

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General



OCTOBER 1, 2005 – MARCH 31, 2006

Semiannual Report to Congress



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**REPORT NO. 33
OCTOBER 1, 2005 – MARCH 31, 2006**





April 30, 2006

Honorable David Laney
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

This report, submitted pursuant to the Inspector General Act, summarizes the more significant audits, evaluations, and investigations for the six-month period ending March 31, 2006.

In the past six months, we have continued to work with the Board and management to identify areas for improvement in Amtrak's programs and operations. In particular, we have committed to assisting the corporation in furthering its published strategic reform initiatives.

We issued 21 audit reports in the last two quarters, including performing information technology security reviews, compliance with environmental regulations, and compliance with sole source procurement requirements. We also continued our review of Amtrak's efforts to strengthen internal controls around financial statement reporting, and we made additional recommendations to the Finance department to strengthen further their control environment.

Our investigators and special agents opened 75 new cases in the past six months and closed 134 cases; 319 investigations remain active as of March 31. Amtrak and the Department of Justice settled a long-standing contract fraud case for \$24.75 million; this settlement was achieved only through the hard work of several dedicated OIG staff and OIG counsel. We have eight criminal and civil fraud cases pending with Federal prosecutors.

The OIG Inspections and Evaluations team has been working with senior managers to improve Amtrak's Acela operations and has been actively participating in the Acela Oversight Committee. We conducted a review of the root causes for on-time performance delays, and we have facilitated the introduction of reliability-centered maintenance for the Acela trainsets. In addition, at your request, we have also worked with management to have them prepare a more comprehensive fleet management plan.

Honorable David Laney
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We are continuing our review of police and security operations, and we are evaluating the progress made by the company in responding to the recommendations included in our June 2004 RAND-led security report. We plan to augment the capabilities of the OIG security oversight group before the end of the fiscal year, and we have also engaged Lawrence Livermore National Laboratories to assist us in reviewing specific vulnerabilities at major Amtrak stations.

I appreciate your and the Board's continued support of the OIG's oversight efforts.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold
Inspector General

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Inspector General Viewpoint

MID-YEAR PERFORMANCE

Amtrak completed its first two quarters, through March 31, 2006, slightly ahead of budget projections for both revenues and expenses. Ticket-related and state support revenues were \$729.6 million, \$12.2 million better than budget. Operating expenses were \$1.2 billion, \$14.4 million better than budget. Adjusted losses for the company were \$611.3 million, with a total favorable budget variance of \$60.4 million. When compared to FY 2005, Amtrak was \$33.8 million favorable to the prior year. Total ridership was 11.56 million, slightly better than projected, with 26.2 cents revenue per passenger mile.

Amtrak's system-wide on-time performance continued to suffer, primarily as the result of poor support from the underlying freight carriers, slipping from 72.2 percent in FY 2005 to 67.9 percent YTD for FY 2006. Some train performance reached all-time lows, with Amtrak's popular Auto Train service achieving only a 17.9 percent on-time performance, and in the West, Amtrak's Coast Starlight service posting an even worse performance of 2.6 percent. Recent on-time performance posted by Amtrak's Acela trains was better, with Amtrak achieving its 90 percent on-time performance goals in March 2006. Both areas of on-time performance are important for the company to manage. However, Amtrak has far less control over the freight carriers' dispatching, and no say-so in its day-to-day operations. Amtrak must rely upon its individual railroad contracts with the carriers and upon the requirement that passenger trains should receive some priority over freight.

MANAGEMENT CHALLENGES

In April 2005, as a part of Amtrak's FY 2006 Grant and Legislative Request, Amtrak's Board of Directors set out a Strategic Reform Plan for the company, outlining various initiatives for structural, operating, and legislative reforms. Almost one year later, some movement towards those reforms has been made, but there is still considerable work ahead in defining Amtrak's progress in its strategic planning and the value and contributions of its business operations.

As a part of the Board's structural initiatives, the Board recommended to management that it cut layers of management, provide regular performance reporting, institute zero-based budgeting, and focus the company on 'core' operations and rebuilding of assets.

With respect to the first initiative, calling for cutting layers of management, Amtrak's basic organization has not been significantly modified over the past year, and headcount has remained relatively flat. In November 2005, Amtrak's Chief Executive



Vermont | Farmland in Vermont

Officer, David L. Gunn, left the company, and an interim CEO was appointed. Major organizational changes were, appropriately, placed on hold while the search for a new CEO is underway. The OIG believes there are opportunities to improve the organizational structure and to reallocate resources more effectively. A set of recommendations for an improved organizational structure and realignment will be made in the next few months.

Regarding the second initiative, providing regular performance reporting, Amtrak has been publishing its Monthly Performance Reports, containing voluminous performance data, and providing copies to the Federal Railroad Administration and making the reports available on its company web site. From an OIG perspective, the frequency and volume of data reported are excessive and, to the extent that there may be information that places Amtrak at a competitive disadvantage, the reporting requirements should be re-examined. Additionally, as the GAO noted in its December 2005 report (GAO-06-145), "*Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*," Amtrak needs to report "outcomes" in its efforts to improve its business operations, not just outputs and results.

Amtrak has not adopted a 'zero-based' budgeting approach to its business lines as of this reporting period. The OIG has observed that Amtrak has long followed a more traditional 'priority incremental budgeting' model. This model builds a budget based upon current year revenues and expenses, and then projects incremental changes based on economic conditions (inflation added to the expense base), market demand forecasts (drivers for the revenue base), and anticipated federal appropriations (servicing much of the capital program needs).

Amtrak has been very busy over the past several years making substantial investments in its infrastructure, particularly for its Northeast Corridor rail assets. Year-to-date for the six-month period, Amtrak has spent over \$258 million in general capital, with \$150 million spent by Amtrak Engineering (\$65 million for track/interlocking, \$26 million for the New York Fire, Life, Safety project, \$12 million for signal work, \$12 million for bridges, and the balance for other projects), and \$88 million spent by the Mechanical Department for rolling stock (\$29 million for the bi-level Superliner refurbishments, \$26 million for the Amfleet equipment, and \$22 million for locomotive repair and overhauls). While the OIG agrees that many of the capital investments appear reasonable and necessary, we are encouraging the company to use more asset-based metrics in its performance analyses. We have not yet seen the company demonstrate in its longer term planning the expected return on investment benefits from the ‘state-of-good’ repair program. We agree with the GAO that Amtrak needs to link its considerable capital spending programs to a better documented and justified strategic plan.

Amtrak has invested resources and made some progress on its operating initiatives, but these efforts have not yet reached to the bottom line. Amtrak has instituted a serious review of its food and beverage operations and has begun making changes to its Northeast Corridor and long-distance dining and lounge services. Beginning in January 2006, Amtrak extended its modified dining services pilot to four of Amtrak’s sixteen long-distance train routes. This program reduces on-board staffing needs through position consolidation and implements a modified, more standardized menu, emphasizing more pre-prepared main courses. Staffing levels on Acela Club services were also modified to match ridership and use of the First Class Car. The OIG considers these efforts a good first step to reigning in food and beverage expenses, but we continue to encourage the company to pursue contracting out options where feasible as well as seeking other productivity improvements.

The OIG has encouraged Amtrak to consider greater use of outsourcing and facility consolidation, especially with respect to the servicing, maintenance, and overhaul of its rolling stock and major equipment components. Last year, we recommended that Amtrak consider consolidating its maintenance activities for its primary locomotive, the P-42, from five maintenance locations to possibly two locations. We also recommended that Amtrak consider what other large Class I railroads have done to outsource locomotive maintenance to the equipment manufacturers. By the end of the reporting period, Amtrak management has signaled a limited consolidation of maintenance work for the P-42 fleet to Chicago and removed work from two other locations. This is a good first step. The OIG will work closely with



Empire Builder | Glacier National Park, MT

management on its other recommendations to consider the appropriateness of maintenance outsourcing.

