

**NATIONAL RAILROAD PASSENGER CORPORATION**

**Office of the Inspector General**



**APRIL 1, 2006 – SEPTEMBER 30, 2006**

# **Semiannual Report to Congress**





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**REPORT NO. 34  
APRIL 1, 2006 – SEPTEMBER 30, 2006**





October 31, 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 September 30, 2006.

The OIG issued 17 audit reports in the last two quarters, including performing oversight work for the company's audited financial statements, evaluating Amtrak's procurement card implementation, performing federal grant compliance reviews for the New York Fire and Life Safety project, and conducting several other procurement reviews.

Our investigators and special agents opened 79 new cases in the past six months and closed 81 cases; 317 investigations remain active as of September 30. We made 13 criminal referrals to the Attorney General, obtaining one indictment, four declinations, three case resolutions, and five pending prosecutorial review. We continue to investigate several cases of employee-related fraud and embezzlement, with a number of employee administrative dismissals and subsequent successful prosecutions.

The OIG Inspections and Evaluations team issued a report on Amtrak's train fleet management processes, making a number of recommendations to improve asset management of rolling stock. We also issued a report regarding the potential financial impact of poor on-time performance affecting Amtrak's long-distance routes, drawing attention to the difficulty Amtrak has had in managing this important aspect of passenger service.

We have been increasing our outreach and coordination efforts with Amtrak's security partners. Working with the New York Police Department, we have assisted in promoting the Northeast Rail Coalition, a group founded by NYPD and Amtrak to increase state and local law enforcement support of Amtrak's security needs. We have also conducted further secu-

Honorable David Laney  
October 31, 2006  
Page 2



city reviews of several major urban stations, and we are making specific recommendations to management with regard to needed infrastructure counter-measures.

I appreciate your and the Board's continued support of the OIG's oversight efforts. We look forward to working with you in the coming new fiscal year.

Respectfully,

*Fred E. Weiderhold, Jr.*

Fred E. Weiderhold, Jr.  
Inspector General

# Table of Contents

## Inspector General Viewpoint

FY2006 Year End Financial Results . . . . .	1
Amtrak Strategic Reform Initiatives Update . . . . .	1
Safety and Security . . . . .	3
Conclusions . . . . .	3

## Amtrak Profile

Background . . . . .	4
OIG Profile . . . . .	4

## Office of Audits

Significant Audits . . . . .	5
Unresolved Audit Issues . . . . .	8
Management Responses Over Six Months Old for Which Corrective Action Has Not Been Completed . . . . .	8
Audit Statistics . . . . .	9

## Office of Investigations

Case Status of Investigations . . . . .	10
Case Handling . . . . .	10
Sources of Allegations . . . . .	10
Hotline Statistics . . . . .	10
Significant Investigations . . . . .	10
Efficiency and Effectiveness . . . . .	11
Classification of Cases Opened During this Period . . . . .	12
Prosecutive Referrals . . . . .	12
Revenue Protection Efforts . . . . .	13

## Inspections and Evaluations

Significant Inspections and Evaluations . . . . .	14
---	----

## Counter Terrorism and Intelligence

Significant Counter Terrorism and Intelligence Efforts . . . . .	17
--	----

## Other OIG Activities

Coordination with Independent Public Accountants . . . . .	18
Lease Audit . . . . .	18
Workpaper Automation . . . . .	18

## Appendices

1. Audit Reports Issued with Questioned Costs . . . . .	20
2. Audit Reports Issued with Funds to be Put to Better Use . . . . .	21
3. Detailed Listing of All Issued Audit Reports . . . . .	22
4. Summary of Reports to President of Amtrak Concerning Information or Assistance Unreasonably Refused or Not Provided . . . . .	23
5. Review of Legislation and Regulations . . . . .	24
6. Glossary of Audit Terms and Abbreviations . . . . .	25

## Reporting Requirements Index

Reporting Requirements Index . . . . .	26
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# Inspector General Viewpoint

## FY 2006 YEAR-END FINANCIAL RESULTS

Amtrak completed the fiscal year with \$2.017 billion in total revenue (\$1.565 billion in passenger related revenues), and total expenses were \$2.940 billion. Amtrak's adjusted losses, before depreciation, were \$1.127 billion, \$101.8 million better than budget, and \$65.5 million better than last fiscal year.

Stronger than expected passenger revenues helped drive improved revenue performance, with notable performance improvements from corridor services, including Amtrak's Northeast Corridor Regional trains, California's Pacific Surfliners and San Joaquins, and the Carolinian. All long distance trains also showed revenue growth. Total operating expenses were unfavorable to budget and to last year, with favorable results from salaries and wages offset by increased expenses in fuel and material expenses.

