Talent Acquisition & Employment Branding will be responsible to monitor the effectiveness of the background investigation process in hiring decisions; and training will be provided to all staff involved in the hiring process on hiring policies and procedures.

**Recommendation 2:**

Work with the Procurement and Materials Management Department to establish a contract, or contracts, with applicable terms and conditions for all future background investigation transactions.

**Management Response:**

Management agrees with the OIG's recommendation and acknowledges the importance of a robust background investigation process and its effect on the security of Amtrak facilities, employees, and customers as well as the efficiency of the company's operations. Management within Human Capital along with Procurement and Materials Management have begun the RFP process to select a background investigation vendor. Management expects to have a vendor selected by October 2012 and will ensure that the selected vendor understands and adheres to the Company's expectations regarding the conduct of background investigations.

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
Report No. OIG-A-2012-14, July 19, 2012

**Appendix V**

**OIG TEAM MEMBERS**

David R. Warren	Assistant Inspector General, Audits
Matthew Simber	Senior Director, Eastern Region
Todd Kowalski	Audit Manager
Walter Beckman	Senior Auditor
Mark Scheffler	Senior Auditor
James Pendleton	Senior Auditor
Michael P. Fruitman	Principal Communications Officer

*Amtrak Office of Inspector General*  
**Human Capital Management: Weaknesses in Hiring Practices**  
**Result in Waste and Operational Risk**  
 Report No. OIG-A-2012-14, July 19, 2012

## OIG MISSION AND CONTACT INFORMATION

<b>Amtrak OIG's Mission</b>	<p>The Amtrak OIG's mission is to</p> <ul style="list-style-type: none"> <li>▪ conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations;</li> <li>▪ promote economy, effectiveness, and efficiency within Amtrak;</li> <li>▪ prevent and detect fraud, waste, and abuse in Amtrak's programs and operations;</li> <li>▪ review security and safety policies and programs; and</li> <li>▪ review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.</li> </ul>
<b>Obtaining Copies of OIG Reports and Testimony</b>	Available at our website: <a href="http://www.amtrakoig.gov">www.amtrakoig.gov</a>
<b>To Report Fraud, Waste, or Abuse</b>	<p>Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):</p> <p>Web: <a href="http://www.amtrakoig.gov/hotline">www.amtrakoig.gov/hotline</a>          Phone: 800-468-5469</p>
<b>Congressional and Public Affairs</b>	<p>E. Bret Coulson, Senior Director          Congressional and Public Affairs</p> <p>Mail: Amtrak OIG          10 G Street, N.E., 3W-300          Washington, D.C. 20002</p> <p>Phone: 202-906-4134          Email: <a href="mailto:bret.coulson@amtrakoig.gov">bret.coulson@amtrakoig.gov</a></p>