Amtrak has fallen behind in meeting its load factor goals through March 2006. The projected average load factor goal through March 2006 was 53.2 percent, but the actual average load factor was 45.2 percent. Total passenger miles were slightly higher than projected. The OIG has commented in the past on the need for Amtrak to become more aggressive in its marketing, especially with respect to international sales. Amtrak has not yet leveraged its revenue and yield management programs, and more should be done in these areas.

In March 2006, Amtrak submitted its Grant and Legislative Request for FY 2007. The reauthorization issues identified by the company include the need to establish a stable, multi-year source for capital programs, and the need to set a framework by which competition can be introduced into intercity rail passenger services. The company desires a federal capital match program that resembles programs used for other transportation modes (aviation, transit), and recommends starting with an 80-20 matching program for participating states and localities. While there is a pending Senate passed reauthorization bill (S. 1516), it is not certain that this bill will be advanced before the end of the current Congressional session.

The OIG not only supports the company’s legislative requests, but we believe there are important provisions within S. 1516 that would benefit Amtrak and add long term stability for continued Amtrak operations and smart growth.

Amtrak Profile

BACKGROUND

Amtrak is incorporated under the District of Columbia Business Corporation Act in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Amtrak is governed by a seven-member Board of Directors appointed under the Amtrak Reform and Accountability Act (December 2, 1997). The company operates as a for-profit corporation providing inter-city rail passenger service as its principal business.

Amtrak operates more than 260 daily inter-city trains over 23,000 route miles serving over 500 communities in every state but two in the contiguous United States. Of this route system, Amtrak owns the right-of-way of more than 2,600 track miles in the Northeast Corridor. This includes Washington, DC-New York City-Boston, Philadelphia-Harrisburg, New Haven-Springfield, CT and short segments in Michigan and New York. Amtrak also operates rail services in several areas around the country under contract with state and regional commuter authorities.

Amtrak owns many of its passenger stations and also leases other stations from the freight railroads. It owns most of the maintenance and repair facilities for its fleet of about 2,000 cars and locomotives. Amtrak employs 20,000 persons, of which about 18,000 are agreement-covered employees. These employees work in on-board services, maintenance of way, station and reservations services, and other support areas. Outside the Northeast Corridor (NEC), Amtrak contracts with freight railroads for the right to operate over their tracks. On their property, the host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.

OIG PROFILE

Amtrak's OIG was formed under the provisions of the Inspector General Act Amendment of 1988. The OIG is an independent entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel and to promote economy and efficiency in Amtrak operations. The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG also audits and evaluates Amtrak operations and assists management in promoting integrity, economy, efficiency, and effectiveness. The OIG consists of the following units with specific responsibilities:

The **Audit Unit** is responsible for conducting independent reviews of Amtrak's internal controls; overseeing and assisting audits of Amtrak's financial statements; reviewing information technology programs and information security; providing accounting counsel to, and oversight of, Finance Department

operations; reviewing certain procurements and material acquisitions for appropriateness of cost and pricing and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

The **Investigations Unit** is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. The Unit is also charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Inspections and Evaluations Unit** is a hybrid unit within the OIG whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies. The evaluative process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve program cost efficiency and effectiveness, management, and the overall quality of service delivery throughout Amtrak.

The **Intelligence and Counter-Terrorism Unit** is responsible for facilitating, and overseeing projects and tasks pertaining to rail security, counter-terrorism and intelligence related to the country's war on terrorism. The unit is involved in working with external agencies to provide focus on the importance of rail security and the need for an integrated approach for addressing the many challenges in securing an open-architecture rail passenger system.

OIG Legal Counsel is responsible for providing legal advice, counsel and training to all of the aforementioned units. Moreover, Legal Counsel represents the Inspector General and his employees in litigation or legal matters, specifically related to OIG responsibilities, or coordinates such representation on behalf of the IG and his employees.

OIG personnel are located in eight offices in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

OIG Joint Department Efforts

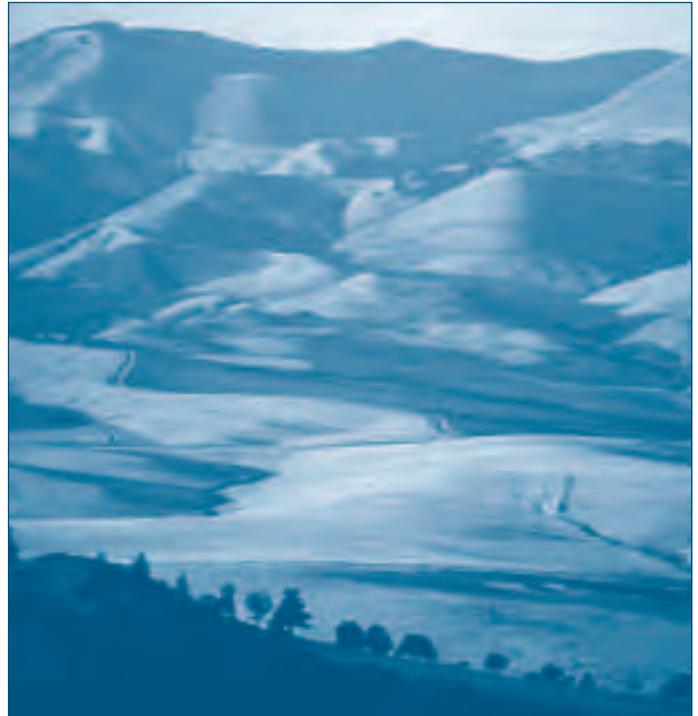
As set forth below, during this period, the OIG – Investigations, Inspections and Evaluations and Audit – completed a joint investigation project and continues work on a previously reported project. Highlights of these efforts are discussed below:

NORTHEAST CORRIDOR IMPROVEMENT PROJECT CONTRACT-RELATED FRAUD – \$24.75 MILLION SETTLEMENT

In conjunction with Amtrak’s Northeast Corridor Improvement Project, a contractor was awarded a federally funded multi-year contract to electrify Amtrak’s Northeast Corridor rail lines between New Haven, Connecticut and Boston, Massachusetts. The OIG, in conjunction with the United States Department of Justice, conducted an investigation spanning several years, millions of documents, and utilizing many different personnel and expertise within the office. The investigation uncovered evidence that Amtrak was defrauded by more than \$50 million in connection with the fixed-price contract of \$305 million; the total contract ultimately grew to exceed \$485 million. The OIG’s investigation began with a 1995 tip and was supplemented in 1999 when a “whistleblower” who had formerly been employed by the contractor on the project, filed suit under the False Claims Act in the United States District Court for Connecticut. The “whistleblower” alleged that the defendants had defrauded Amtrak by more than \$10 million by filing claims for payment known to be false and supporting false certifications. The OIG’s lengthy, substantial efforts to unravel the complex fraudulent schemes helped the Department of Justice in negotiating a settlement of \$24.75 million. The OIG did not agree to the final settlement amount, but the settlement was approved by Amtrak management.

ACELA BRAKE INVESTIGATION

As reported in the previous semiannual, the OIG continues its investigation of the Acela brake cracks. In April 2005, cracks were discovered in 300 out of 1,440 disc brake rotors of the 20 Acela train sets. Although any immediate safety concerns about the Acela trains have been eliminated, there are still significant issues to be resolved. The OIG became involved from the outset and continued to be involved with the ongoing investigation to



Coast Starlight | North of Grover Beach, CA

determine the cause of the cracks, possible prior knowledge of the dangerous condition by the primary contractors or others involved, who designed, built and maintained the Acela trains, and why inspections and maintenance by the prime contractors failed to discover and remedy the dangerous condition. The OIG’s investigation thus far, indicates that certain vendors/sub-contractors learned of the cracked discs at least one month prior to the April discovery, but apparently, did not disclose the discovery to Amtrak. OIG has issued ten (10) subpoenas in its investigation and has received production from seven (7) entities and has filed suit in the District Court for the District of Columbia to compel compliance with subpoenas for the remaining three (3) entities.