Capital investments were \$117.1 million, 16 percent less than budget. The available operating cash budget at year-end was \$215.1 million, with cash balances being higher predominantly due to lower than expected capital spending.

## AMTRAK'S STRATEGIC REFORM INITIATIVES UPDATE

In previous Semiannual Reports, I commented on the company's efforts to act on several major strategic initiatives, which were embodied in the Strategic Reform Initiatives (SRIs) provided to Congress (April 2005). I have included some prior comments with this report. The full text of the plan is at [www.amtrak.com](http://www.amtrak.com) located at "Inside Amtrak" and other related reports are found at the Amtrak Web site.

Since my last report, some SRI projects have advanced, but other initiatives remain in the planning stages. The OIG agrees with management that the company must undertake a different approach to managing the company in order to reduce reliance on federal operating subsidy, and we are encouraged by the SRI efforts to date. From my perspective, here are some of the challenges.

**State Rail Corridors** – Amtrak has had considerable success in the past in working with its state rail partners. These successes arose from a legislated program (403(b) of the rail Passenger Service Act, since superseded) whereby the participating state agreed to fund various levels of avoidable operating losses of the contracted service. Over time, depending upon the willingness of the state to accept passenger rail service as a needed transportation mode, various states contributed both to the operating and capital needs for corridor development. California and Washington State,



Pacific Surfliner | San Diego, CA

in particular, expanded passenger rail service, investing heavily in stations, equipment acquisition, and operations.

Shorter distance rail passenger services represent real growth opportunities for Amtrak, as an operator, maintainer, and supplier of various passenger rail services. The Strategic Reform Initiative calls for new legislation whereby states can apply for matching federal funds (programs similar to highways/transit) to grow passenger rail in their state.

The challenge for Amtrak is to continue to offer services that current, and prospective, state partners perceive as 'value added' and worthwhile. Most states are willing to pay more for Amtrak in their state, but as their payments increase, they will want to see higher quality, more reliable service. Additionally, the participating states do not necessarily perceive a 'level playing field' in that some state corridor services evolved as part of Amtrak's base system. These corridor services were not covered by the former 403(b) program, or by any other state-supported contract, but rather the services were holdovers from the former designated national system prescribed by Congress.

Included in the "Lott-Lautenberg" draft bill (S. 1516) are provisions that over time will grant states greater access to federal matching monies for passenger rail expansion. Section 302 of the draft bill allows that each state prepare and maintain a state rail plan that will establish the authority and criteria for submitting eligible plans to the Secretary of Transportation for consideration for a long range rail investment. The OIG believes that these state rail authorities, and subsequent plans, will be critical to the success of both intra-state, as well as interstate, rail passenger service growth, and we encourage Amtrak management to position itself to take full advantage of this legislative opportunity.



Regional | Schuylkill River Bridge, Philadelphia, PA

**Northeast Corridor: State of Good Repair** – Much of Amtrak’s capital budget in recent years has been invested in restoring the ‘state of good repair’ to the Northeast Corridor.

The OIG is in strong support of this initiative, but we believe more work is required to bound the effort and lay out a more rigorous analysis of return on capital invested. Amtrak needs to delineate specifically the results of these programs. For example, Amtrak can prescribe a level of utility (class of track to permit high-speed operations) for all sections of the Northeast Corridor track infrastructure. Amtrak can categorize the incremental costs for maintaining track at Class 7 (MPH) or Class 8 (MPH), and can tie revenue projections to scheduled performance. Other efforts can be oriented to major bridge and tunnel work, e.g. - to keep the useful life of an asset within 90 percent of its expected useful life before replacement). Additionally, a more complete inventory of major programs and projects, by asset type, should be maintained and shared with Congress and rail partners.

The Board also expects that the actual costs for maintaining the Northeast Corridor infrastructure should be re-examined, and, as necessary, be re-apportioned among the Corridor users. While there are a number of joint benefit funding agreements in place with the major users of the Corridor, not all users participate in these agreements, and there are disagreements as to what capital and operating expenses are incremental and should be shared. The existing agreements must be honored through their contract terms, and more studies around cost sharing must be conducted. Additionally, new contractual arrangements will have to be negotiated with those states and regional authorities as directed by the Board.

Within S. 1516, Congress also is calling for changes with respect to how Amtrak plans for achieving a ‘state of good repair’ by FY 2011. Congress will require that a capital spending plan be submitted to the Secretary of Transportation for review and approval.