Office of Audits

SIGNIFICANT AUDITS

INTERNAL OPERATIONS REVIEWS

Emergency Exchange Voucher Review – Martinez, CA Report #502-2006 – Issued 12/15/2005

Emergency Exchange Voucher Review – Sacramento, CA Report #501-2006 – Issued 2/03/2006

Due to a higher than normal dollar value of Emergency Exchange Voucher (EEV) transactions processed by the Martinez and Sacramento ticket office during the period April 2005-September 2005, the OIG performed special reviews of selected Emergency Exchange Voucher (EEV) transactions to determine whether they were processed in accordance with established company procedures.

EEVs are used locally to assist passengers who are seriously inconvenienced due to a service disruption or causal event. Our examination determined that the larger EEV expenditures were incurred primarily due to connecting services from other train and bus operations. The OIG recommended, and management agreed, that formal agreements with commercial transportation services should be considered to reduce costs; and that supplementary instructions on the EEV process be issued.

Amtrak Non-Rolling Stock Equipment Accountability – Internal Control Weaknesses Identified Report #302-2005 – Issued 2/13/2006

We reviewed internal controls over Amtrak's non-rolling stock equipment and concluded that internal controls need to be strengthened. Current procedures do not provide reasonable assurance that equipment is properly accounted for or safeguarded; inventory records were found to be materially inaccurate; and, many pieces of equipment did not have Amtrak numbers assigned. We also noted that periodic inventories are not required, equipment property custodians are not assigned; and the Amtrak Equipment Manager is not properly placed in the organization to provide full accountability and authority required to properly account for equipment.

The OIG recommended, and management agreed that a definitive policy to enforce procedures to properly account for and protect Amtrak equipment should be established for the purchase and placement of equipment into inventory and that a "wall-to-wall" inventory of all existing equipment should be performed matching the Purchasing Department and the Equipment Manager's inventory records.

Amtrak Finance – Progress Addressing Internal Control Weaknesses Report #108-2004 – Issued 10/28/2005

In response to KPMG recommendations in the FY01 financial statement report, Amtrak management developed and began implementing a corrective action plan. As part of the OIG oversight, we reviewed the current status of Amtrak's progress in implementing the corrective action plan and issued an informational status report to management in which no formal response was required.

Our review indicated that Amtrak has satisfactorily addressed a number of issues identified by the external auditors. However, some items were not yet fully resolved either because implementation was continuing or because recently implemented controls would require ongoing monitoring to stabilize the new processes. The areas requiring continuing management attention included: Capital Expenditures, Three Way Match, Accounting for Significant Transactions, Legal Accruals, Depreciation, Disposals-Retirements-Replacements of Assets, Accounting for Leases, Physical Inventory of Amtrak Fleet, and Deferred Revenue Liability.

Environmental Audit Review – Internal Processes Need Improvement Report #208-2006 – Issued 3/28/2006

We completed a limited scope review of the internal process and procedures followed in an internal environmental audit conducted at Amtrak's Bear Mechanical Facility located in Bear, Delaware. Our review disclosed that inaccurate information was reported to the Environmental Protection Agency regarding corrective action taken. Training records were not reported to Amtrak's Human Resources Department, and there was inadequate documentation of audit findings and follow up. Management agreed with the findings and stated that they have begun implementing corrective actions.



Amtrak Station | San Antonio, TX

INFORMATION TECHNOLOGY

eTrax Application Review – Process and System Control Weaknesses Found Report #104-2004

As reported in a previous semiannual report, the OIG has continued its review of eTrax applications. Amtrak implemented eTrax applications for processing travel and expense reports, payment requests, non-inventory requisitions, procurement card transactions, and several electronic forms in late 2002. The critical functionalities provided by this application are the electronic routing, authorization and approval using organizational hierarchy and business rules; and economies of scale achieved by aggregating purchases and negotiating volume discounts with vendors. About 106,000 monetary transactions worth \$504 million were processed through eTrax in FY2004. Currently, 4,070 users have access to this application.

Our primary objectives were to evaluate whether adequate application, data integrity and general IT controls along with appropriate Amtrak policies were implemented in eTrax. While the new system has helped reduce paper processing and potential for errors, fraud, delays, and inappropriate approvals, we found weaknesses in internal controls, administration and the computer network environment that require management attention. Management agreed with most of our findings and recommendations, and has either already implemented or are in process of implementing audit recommendations.

Information Technology Security Review Project #107-2004

Due to the reorganization and consolidation of the Strategic Business Units in the last few years, more critical business func-

tions and technology infrastructure are now centralized. The ability to remotely access these resources and the various potential entry points from Intranet and Internet increase the potential for security breaches and threats to availability, integrity, and confidentiality of Amtrak's critical and proprietary business information. Limited technical resources, software with security weaknesses, widely available information on how to exploit security weaknesses, and an increasingly complex technology environment all contribute to increase security risks.

The OIG's review tested whether an effective system of security controls has been established to protect the corporate information resources. Based on the fieldwork completed thus far, violations of Amtrak's computer and security policies as well as significant control issues were noted. A detailed final report will be issued in the near future.

PROCUREMENT AUDITS

Price for Repair of Locomotive Main Transformers was Unsupported Report #217-2004 – Issued 3/13/2006

We completed an audit of a contractor's cost proposal to repair AEM-7 DC locomotive main transformers and identified \$187,441 of questioned cost due to lack of detailed supporting documentation for the proposed labor hours. Management will attempt to obtain an independent technical opinion of the proposed labor hours. If a technical report is received, we will perform additional audit procedures and issue a supplemental report.

Audit Questioned \$201,401 of the Contractor's Cost Proposal Report #205-2005 – Issued 1/06/2006

We completed a post award audit of a contractor's cost proposal to install cable inside Union Tunnel, Baltimore, Maryland. We questioned \$201,401 of the cost proposal due to numerous differences between the cost proposal and actual costs. The contractor agreed with the OIG findings and executed a contract modification for the reduction in contract value.

Termination Proposal Related to a Superliner I Overhaul Program – \$63,184 in Questioned Costs for Settlement Proposal Report #219-2005 – Issued 1/05/2006

A contract was issued for a Superliner I overhaul program at Beech Grove, Indiana. The contract was terminated by Amtrak due to the contractor's failure to perform its obligations in a timely and satisfactory manner under the contract. According to the terms of the termination letter, Amtrak planned to pay the contractor for its engineering costs and for the net cost of materials supplied based on the results of the audit and a technical



Multi-Modal Transportation Center | Meridian, MS

opinion on the quality and usefulness of the materials. We questioned \$63,184 of the termination proposal based on our review and technical report. We will continue to monitor.

**Food and Beverage Contract Review of Contractor's General and Administrative (G&A) Expenses – Questioned Cost in excess of \$700,000
Report #225-2005 – Issued 2/06/2006**

We completed a limited scope review of a food and beverage contractor's overhead rates for calendar year 2005. The contractor projected \$4,474,313 for G&A expenses for calendar year 2005. We questioned \$544,068 based on disallowances under the FARs. The contractor also failed to provide supporting documentation for \$173,420 covering pension, vacation and holiday costs. Due to lack of access to the contractor's home office records (parent company located in Switzerland), we were unable to determine the reasonableness of home office cost allocations approximating \$1 million; therefore, we did not express an opinion regarding those costs.

**Kiewit Pacific Company – Oakland Maintenance Facility \$329,753 in Questioned Costs
Report #502-2005 – Issued 12/21/2005**

At Procurement's request, OIG reviewed a Contract Modification awarded to Kiewit Pacific Company (the Contractor) for the construction of a roof over the Service and Inspection Facility and track at Amtrak's Oakland Maintenance Facility in West Oakland, CA. The contract change was for a firm fixed price of \$2.96 million, subject to downward revision based upon an Amtrak audit. The audit identified \$329,753 – 11 percent of the total proposal - in questioned costs primarily related to the direct and indirect labor, subcontractor work, equipment costs, and associated overhead and profit additives.

We recommended that the questioned costs be recovered in accordance with the terms of the contract. Management agreed to utilize the reported audit findings in its attempt to reach a negotiated settlement with the Contractor who offered to settle for \$154,058 or 47% of the total questioned costs. The OIG reviewed the Contractor's explanations and proposed dollar adjustments, and advised Procurement management that Kiewit's rationale was not consistent with the contract provisions for downward pricing. Procurement is continuing to pursue a final settlement, which is expected to be completed within the next reporting period.

INVENTORY

**Annual Maintenance of Way Inventory – Significant Increase in Inventory Value
Report #223-2005 – Issued 1/05/2006**

At the request of Amtrak's Procurement and Materials Management Department, the OIG observed the annual maintenance of way physical inventory conducted by the Material Control and Engineering Departments. A significant increase in inventory value, from \$24 million to \$40.6 million (69%) between October 1, 2004 and September 30, 2005, was noted, and we recommended tighter control over purchases and revised inventory purchasing procedures to achieve a capital store turnover ratio of four. Management stated that they review the status of capital purchase orders as to delivery schedules and requirement dates and work closely with the Procurement and Materials Management on planning for capital project purchases. However, management stated that inventory levels can fluctuate from year to year due to the uncertain funding process, budget reductions, rescheduling of projects due to force availability caused by material delivery delays and long lead material times combined with uncertain delivery dates. We will continue to monitor.

RAILROAD AUDITS

**CPR/SOO – On-Time Performance Incentives Audit \$111,004 Excess Billings Identified
Report #401-2005 – Issued 3/27/2006**

Effective April 16, 1971, The National Railroad Passenger Corporation (Amtrak) entered into an Agreement with the Canadian Pacific Railway (CPR), successor of the SOO Line Railroad, and the Chicago, Milwaukee, St. Paul, and Pacific Railroad Companies, for intercity rail passenger operations on tracks and properties owned by CPR. Under the agreement provisions, the CPR bills Amtrak each month for specific services and facilities for intercity rail passenger operations. The OIG reviewed 100 percent of the billings for on-time-performance incentives for the period January 2001 through December 2001 to determine the accuracy, reasonableness, and validity of the charges. Our review found \$111,004 in excessive and unsupported billing for on-time performance. CPR representatives agreed with this finding and we recommended that management initiate a final settlement letter and that monies due Amtrak be collected. Management has not yet responded to this report.

**METRA Billing Audit – \$50,075 in Excess Billing and Unnecessary Costs Identified (\$23,007 Excess Billings Identified – \$27,068 Unnecessary Costs)
Report #410-2003 – Issued 3/30/2006**

Effective May 1, 1996 the National Railroad Passenger Corporation (Amtrak) entered into an agreement with the Commuter Rail Division of the Regional Transportation Authority, i.e., Northeast Illinois Regional Commuter Railroad Corporation (METRA).

The OIG reviewed all billings from April 1997 through September 2003 to determine whether all claims were properly supported in compliance with the contract.

We questioned costs of \$11,167 for prior period adjustments and \$11,840 for rates that were not adjusted in accordance with the agreement, totaling \$23,007. METRA agreed and issued separate checks in settlement of these findings. We also identified \$27,068 in unnecessary costs to Amtrak for the Glenview station parking spaces not utilized, which are funds that could have been put to better use by Amtrak. We recommended and management agreed that the allotment of parking spaces be reduced or eliminated. The reserve parking spaces was reduced from twelve to four.

In addition, we identified internal control issues that will be reviewed in future audits. We recommended that management prepare the necessary settlement letter to close the audit period.

UNRESOLVED AUDIT ISSUES

Appendices 1 and 2 show the status of management decisions on audit recommendations and dollar values of questioned costs, unsupported cost, and funds to be put to better use.

Section 5(a)(10) of the Inspector General Act of 1978 as amended requires “a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. . .” Such reports are shown in Appendix 1 and 2. Section 5(a)(11) requires “a description and explanation of the reasons for any significant revised management decision made during the reporting period.” There were none during this reporting period. Section 5(a)(12) requires “information concerning any significant management decision with which the Inspector General is in disagreement.” Again, no such decisions were made during this reporting period.”

MANAGEMENT RESPONSES OVER 180 DAYS OLD FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

(Including Date of Management Response)

The following items were reported in previous semiannual reports. As of this reporting period, there are no significant developments to report.

**Delaware Car ACSES Installation Bid Review
Report #225-2002 – Response 6/19/2003**

Corrective Action Not Yet Implemented

**Reimbursable Work Trains
Report #212-2003 – Response 10/28/2003**

Agreed to Actions in Progress

**Parsons-Jenny Joint Venture
Report #201-2004 – Response 5/14/2004**

Questioned Costs Not Yet Resolved

**Blanket Purchase Order Sole Source Compliance Review
Report #206-2004 – Response 3/25/2004**

Corrective Actions in Progress

**Audit Questioned \$4 million of Commissary Services
Contract Costs
Report #218-2004 – Response 7/16/2004**

Corrective Action Not Yet Completed

**Southern Pacific Central Line
Report #01-506 – Response 9/04/2001
Report #01-507 – Response 9/04/2001
Report #01-508 – Response 10/12/2001
Report #01-509 – Response 10/12/2001**

Questioned Costs Not Yet Resolved

The following are either new items within this category or items that have been previously reported and additional information has been reported.

Capital Spare Parts for High Speed Trainsets and Locomotives – Questioned Costs Not Yet Resolved Report #218-2001 – Response 5/21/2003

We previously reported that the OIG identified questioned costs of \$1,223,897. Management subsequently recovered \$425,992 of the questioned cost through withholding payment for goods received. Management then developed a revised negotiating strategy to be consistent with a recent Alstom audit and a negotiated 12 percent markup. Management decided to allow the same 12 percent markup to each Consortium member associated with the subject audit, thus reducing the amount of the questioned costs to \$599,108. The remaining balance to be collected would be \$173,116 and would be withheld against future payments; but would not be addressed until all issues related to the March 16, 2004 global settlement are resolved.

Subsequently, we verified additional documentation from the Consortium regarding two questionable parts as reasonable. As a result, management reached a settlement that revised the remaining cost questioned to \$167,058, which the Consortium could not substantiate and allowed a 14 percent markup. As a result, Amtrak will owe the remaining balance of what was previous withheld totaling \$258,934. We are awaiting confirmation from management to verify the payment to the Consortium. We will continue to monitor management’s action on this issue.

Amtrak’s Overtime Expenses – Internal Controls Issues Not Yet Resolved Report #205-2003 – Response 4/20/2005

Amtrak’s management issued a response addressing the OIG findings and indicated that the Finance and Planning department management will ensure proper training and oversight of time-keepers regarding the completion of payroll operation field audits. Additionally, management was expected to revise the Corporate Policy for Time Reporting and Pay Procedures by September 2005. This Policy is still under review by Amtrak’s Controller Office. We will continue to monitor the actions taken.