**National Long Distance Operations** – One of the more contested area of Amtrak’s operations is the operation of its long distance train services. There have been many studies conducted since Amtrak’s inception that attempt to describe, rank order, and make recommendations to restructure the national route structure. Until 1997, Congress had mandated specific performance guidelines that attempted to set a ‘threshold’ by which determinations could be made to continue, or discontinue, any given route. Today, Amtrak has the ability to re-structure its national route system, but there is no consensus among Amtrak’s various stakeholders as to how this may be accomplished.

The challenge for the Board, and Amtrak management, is to build the necessary consensus for examination of the route structure, select the appropriate performance criteria (financial/ridership), and then to establish a timetable by which routes would achieve those criteria, or be subject to elimination. S. 1516, Section 210, calls for a re-appraisal of all long-distance routes, with required remediation, and possible restructuring, over time.

**Ancillary Businesses** – The Board has directed that management closely examine its ‘non-core’ businesses, that is, its operation of commuter services, real estate, commercial activities, and reimbursable work. These businesses provide a net profit to Amtrak, and the Board desires that Amtrak manage these business lines more closely to ensure these activities complement, rather than detract, from core activities.

The OIG agrees with the general directive of the Board, but the OIG also believes there is more opportunity for Amtrak to leverage its assets, both physical and human capital assets. Amtrak has made several decisions in recent years to remove itself from some business lines, including some commuter operations and the mail and express business. We agree with some of those decisions, but we also believe there has not been sufficient analysis to remove Amtrak from all parts of such businesses. For example, prior to Amtrak’s foray into the express business, Amtrak’s handling of U. S. mail was a profitable business line.

## SAFETY & SECURITY

### SAFETY

Amtrak has reinstated its System Safety program, but the program is not as fully integrated and as visible as we believe it should be. We repeat our recommendation now to the company that more effort and attention must be paid to this vital performance area.

### SECURITY

In September 2006, the OIG sponsored the Washington meeting for the regional Anti-Terrorism Advisory Council (ATAC). ATAC is an FBI-sponsored group that involves local and regional law enforcement in an information-sharing forum, and Amtrak OIG agents participate in several ATAC meetings across the country.

The OIG reiterates its concern that more federal funds should be available for passenger rail security counter-measures. While Amtrak finally became eligible to receive a portion of new security-related appropriations for rail and transit operations, Congress must do more to address the shortfall, particularly in the area of adding canine units, improving retention of Amtrak Police, and acting on recommendations included in Amtrak's security funding plans.

## CONCLUSIONS

The OIG supports the passage of S. 1516, and we believe many of the bill's provisions may result in positive changes for Amtrak and our nation's passenger rail services.

Amtrak needs to find its place as part of a more integrated and rationalized national transportation plan.



Sunset Limited | Louisiana

# 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 Office of Inspector General (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 offices with specific responsibilities:

The **Office of Audits** 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 **Office of Investigations** 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. It is also charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Office of Inspections and Evaluations** 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 **Office of Counter Terrorism and Intelligence (CT&I)** 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. CT&I also works with external agencies to provide focus on the importance of rail security and the need for integrated approaches for addressing the many challenges in securing an open-architecture rail passenger system.

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

# Office of Audits

## SIGNIFICANT AUDIT ACTIVITIES

### INTERNAL OPERATIONS REVIEWS

#### **Control Deficiencies were noted in record-keeping, follow-up, and segregation of duties.**

**Report #108-2005 – Issued 07/27/2006**

The Amtrak Police Department (APD) participates in a federal asset-sharing program known as the Federal Equitable Sharing Program. This program is authorized under the Comprehensive Crime Control Act of 1984 (Act). The Act authorizes the Attorney General to share proceeds from seized assets with participating state and local law enforcement agencies. The objective of this audit was to determine if APD was complying with the procedures outlined in the guide published by the Department of Justice (DOJ) in March 1994 and a subsequent addendum in March 1998.

The audit identified that there are inadequate record keeping and follow-up processes in place to ensure that all funds due Amtrak are claimed and received in a timely manner. Thirteen percent of the claims in the audit sample were not filed within the 60 day deadline required under the Department of Justice Guide. In addition, Amtrak police department had not implemented internal control procedures with respect to segregation of duties over the processes for cash receipts and disbursements, banking relations, and procurement; and cash and other assets obtained through the sharing funds are not recorded on Amtrak's books.

APD agreed with the OIG recommendations and is taking steps to implement corrective actions.