New York High Speed Line Agreement – Collection Effort Continuing Report #207-2003 – Response 5/24/2005

We performed a limited review related to the CSXT usage of the New York High Speed Line. Amtrak’s Off-Corridor Operating Agreements and Amendments with Conrail governed certain

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/1/05	60
Audit projects postponed or cancelled	2
Audit projects started	18
Audit reports issued	21
Audit projects in progress 3/31/06	55

Audit Findings

Questioned costs	\$1,059,511
Unsupported costs	\$0
Funds to be put to better use	\$27,068
Total	\$1,086,579

agreed upon costs for the operation of a high speed corridor in New York that includes the points from Poughkeepsie to Hoffmans. The parties agreed to a negotiated amount of \$176,767, and credited Amtrak with \$23,767. The remaining balance of \$153,658 is still outstanding pending the final wording of a settlement agreement, and possibly, agreement on other audit issues. We will continue to monitor.

eTrax Payment Requests – Agreed to Actions in Progress Report #202-2004 – Response 1/14/2005 Report #201-2005 – Response 5/18/2005

- Report #202-2004 was performed to determine the level of compliance with Amtrak’s policies and procedures for payment requests processed through the eTrax system in fiscal year 2003. The OIG made several recommendations to address the weaknesses in internal controls, improve procedures to clarify roles and responsibilities and monitor compliance. Management substantially agreed with our findings and has implemented various improvements. However, management has not fully responded as to recoveries of duplicate payments addressed in the report.
- Report #201-2005 The review of employee expense reports processed through the eTrax software system found a high degree of non-compliance with Amtrak’s travel policy and eTrax instructions. Management indicated substantial agreement with our findings and has implemented various improvements, including the issuance of an updated expense report policy. We are in the process of evaluating if management action has achieved a significant reduction in the noncompliance with the travel policy.

Office of Investigations

CASE STATUS OF INVESTIGATIONS

10/1/05 – 3/31/06

Total Open Cases as of 9/30/05	378
Closed Cases	134
Opened Cases	75
Total Ongoing Cases as of 3/31/06	319

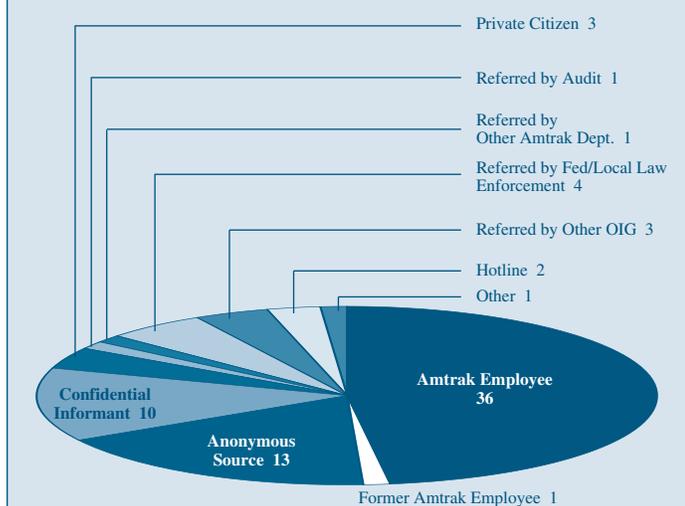
CASE HANDLING

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies, and third parties. Presently, we are handling 319 investigations; in the last six months, we opened 75 new cases and closed 134.

As set forth in the chart below, entitled “Sources of Allegations,” employees, anonymous and confidential source referrals accounted for about 65 percent of the allegations during this reporting period, with employees being the source of 36 of the 75 allegations or 48 percent. All allegations are reviewed, screened and resources are allocated based upon, among other things, the seriousness of the allegations and potential harm to Amtrak or the public.

SOURCES OF ALLEGATIONS

10/1/05 – 3/31/06



The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE twenty-four hours a day by calling Amtrak Telephone System number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., OIG staff answers the callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine. In addition, people can write in confidentially to P.O. Box 76654, Washington, DC 20013.

The OIG received seven telephonic HOTLINE complaints during this reporting period.

HOTLINE STATISTICS

10/1/05 – 3/31/06

Total

Hotline Complaints Received	7
------------------------------------	----------

Sources of Hotline Complaints

Anonymous Source	3
Private Citizen	3
Confidential Source	1

Classification of Complaints

Fraud	2
Theft/Embezzlement	3
Non-criminal – Other	1
Criminal – Other	1

Complaints Referred To:

OI Field Offices	3
Revenue Protection Unit	2
Customer Relations	1
Audit	1

SIGNIFICANT INVESTIGATIONS

Fraud takes on many forms and can be committed through many methods, including mail, wire, phone and the Internet. Organizations that fail to implement measures to prevent and detect internal fraud assume significant risk. As a result, the OIG spends considerable time and effort towards identifying and addressing the many forms of fraud. Illustrative of such investigations are those mentioned below.

Mail Fraud

A station caretaker contracted to maintain the Amtrak Station at Plattsburgh, New York pled guilty to submitting invoices for time not worked. As a result of an OIG investigation and subsequent findings, the former contractor was prosecuted by the United States Attorney's Office for the Northern District of New York for one-count of felony mail fraud. The defendant over-charged Amtrak for maintenance activities, which were never performed, and admitted that the over-billing took place for a period of four years defrauding Amtrak of \$71,555.25. All invoices were transmitted for payment through the United States mail. In addition to six (6) months house arrest, and three (3) years probation, the former contractor was ordered to make full restitution to Amtrak.

Health Insurance Fraud Case

The OIG investigated an Indianapolis physician for violation of the Federal False Claims Act, 31 U. S. C. Section 3729 et. seq. The fraud resulted from a scheme by the physician to bill Amtrak, through its carrier United Health Care, for procedures which he had not performed. Amtrak received \$33,719.96 in restitution from the physician as the result of a Settlement Agreement executed by the Indianapolis United States Attorney's Office for the Southern District of Indiana.

Fraudulent Misuse of Company Vehicle or Fuel Credit Cards

In conjunction with the use and issuance of company vehicles, Amtrak also issues fuel credit cards to be used for the sole purpose of purchasing fuel for Amtrak vehicles. While there are established corporate procedures for the management and control of both corporate vehicles and fuel credit cards, the abuse of both continue to be reported and substantiated by the OIG. The following reflect some of our investigations in this area:

- The OIG conducted a joint investigation with the General Services Administration (GSA) OIG into a GSA credit card fraud scheme being perpetrated in the New Jersey area. A Gas Station Service Attendant was double swiping GSA credit cards assigned to Amtrak vehicles, resulting in double or over-billing. As a result, the Attendant was able to personally profit from the extra charge made against the Amtrak issued GSA credit card. With the assistance of the United States Attorney's office for the Northern District of New Jersey, the perpetrator was arrested and charged with theft of Federal funds.
- Based on an allegation received by the OIG, the subsequent investigation revealed that a Senior Director in the Engineering Department was using a company assigned

vehicle without authorization for commuting purposes for approximately one year. The employee was counseled and instructed to repay Amtrak \$800 in restitution.

FUNDS RECOVERED OR DISCONTINUED

Although not always fraudulent in nature, often an OIG investigation will lead to the recovery or discontinuance of monies disbursed by Amtrak due to oversight, abuse or misuse of funds as detailed below.

- The OIG investigated the circumstances surrounding a marketing firm from Mississippi receiving a no bid contract from Amtrak to market the long-distance train, The Crescent. Pursuant to this investigation, we examined billings to Amtrak by the firm and discovered a suspect payment to the firm in the amount of \$32,319. As a result of the OI investigation, the firm acknowledged the unearned payment and repaid Amtrak the monies in an out-of-court settlement.
- The OIG investigated the purpose of Amtrak making a \$200,000 annual donation to the University City District (UCD), a non-profit special services district in Philadelphia, Pennsylvania, which encompasses 30th Street Station. Amtrak was classified as a "Platinum Ambassador," meaning they were in the top category of donors along with nine (9) other entities. Amtrak had contributed \$1,400,000 to the UCD since 1997. The payments were processed through four payment requests of \$50,000 each quarter. As a result of the investigation, the Amtrak President, who was unaware of the payments, ordered the donations to cease.

Investigations begun in prior reporting periods that have had some significant progress or changes are detailed below.

Chicago-based Lead Service Attendant's (LSA)

The OIG has continued its activities regarding fraud and abuse in connection with cash handling. Since the previous reporting period, monies totaling several thousand dollars were recovered from four Chicago-based LSA's that were terminated after failing to remit all of their on board sales to Amtrak. Amtrak withheld vacation pay to the four employees, to recover some of the monies due to Amtrak.

EFFICIENCY AND EFFECTIVENESS

In addition to detecting and deterring fraud, waste, abuse and wrong doing in Amtrak's programs and operations, OIG investigations also provide information and recommendations to

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

10/1/05 – 3/31/06

Type	Number
Fraud	18
Theft/Embezzlement	16
Kickbacks	4
False Claims	1
False Statements	1
False T&A Issues	4
Other – Criminal	9
Waste	6
Abuse of Position	6
Mismanagement	2
Conflict of Interest	1
Administrative Inquiries	1
Other – Non-criminal	6
TOTAL	75

company employees and officials towards improving efficiency, effectiveness and adaptability. During this reporting period, OIG investigations have led to recommendations regarding quality improvement which have been implemented by management. Examples of these efforts are detailed below.

- The OIG conducted an investigation into a Contractor providing entertainment in the way of food and beverages in excess of approximately \$10,000 over a two (2) year period to Amtrak Procurement and Mechanical Management employees. As a result of the investigation, the employees directly affected were disciplined and, although there is an existing policy in place, the Chief Mechanical Officer reiterated the policy to his staff.
- The OIG received information that an Amtrak manager authorized and submitted payment to Amtrak for the purchase and consumption of alcoholic beverages by Amtrak employees in recognition of perfect attendance and employment anniversaries. Through the subsequent investigation it was determined that there were excessive expenditures for these celebrations, both in food and alcoholic beverages. In addition to the manager received counseling for his actions, and as a result of OIG recommendations, all further employee recognition events that include alcohol or being held off Amtrak property have been eliminated.

PROSECUTIVE REFERRALS

10/1/05 – 3/31/06

Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	3	0	3
Convictions/Pleas	1	0	1
Pending*	7	0	7
Declinations	2	0	2
Resolved	4	0	4
TOTAL	17	0	17
Civil Cases			
Suits Filed	0	0	0
Settled	1	0	1
Pending	1	0	1
TOTAL	2	0	2
Total Civil and Criminal			19

*Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution, or other resolutions.

REVENUE PROTECTION EFFORTS

The Revenue Protection Unit (RPU) provides critical guidance and support in the strengthening of management accountabilities and responsibilities as well as internal controls.

Food & Beverage Reviews

Over the last few reporting periods, circumstances and statistics have been provided indicating misappropriations in the area of food service by Lead Service Attendants (LSAs). During this reporting period and in conjunction with these previously reported findings, RPU focused on Boston management supervision and accountabilities in this area. Our findings indicated several consistent failures by management in their supervision of and accountability for LSA's. As a result of the review and subsequent administrative referral, four (4) management staff changes were instituted and management has adopted several of OIG's recommendations.

Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

Acela Service – OIG Continues its Oversight Efforts

The Acela high-speed trains generate approximately one quarter of Amtrak's ticket revenue, and Acela operations have a significant impact on Amtrak's financial goals and objectives. As a result, the OIG remains involved with the Acela Executive Oversight Committee and has continued to examine critical areas of the Acela program. During this reporting period, we conducted reviews on the transition of contracted maintenance services from the manufacturer to Amtrak; we also reviewed Acela on-time performance (OTP) and the maintenance quality assurance program. A summary of the work performed in these areas follows:

■ **Transfer of Maintenance Responsibility from the Manufacturer**

With the responsibility for maintenance of the trainsets transitioning from the manufacturer's consortium to Amtrak on October 1, 2006, the OIG is closely monitoring the transition to highlight potential problem areas and make recommendations to help achieve the smooth and safe transition of train set maintenance from the manufacturers to Amtrak. We are providing feedback to the Senior Vice President of Operations on areas we feel are at risk so that actions can be taken by management now to help prevent problems in the future.

■ **Acela Express On-Time Performance**

The On-Time Performance (OTP) of Amtrak's Acela trains fell to historically low levels in FY 04 and FY 05. The poor OTP was adversely impacting the financial performance of the Acela service, since the customer base for Acela is comprised primarily of business travelers with time-sensitive travel plans.

The OIG evaluated past Acela operating performance to help understand the cause of poor OTP and to develop a set of recommendations on how to improve it. The evaluation developed five findings related to Acela OTP and offered seven recommendations for improvement. The findings helped to dispel popular, but often unfounded, perceptions about the primary cause of late trains and to provide the quantitative data to help identify the proper actions required to reduce train delays and improve OTP.

The evaluation recommended specific actions that Amtrak's line departments should take to reduce Acela delays and improve its OTP. The evaluation determined that there is a direct correlation between delay minutes per ten thousand

train miles and the average OTP of Acela trains. This relationship has helped Amtrak identify the delay minute goals that must be achieved for Amtrak to reach its 90% OTP goal for Acela service. Subsequent to the presentation of our findings and recommendations, Acela OTP has improved significantly.

■ **Follow-up to Acela Quality Assurance Evaluation**

In August 2004, we issued report #E-04-03 on the Acela Quality Assurance Program. This report was an overall positive report on the state of the then-existing program. However, we expressed concern that the program might degrade during the transition between the manufacturers' consortium, NEC MSC, and Amtrak, and made several recommendations to prevent this from occurring.

In the fall of 2005, we conducted a follow-up review to see if actions in response to our recommendations had been accomplished. We found little to no progress had been achieved. We reported our follow-up findings to the Chief Operating Officer and will follow-up on this area again in early FY 2007.

Amtrak Mechanical Operations

In September 2005, we issued report E-05-04, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, we found that Amtrak's maintenance operations were being performed similarly to the way other major railroads in North America did maintenance over 20 years ago - mainly preventative maintenance inspections and services conducted at mostly time-based intervals, augmented by a high number of reactionary, unscheduled, repairs.

We recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that maintenance activities be supported by sound technical and economic justifications.

Our report discussed specific actions that Amtrak should take to transition to RCM. It was well received by Amtrak Management and we continue to work with the Mechanical Department to help them implement our recommendations.

Implementation of Reliability-Centered Maintenance

To assist the Mechanical Department implement Reliability-Centered Maintenance, we engaged a consulting firm, T-solutions, who facilitated the implementation of Reliability-Centered Maintenance (RCM) at both the U.S. Navy and the U.S. Coast Guard. In both of these organizations, the implementation of RCM resulted in significant improvements in

equipment reliability, while at the same time significantly reducing maintenance costs. The consultants are currently analyzing the maintenance history of the Acela high-speed train-sets with the intent to begin implementation of new practices in this area first. Fully implementing RCM throughout Amtrak will be a multi-year effort. The OIG will remain engaged to facilitate this effort through at least the rest of this fiscal year.