#### **Financial Statement Preparation – The Balance Sheet Account Reconciliation area lacks a comprehensive procedures manual, and some strengthened process controls.**

**Report #111-2005 – Issued 09/08/2006**

Amtrak management has been implementing corrective actions to remedy the internal control weaknesses arising from a material weakness finding with Amtrak's FY 2001 financial statements. Since then, as part of their annual audits, Amtrak's external auditor, KPMG, made a number of follow-up assessments of Amtrak's internal controls and indicated that management had addressed many of the deficiencies earlier identified. These control issues were addressed in subsequent Management Letters issued by KPMG. This audit was a continuation of the OIG oversight over Amtrak's progress in implementing the corrective action plan and specifically addressed the Balance Sheet Account Reconciliations.



Adirondack | Plattsburgh, NY

The objective of this assignment was to review the internal control processes established by Amtrak's Finance Department and determine if the balance sheet accounts were reconciled in a timely manner, adequate supporting documentation was maintained to support the general ledger account balances, and any reconciling differences were properly analyzed and resolved.

Overall, compliance was satisfactory except for the following: Audit identified that there are inadequate written procedures for performing many balance sheet account reconciliations, accounts reconciled by Corporate Accounting and Chicago Union Station Corporation (CUSCO) were not subject to an oversight review, and account reconciliations for the Employee Overpayments account lacked adequate documentation to substantiate the amount owed to Amtrak; and the reconciliations for the Lead Service Attendant Suspense account were not properly analyzed or supported by adequate documentation.

The OIG recommended that Finance implement relevant process controls, and dedicate sufficient resources to prepare a comprehensive procedures manual for performing balance sheet account reconciliations. The Controller agreed with our recommendations and provided an action plan to implement corrective actions.

#### **Emergency Exchange Voucher Review – The process does not adequately document station management's review of transactions**

**Report #207-2006 – Issued 4/17/2006**

The OIG performed a review of Emergency Exchange Vouchers (EEV) transactions that were reported by Washington Union

Station (WUS) between October through December 2005 to determine if EEVs were processed in accordance with established company procedures. EEVs are used locally to assist passengers who are seriously inconvenienced due to service disruptions. We determined that the station's EEV process does not adequately document station management's review of EEV transactions and that the documentation supporting these transactions does not consistently comply with procedures. In addition, management could not determine whether tickets were collected in cases where alternate transportation was provided as the collected tickets were not attached to the EEV. Management agreed with our findings and recommendations and will take appropriate corrective actions.

#### **Etrax Procurement P-Card System – Internal Control Weaknesses Noted**

**Report #202-2005 – Issued 6/19/2006**

We completed a review of Procurement Card (Pcard) charges processed through the Electronic Transaction Express (eTrax) Software System to determine the level of compliance with Amtrak's policies and procedures related to Pcard transactions. We found varying degrees of non-compliance with the Pcard reconciliation and approval process and recommended improvements and discussed revising and updating manuals and instructions and the need to determine corrective action or revised training requirements. Management has already initiated certain corrective actions. Amtrak's Accounts Payable Department has also agreed to perform monthly audits. In addition, a new eTrax report will be created that identifies all Pcard reconciliation transactions that are in violation of the policy for follow-up by Accounts Payable. Other corrective actions involving Pcard applications, Pcard limits and other issues have also been taken.

#### **CONTRACTS/GRANTS**

**Grant Agreement for New York Tunnels Fire and Life Safety Improvements – Fire Suppression System Installation Project-Non-compliance with the Grant Agreement, accounting errors and internal control weaknesses noted.**

**Report #107-2005 – Issued 8/1/2006**

**Fire and Life Safety – Working Capital Advance – Amtrak complied with the conditions of the Grant Agreement when the fund was liquidated**

**Report #213-2006 – Issued 05/22/2006**

During this reporting period, the OIG performed two Grant Agreement compliance audits and issued two separate reports. The review of the Fire Suppression System Installation Project

(Report #107-2005) disclosed various miscodes of project costs, certain project costs were not included in billings to Long Island Railroad and adequate contractor records were not maintained. The audit for the liquidation of the Working Capital Advance fund (Report #213-2006) was found to be in compliance with Amendment No. 1 of the Agreement (DTFRDV-02-G-60034).

**Attleboro Agreement - Amtrak proceeded with capital improvements without formally requesting funding from the MBTA as required by the Attleboro Agreement. Report #217-2005 – Issued 9/29/2006**

The OIG reviewed the contract administration and management of the Attleboro Agreement in which Amtrak provides maintenance of way and dispatching services on the MBTA portion the Northeast Corridor. The Agreement requires that Amtrak shall submit an annual report to the MBTA listing the capital improvement projects that Amtrak recommends the MBTA to fund and undertake in each of the five years following the date of the report. In accordance with the Agreement, the MBTA is responsible for securing funding for the projects. Amtrak has been inconsistent in submitting the required information and in obtaining response from the MBTA. Amtrak requested a "2004 Capital Requirements for the Attleboro Line" outlining the proposed capital projects to be completed over the next year. Amtrak also submitted a more formal Recommendation for Recapitalization Report that covers FY 2006 through FY 2010 proposed capital projects. A request for FY 2005 capital improvements was not submitted. In addition, Amtrak has not received a response from MBTA to either request for capital improvements. As a result, Amtrak continues to incur all the capitalization costs for the Attleboro Line.

We estimated that during a two-year period (FY 2004 and FY 2005), it cost Amtrak approximately \$22.7 million to operate and maintain (including capital improvements) the Attleboro Line. Approximately \$13.9 million of the costs consisted of capital improvements. Amtrak proceeded with capital improvements without formally requesting funding from the MBTA as required by the Attleboro Agreement.

Management agreed with our recommendation that a five-year recapitalization report must be submitted annually to the MBTA and that a response be sought from the MBTA with respect to that report. Additionally, management recommends a review be made to identify items of specific benefit to the MBTA before the request is made. We will continue to monitor the administration of this important contract.



Pennsylvanian | Amish Farmland, PA

## PROCUREMENT CONTRACTS

### **Kiewit Construction Company Audit Identified \$244,947 in Questioned Costs Report Number: 503-2005 – Issued 07/11/2006**

Amtrak's Procurement Department requested an audit of the base contract and a contract modification awarded to Kiewit Construction Company for Phase I work related to Amtrak's Holgate Street Improvement Project, and Phase II work south of Holgate in Seattle, Washington. Of the net proposed total of \$4.1 million, our audit identified \$244,947 in questioned costs related to overstated or overestimated proposed costs for subcontractor work, jobsite overhead, allowances, insurance and bonds, and associated overhead and profit additives. Additionally, we identified a minor questioned cost of \$9,313 related to items outside the initial audit scope. The OIG recommended that the questioned costs be recovered in accordance with the contract terms.

In its July 2006 response, management agreed to use the audit findings to reach a negotiated settlement with the Contractor. By September 2006, a settlement amount had tentatively been agreed to with Kiewit representatives. However, Kiewit's senior management's approval had yet to be obtained. A closing settlement is anticipated in the next reporting period.

### **Cleveland Track Material, Inc. Report #201-2006 – Issued 8/15/2006**

We reviewed the contractor's proposed costs for modifications to slip switches at Penn Station, New York. We determined that the contractor had erroneously included interest expense, entertainment meals and contributions in its general and administrative overhead pool. We recommended to management that these erroneous expenses be disallowed.

### **Bombardier First Class Car Repairs – Costs Were Overstated Report #202-2006 – Issued 9/25/2006**

The purpose of our review was to verify the accuracy and acceptability of the cost and pricing data shown on Bombardier's final invoice of \$882,294 for the wreck repair of an Acela First Class Car. We determined that the audited costs were \$845,652. Additionally, we found that Amtrak management negotiated and signed a final contract agreement which included modifications to the audit and inspection of records clause without consulting our office.

## LEASE AUDITS

### **KWO Associates Lease Audit – The tenant's hours of operation differed from those listed in the Lease Agreement and Gross Sales were under reported for calendar year 2004 Report #214-2006 – Issued 09/08/2006**

Our review of the tenant's reported Gross Sales to Amtrak for calendar year 2004 disclosed that sales were under reported, which resulted in an additional minor payment to Amtrak. Also the utility fee was increased by 30% to compensate Amtrak for an increase in the tenant's hours of operation, which were above the hours listed in the Lease Agreement.

## RAILROAD AUDITS

### **CPR/SOO – On-Time Performance Incentives Audit \$33,056 Excess Billings Identified Report #405-2005 – Issued 5/16/2006**

Under the April 16, 1971 Agreement provisions, the Canadian Pacific Railroad (CPR) bills Amtrak each month for specific services and facilities for intercity rail passenger operations. During this reporting period the OIG continued its efforts in reviewing the on-time performance incentives and identified an additional \$33,056 in excess and unsupported billings for the period January 2002 through May 2004. CPR representatives and Amtrak management agreed with the finding. Amtrak agreed to initiate a final settlement letter and has collected monies due Amtrak.

### **CPR/SOO – Non-On-Time Performance Items Audit Basis for Contract Provisions were Misleading Report #407-2005 – Issued 6/2/2006**

The OIG performed a compliance audit on the April 16, 1971 Agreement between The National Railroad Passenger Corporation (Amtrak) and 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 period reviewed - January 1, 2000 through May 31, 2004 - included all non-on-time performance billable accounts. The audit sample represented \$5,300,793 or 95 percent of the total amount billed for these items. We found that the services or activities for which payment was made did not clearly relate to the agreement and recommended that management collect \$1,910,812 for services not performed. Management agreed that the basis for payment of administrative costs was misleading under the agreement, and has subsequently renegotiated a revised agreement that modifies the payments rendered.