Amtrak Mechanical Department Facility Rationalization

One of the recommendations in report E-05-04 was that Amtrak “evaluate the potential benefits of consolidating maintenance operations into fewer locations.” The Chairman of Amtrak’s Board of Directors requested that the OIG help facilitate the implementation of this recommendation. Therefore, we engaged the services of the Thomas Group, an international consulting firm with expertise in a variety of industrial operations, including railroad maintenance. A team composed of both Thomas Group and IG staff evaluators visited all major Amtrak maintenance activities, including the three major maintenance back shops and the eleven major mechanical facilities across the United States. The team gathered data on characteristics, condition and utilization of the various facilities, speaking with local management and observing operations.

The survey found significant excess capacity at Amtrak’s maintenance facilities, resulting in inefficiencies and excess costs and presenting an opportunity for significant potential savings. To achieve these savings, the OIG recommended actions included consolidating back shops, consolidating preventative maintenance and repair activities at Centers of Excellence for different equipment types, and combining or outsourcing certain component repair operations. The estimated potential saving, after accomplishing these actions, is in excess of \$20 million annually. The preliminary findings have been briefed to the Amtrak Board of Directors, and the OIG is developing recommendations for Amtrak to implement and execute these recommendations.

Amtrak Fleet Planning Process

Another of the recommendations contained in Report E-05-04 was that Amtrak “develop, and keep current, a comprehensive fleet plan (that includes both locomotives and cars) to be used to forecast and prioritize mechanical capital expenditures.” The Chairman of Amtrak’s Board of Directors requested the OIG facilitate the implementation of this recommendation. Therefore, the OIG engaged the Thomas Group to review Amtrak’s Fleet Planning Process. Specifically, the Thomas Group was asked to:

- Document Amtrak’s current fleet allocation process,
- Recommend how to improve this process,

- Reconcile equipment requirements to equipment availability,
- Develop a set of metrics that measure fleet utilization rates,
- Compare Amtrak’s fleet utilization rates to industry standards and recommend areas for improvement,
- Assess how well Amtrak implements its equipment plan.

The OIG facilitated the Thomas Group’s work within the company by identifying Amtrak’s equipment planning stakeholders, coordinating meetings, specifying critical data requirements and sources, and identifying Amtrak’s operating constraints. A full report on this effort will be issued during the next reporting period.

IT Project Approval Process – Improvements made, but implementation of “best practices” from leading organizations can lead to further improvements

Report E-06-01 – Issued March 31, 2006

During this reporting period, the OIG completed our evaluation of Amtrak’s Information Technology (IT) project approval process. In this report, E-06-01, the OIG recognized improvements in the IT Project Approval process between FY05 and FY06, including the institution of an IT Working Group, better use of criteria to “value” and “score” projects; and the selection of the projects based on information prepared by the IT working group. While these are noteworthy improvements, further improvement is possible.

As part of this evaluation, we compared Amtrak’s process to the best practices of leading organizations and identified opportunities for improvement. Our recommendations included adopting an organizational structure that provides for the inclusion of the CIO in the development and discussion of strategic plans and initiatives; the integration of an IT strategy that supports the corporation’s business strategy; and increased project controls to promote consistency in decision-making.

Employee Leave of Absence Initiative – OIG Inter-department team working with Amtrak Human Resources

In September 2004, the OIG issued an evaluation report on Employee Leaves of Absence (E-04-04). The report found that Amtrak was not adequately tracking employees on leave of absence and therefore Amtrak could not ensure that benefits were only being paid to eligible personnel.

In August 2005, after realizing that the situation had not improved significantly, the CEO directed that the Human Resources department create an Employee Leave of Absence Initiative and take necessary actions to ensure employees on leave of absence are tracked and their benefit eligibility is prop-

erly managed. On average, 1200 -1300 employees are either on a medical leave of absence or personal leave of absence each month. This monthly rolling number requires a dedicated database to track and monitor employee activity, particularly if employees are in compliance with providing the required medical documentation. An OIG inter-department team of Inspections and Evaluations (I&E) and Audit personnel has been monitoring and advising the Human Resources team tasked with this initiative. AT is currently testing the database with the goal of final production in the next quarter.

Harassment and Intimidation Complaint – Formal Investigation Initiated

Amtrak’s Statement of Policy Against Harassment and Intimidation states, in part, “Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness.” This Statement of Policy conforms to Federal Railroad Administration Regulations 49 CFR Part 225.33

During this reporting period, the OIG conducted four inquiries into employee complaints of Harassment and Intimidation. After an initial review of the four complaints, it was determined

that one of the complaints warranted a formal investigation. The results of this investigation will be issued during the next reporting period.

Conductor and LSA Non-Remittance – OIG Continuing Involvement

Amtrak employees handle approximately \$100 million annually in on-board ticket and food and beverage sales. The OIG previously issued two evaluation reports where we noted substantial evidence of employee theft and made recommendations to improve the oversight and control of cash generated from on-board sales.

The Inspections and Evaluations staff works closely with the OIG Revenue Protection Unit, whose work is highlighted earlier in this report. Also, the I&E staff continues to interact with Amtrak’s Customer Services department to advise on remittance policy and procedures as well as process improvements for safeguarding OBS revenues.

Since October 2002, more than 175 conductors and 150 On-Board Service (OBS) employees have either resigned or been terminated from the company for misappropriation of revenues, in part as a result of OIG’s efforts in this area.

Counter-Terrorism and Intelligence

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

The OIG Counter-Terrorism and Intelligence unit is responsible for oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with Amtrak's Vice President for Security and other OIG security oversight teams, this unit works to increase awareness about the possibilities of a terrorist attack against railroad passenger services and the critical importance of security preparedness.

The OIG and Amtrak's Security Department also continue to work with officials from the Department of Homeland Security (DHS) and with other Federal departments and agencies to upgrade and improve security measures at selected locations. These joint efforts include exercising preventive measures, and conducting joint operations with appropriate law enforcement.

Given the highly confidential nature of this unit, its activities and progress is generally not publicized. The OIG is willing to discuss projects and highlights with Congressional members and staff.

Vulnerability Assessments

During the last two quarters, the OIG has retained the services of two highly regarded assessment and evaluation organizations that have been performing in-depth reviews of a major Amtrak station and adjacent infrastructure. Through these reviews, we hope to ensure that Amtrak has the best possible information from which it can improve upon its security investments. The OIG also intends to expand its review and evaluation program to nine additional urban stations during FY 2007 and 2008.

Concurrent with the OIG's efforts, the Vice President for Security at Amtrak has used a DHS, Office of Domestic Preparedness grant to conduct a more systemic Vulnerability Assessment, for Amtrak's Northeast Corridor assets and for an Amtrak facility in the Midwest. The OIG and RAND Corporation had recommended that the company undertake these reviews following its 2004 security evaluations. The Vulnerability Assessment report is scheduled to be delivered to Amtrak in May 2006. From the more complete Vulnerability Assessment report, Amtrak will be able to revise its security plans and make better decisions for spending security dollars.



Auto Train Station | Lorton, VA

Other OIG Activities

COORDINATION WITH INDEPENDENT PUBLIC ACCOUNTANTS

Section 805 of the Rail Passenger Service Act of 1970 requires Amtrak to have its financial statements audited annually in accordance with the generally accepted auditing standards, and to report the audit findings to Congress in Amtrak's annual report. Amtrak has been audited annually since 1971.

At the request of KPMG, the OIG conducted a review of fiscal year 2005 labor charges for both the Engineering and Mechanical departments. In order to determine the amounts adjusted and assess the appropriateness of the labor cost adjustments. The results of our review indicated a normal trend of a small number of adjustments and a relatively low dollar value for each date of adjustment. A few instances were observed that exceeded the normal trend, but the dollar value of these adjustments were not significant. Accordingly, we concluded that the risk of inappropriate changes was very low and informed KPMG on the results of our review.