Based on management's response and discussions with the Law Department, it was determined that of the \$1,910,812 identified, \$563,522 pertaining to the audit period does not appear to be collectable and will be categorized as funds to be put to better use; \$370,060 pertaining to the period subsequent to the audit period will be revisited in the next CPR audit of the new contract; and \$977,230 pertaining to the questioned D&H NRPC Officer payments from 1991 to May 2004 are covered by a separate agreement between Amtrak and D&H, that should be addressed by a separate D&H audit.

## 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

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

### **Southern Pacific Central States Line – Questioned Costs Not Yet Resolved**

	<i>Semiannual Period Ending</i>	<i>Response Date</i>
<b>Report #01-506 –</b>	<b>09/30/2001</b>	<b>09/04/2001</b>
<b>Report #01-507 –</b>	<b>09/30/2001</b>	<b>09/04/2001</b>
<b>Report #01-508 –</b>	<b>09/30/2001</b>	<b>10/12/2001</b>
<b>Report 01-509 –</b>	<b>09/30/2001</b>	<b>10/12/2001</b>

### **Audit Questioned \$4 million of Commissary Services Contract Costs – Corrective Action Not Yet Completed Report #218-2004 - Response 7/16/2004**

The following are either new items within this category or items that have been included in previous Semiannual reports and additional information has been reported.

### **CSXT – Non-On-Time Performance Items Audit \$1,003,964 Erroneous Billings Identified Report #01-105 – Response 8/20/2001**

On April 27, 2005, OIG officials met with CSXT internal and external counsel to discuss outstanding non-OTP audit findings approximating \$1 million. CSXT counsel stated that they did not want to discuss the audit findings in detail, but proposed a negotiated settlement of \$400,000 to close the audit period through May 1999, with the stipulation that this amount would include all OTP billings. The offer is unacceptable to Amtrak and no further contact has occurred with CSXT since April 27, 2005 regarding this matter.

### **CSX – NY High Speed Line Agreement Report #207-2003 – Response 5/18/2005 Report #222-2005 – Response 3/8/2006**

We identified \$217,537 in questioned costs related to CSXT's use of certain tracks. Management has yet to reach a settlement with CSXT on these findings.

**Kiewit Pacific Company – Oakland Maintenance Facility  
Report #502-2005 – Response 01/10/2006**

On December 21, 2005, OIG issued a report to Procurement identifying questioned costs of \$329,753 for a roof over the Service and Inspection building in the new Oakland Maintenance Facility. Kiewit representatives requested that the proposed adjustments be delayed and settled simultaneously with their Seattle Holgate project. (See Audit Report: 503-2005 under Procurement Audits issued in this reporting period)

In September 2006, management advised that negotiations on the Kiewit Oakland audit had been concluded. Management further indicated that it was awaiting Kiewit senior management’s approval of the proposed settlement amount. Settlement is anticipated in the next reporting period.

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

We received a response from management addressing our findings. Management will ensure proper training and oversight of timekeepers and ensure the completion of payroll operation field audits. Recently, management informed us that they expected to update FI-4 during FY 2007 based on our audit recommendations. A draft of FI-4 was recently reviewed by us and returned to Amtrak’s Controller Office for further discussion. We will continue to monitor.

**Reimbursable Work Trains – Actions Still Being  
Considered  
Report #212-2003 – Response 10/28/2003**

We recommended that Amtrak establish a more efficient system to fuel Mid-Atlantic work trains. We recently met with management to discuss the issue and management agreed to further review our recommendation and respond to us.

**eTrax Payment Requests – Fiscal Year 2003 Procedures  
Not Followed and Internal Control Weaknesses Noted  
Report #202-2004 – Response 1/14/2005**

The OIG review of eTrax payment request identified several weaknesses in internal controls.

We made several recommendations which management has addressed. We are performing follow-up work to determine if the controls have been strengthened and improvements have been made.

**AUDIT STATISTICS**

**Status of Audit Projects**

Audits in progress at 4/1/06	55
Audit projects postponed or cancelled	13
Audit projects started	19
Audit reports issued	17
Audit projects in progress 9/30/06	44

**Audit Findings**

Questioned costs	\$311,197
Unsupported costs	\$12,928
Funds to be put to better use	\$15,854,469
<b>Total</b>	<b>\$16,178,594</b>

**Mass Transit – Termination for Default for Superliner I  
Overhaul  
Questioned Costs \$63,184  
Report #219-2005 – Response 1/25/2006**

At the request of Amtrak Procurement department, the OIG performed a limited review related to the termination for default of a contract. The project was terminated due to the contractor’s failure to timely and satisfactorily perform its obligations under the contract. Amtrak is negotiating a final settlement with the contractor.

**Etrax Trip Manager Review – Agreed to Actions in  
Progress  
Report #215-2005 – Response 9/9/2005**

In OIG’s previous review of the Etrax Trip Manager System, Amtrak management agreed to write a procedure to address the approval process for inconvenienced passenger and union employee airfares. Management also agreed to resolve operational issues and have airfares paid through the Pcard program. These actions are still in process.

**Parsons, Brinckerhoff, Quade & Douglas – Negotiations of  
Proposed Labor Costs in Progress  
Report #211-2005 – Response 1/30/2006**

We reviewed the contractor’s proposed labor costs and cost questioned \$29,677 in certain labor costs. Management is currently negotiating a settlement with the contractor.

# Office of Investigations

## CASE STATUS OF INVESTIGATIONS

4/1/06 – 9/30/06

Total Open Cases as of 4/1/06	319
Closed Cases	81
Opened Cases	79
<b>Total Ongoing Cases as of 9/30/06</b>	<b>317</b>

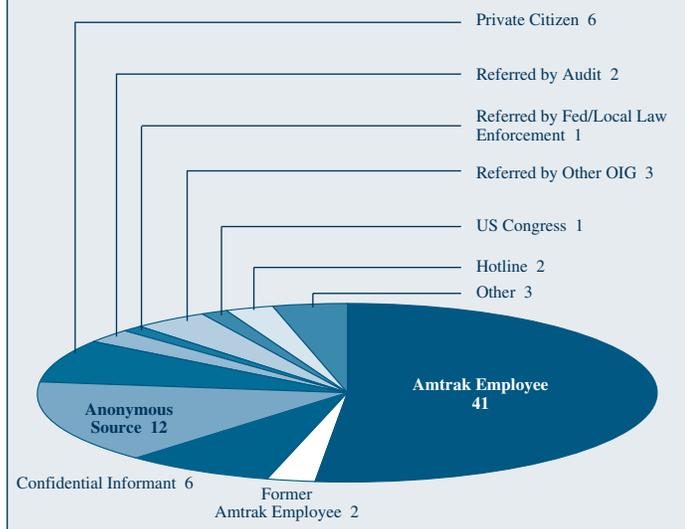
## CASE HANDLING

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 317 investigations; in the last six months, we opened 79 cases and closed 81 cases.

As shown below, under “Sources of Allegations”, employees and anonymous source referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 41 of the 79 allegations of 51 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

4/1/06 – 9/30/06



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 calls 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 two telephonic HOTLINE complaints during this reporting period. The HOTLINE complaints received during this reporting period were from a private citizen and an Amtrak employee.

## HOTLINE STATISTICS

4/1/06 – 9/30/06

Total

<b>Hotline Complaints Received</b>	<b>2</b>
<b>Sources of Hotline Complaints</b>	
Amtrak Employee	1
Private Citizen	1
<b>Classification of Complaints</b>	
Theft/Embezzlement	2
<b>Complaints Referred To:</b>	
OI Field Offices	0
Office of Diversity	0

## 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 types or forms of fraud. Illustrative of such investigations are those mentioned below.

- A former Amtrak Assistant conductor based in Shelby, Montana, pleaded guilty in the United States District Court for the District of Montana, Great Falls Division, to violation of 18 U.S.C. 666(a) (1) (A), Theft from Amtrak—An

Organization Receiving Federal Funds. The former Conductor failed to remit over \$21,000 in Amtrak funds he obtained from on board ticket sales.