The OIG is continuing to follow-up on progress being made by management to implement corrective actions in response to the Management Letters issued by the external auditors in connection with the annual audits of Amtrak's financial statements. As indicated in this report earlier, we issued a status report in October 2005 which noted that Amtrak Finance has satisfactorily addressed a number of internal control weaknesses cited by the external auditors.

During the next semiannual period, we plan to work with the external auditors and Amtrak management on issues related to prior audits and the financial statement audit for FY 06.

SELF-INSURED HEALTH CARE PLANS

Amtrak is currently in the process of evaluating potential health-care service providers for the management plan. The OIG is participating in this process with Human Resources and others to evaluate the vendor proposals and conduct site visits. As part of this project, OIG staff will join other Amtrak personnel on a site

visit to Aetna, United Healthcare, Cigna, and Blue Cross Blue Shield. During the site visits, the OIG plans to inquire about the potential vendors' internal control processes for safeguarding Amtrak's interests with respect to healthcare claims processing.

We are continuing to work with management to assess actions taken or planned for implementing recommendations stemming from a recent OIG sponsored audit of Amtrak's On-Duty Injury plan administered by Continuum. We are also preparing for an audit of commonly abused medical billing codes to identify abusive or fraudulent billings. Current plans also include a review of the new eligibility process implemented by management to determine if accurate information is being provided to various Third Party Administrators that provide healthcare services to agreement covered employees. Amtrak incurs over \$200 million in healthcare costs per year for its two self-insured healthcare plans for management and agreement-covered employees. These plans are managed through a number of third party vendors and cover over 60,000 members including employees and dependents.

TEAMMATE IMPLEMENTATION

OIG Secure Subnet and TeamMate Implementation Project Update

As previously reported, Amtrak OIG selected TeamMate application to automate various audit processes. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls was built to host the TeamMate application and related databases.

During this semiannual period, we completed the installation of technical infrastructure and successfully tested the OIG secure subnet proof of concept from our Washington office. After conducting an end-to-end testing from all our offices and completing security controls review, we plan to finalize the TeamMate protocol/library, update our Audit Procedures Manual, train our audit staff, and roll out the application in a phased manner. We plan to implement the TeamMate application in 2006.

Appendices



Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

10/1/05 – 3/31/06

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	\$903,383	\$277,348
B. Reports issued during the reporting period.	11	\$1,059,511	\$0
Subtotals (A + B)	13	\$1,962,894	\$277,348
LESS			
C. For which a management decision was made during the reporting period.	8		
(i) dollar value of recommendations that were agreed to by management.		\$738,058	\$0
(ii) dollar value of recommendations that were not agreed to by management.			
D. For which no management decision has been made by the end of the reporting period.	5	\$1,224,836	\$277,348

Appendix 2

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

10/1/05 – 3/31/06

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	1	\$21,200
B. Reports issued during the reporting period.	1	\$27,068
Subtotals (A+B)	2	\$48,268
LESS		
C. For which a management decision was made during the reporting period.	1	
(i) dollar value of recommendations that were agreed to by management.		\$11,200
(ii) dollar value of recommendations that were not agreed to by management.		\$10,000
D. For which no management decision has been made by the end of the reporting period.	1	\$27,068

Appendix 3

OFFICE OF THE INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

10/1/05 – 3/31/06

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
02/23/2006	104-2004	eTrax Application Review	\$39,943	\$0	\$0
10/28/2005	108-2004	KPMG Management Letter Compliance	\$0	\$0	\$0
01/06/2006	205-2005	Pirelli Construction Services, Inc	\$201,401	\$0	\$0
03/28/2006	208-2006	Environmental Audit	\$0	\$0	\$0
10/27/2005	210-2005	Henkles & McCoy - Ivy City Utilities	\$0	\$0	\$0
01/05/2006	211-2005	Parsons - Mod 12	\$29,677	\$0	\$0
03/13/2006	217-2004	ABB-AEM-7 Transformer R&R	\$187,441	\$0	\$0
01/05/2006	219-2005	Mass Transit Products Termination	\$63,184	\$0	\$0
11/10/2005	220-2005	Albany Commissary Closing	\$0	\$0	\$0
10/25/2005	221-2005	Electronic Exchange Corporation	\$0	\$0	\$0
03/08/2006	222-2005	CSX Billing Under High Speed Rail Agreement	\$40,770	\$0	\$0
11/15/2005	223-2004	Smart Associates	\$12,825	\$0	\$0
01/15/2006	223-2005	Observations of FY05 Annual M/W Inventory	\$0	\$0	\$0
02/10/2006	224-2005	W.A. Chester, L.L.C	\$20,505	\$0	\$0
02/06/2006	225-2005	Gate Gourmet-Cost and Rate Audit	\$0	\$0	\$0
02/13/2006	302-2005	Amtrak Equipment Accountability	\$0	\$0	\$0
03/27/2006	401-2005	CPR (SOO) OTP only (2001)	\$111,004	\$0	\$0
03/30/2006	410-2003	METRA/CUSCO Lease	\$23,008	\$0	\$27,068
02/06/2006	501-2006	Sacramento, CA EEV Review	\$0	\$0	\$0
12/21/2005	502-2005	Kiewit Pacific Company - Oakland Maintenance Facility	\$329,753	\$0	\$0
12/15/2005	502-2006	Martinez, CA EEV Review	\$0	\$0	\$0
Total			\$1,059,511	\$0	\$27,068

Appendix 4

**OFFICE OF THE INSPECTOR GENERAL
SUMMARY OF REPORTS TO PRESIDENT OF AMTRAK
CONCERNING INFORMATION OR ASSISTANCE
UNREASONABLY REFUSED OR NOT PROVIDED**

10/1/05 – 3/31/06

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

10/1/05 – 3/31/06

Section 4(a) of the Inspector General Act of 1978, as amended, provides that the Inspector General shall ...review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports ... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

The Office of Inspector General has an agreement with Amtrak's Government and Public Affairs Department that allows the OIG to review and comment on the company's annual legislative program and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed as necessary, as a part of every audit and investigation.

The OIG has also submitted legislative recommendations to oversight and appropriating committees seeking line item funding and several other legislative changes that will strengthen OIG independence and effectiveness.

Appendix 6

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms we use in reporting audit statistics are defined below:

Questioned Cost	A cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak’s corporate policy or procedure.
Unsupported Cost	A cost that is not supported by adequate documentation at the time of the audit.
Funds To Be Put To Better Use	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
Management Decision	Management’s evaluation of our audit finding and its final decision concerning agreement or non-agreement with our recommendation.

Certain abbreviations used in the text are defined below:

ACSES	Advanced Civil Speed Enforcement System	IG	Inspector General
CEO	Chief Executive Officer	IT	Information Technology
CFR	Code of Federal Regulation	LSA	Lead Service Attendant
CIO	Chief Information Officer	METRA	Northern Illinois Regional Commuter Railroad
CPR	Canadian Pacific Railway	MOU	Memorandum of Understanding
CSXT	CSX Corporation	NEC	Northeast Corridor
DELDOT	Delaware Department of Transportation	NECMSC	Northeast Corridor Management Services Company
DHS	Department of Homeland Security	OBS	On Board Services
EEV	Emergency Exchange Voucher	OIG	Office of Inspector General
eTrax	Electronic Transaction Express Software System	OTP	On-Time Performance
FAR	Federal Acquisition Register	RCM	Reliability Centered Management
FY	Fiscal Year	RPU	Revenue Protection Unit
GAAP	Generally Accepted Accounting Principles	UCD	University City District
G&A	General and Administrative	YTD	Year-to-Date
GAO	Government Accountability Office		
GSA	General Services Administration		

Reporting Requirements Index

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Section 5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Completed	8-9
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Section 5(a)(5)	Information or Assistance Refused or Not Provided	23
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