- The OIG's investigation found that a Pacific Surfliner conductor withheld remittances for nearly a year. The investigation identified \$8,687.35 owed to Amtrak. The OIG presented the case to the San Luis Obispo District Attorney's Office. The conductor was arraigned and charged with Grand Theft. The conductor subsequently pled guilty to the charge and was ordered to pay restitution to Amtrak in the amount of \$8,687.35.
- The OIG determined through an investigation that an Amtrak Station Manager utilized Emergency Exchange Vouchers (EEV) to reimburse himself. On several occasions the manager reimbursed himself with the EEV and again submitted expense reports for expenditures already reimbursed or having been credited because of cancellations. The manager was terminated and the case was presented to the Assistant U. S. Attorney for consideration.
- A former Amtrak Conductor based out of Charlotte, North Carolina was terminated from Amtrak for dishonesty stemming from misappropriation of cash fare tickets sold aboard Amtrak trains. Subsequent to progressive appeals made by the conductor, the Public Law Board (Board) upheld the conductor's termination, citing that the conductor failed in his responsibilities to utilize proper revenue handling. The conductor also claimed that the OIG went beyond the established time limits of scheduling a company investigation (twenty days from management's first knowledge of the incident). The Board determined that the OIG is "independent of Amtrak" and the OIG notification to the Carrier's Management was timely (six days). Consequently, the Board found no procedural issues.
- The OIG received an allegation stating that a union employee was misusing their personal rail pass privileges and time off attributed to the Family Medical Leave Act (FMLA). The subsequent investigation proved that the employee was falsifying time under FMLA, allowing non-authorized family members to use the employee rail travel privilege pass, and found that the employee was issuing illegal rail refunds to himself. The employee was formally charged with these allegations, but signed a Voluntary Waiver of Formal Investigation to avoid prosecution. As a result, the employee has been permanently disqualified from holding any positions within Amtrak dealing with finance, was issued a 30-day suspension and was required to pay complete restitution to Amtrak prior to returning to service.

## JOINT INVESTIGATIONS

- During this reporting period, a joint investigation between the OIG, United States Postal Service, United States Secret Service and the Federal Bureau of Investigations regarding identify theft, fraudulent cashing of checks and the use of fictitious Amtrak identification cards was conducted. Several individuals were involved in fraudulent check cashing estimated of over \$500,000. This joint investigation led to the successful prosecution of three individuals through the United States Attorney's Office.

## FRAUDULENT MISUSE OF AMTRAK ASSETS

- As the result of an allegation, the OIG conducted an investigation into the Reprographics Department and the use of Amtrak supplies and machinery to perform outside copy jobs for either the Reprographics employees or others during company time. The subsequent investigation substantiated the allegations as well as the finding that one employee regularly used their Amtrak-issued cell phone for personal business. The employees had utilized Amtrak equipment and supplies for personal and third party projects. The OIG recommended that management take appropriate disciplinary action as well as implement better internal controls and monitoring practices.

## 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 company employees and officials towards improving efficiency, effectiveness and adaptability. During this reporting period, OIG investigations have led to recommendations towards quality improvement to which management responded positively and implemented, for the most part, in their entirety as detailed below:

- The OIG received an allegation that the integrity of Amtrak's monthly Random Drug Testing Program and the roster of employees eligible for testing may have been compromised in the New York Division. While we did not substantiate the allegations, the OIG determined that serious deficiencies existed in the actual testing protocol. The OIG recommended, via referral, that management take corrective action to correct the deficiencies, and improve security issues to preserve the integrity of the testing protocol. Management responded favorably to the majority of the recommendations, and implemented key recommendations.

## CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

4/1/06 – 9/30/06

Type	Number
Fraud .....	19
Theft/Embezzlement .....	12
Bribery .....	1
False Claims .....	2
False Statements .....	2
False T&A Issues .....	1
Other – Criminal .....	10
Waste .....	5
Abuse of Position .....	11
Mismanagement .....	4
Conflict of Interest .....	2
Administrative Inquiries .....	4
Other Administrative .....	6
<b>TOTAL</b>	<b>79</b>

- The OIG conducted a proactive review of all New England Division (NED) Engineering Department vehicles with alternative garaging privileges. The analysis resulted in identifying commuting gasoline costs for all NED Engineering Department vehicles to be about \$336,223 per year. As a result of the analysis, a recommendation was made that all take home vehicle justifications be reviewed to determine if they are necessary and cost effective.
- The OIG conducted an investigation which substantiated allegations that an Amtrak operational department had systematically spent exorbitant funds (exceeding thousands of dollars) on promotional materials, functions, meetings, training sessions, and other events; and that senior managers had circumvented Amtrak's financial system of checks and balances by disguising the nature and extent of the spending, including falsifying supporting documents and structuring payment requests. As a result of the OIG's findings one high-level manager was terminated and another demoted, and the system by which this department's spending is overseen has been tightened significantly.

## PROSECUTIVE REFERRALS

4/1/06 – 9/30/06

Referrals	U.S. Attorney	Local/State	Total
<b>Criminal Cases</b>			
Indictments	1	0	1
Convictions/Pleas	0	0	0
Pending*	5	0	5
Declinations	4	0	4
Resolved	3	0	3
<b>TOTAL</b>			<b>13</b>
<b>Civil Cases</b>			
Suits Filed	0	0	0
Settled	0	0	0
Pending	1	0	1
<b>TOTAL</b>			<b>1</b>
<b>Total Civil and Criminal</b>			<b>14</b>

\*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.

## CONFLICT OF INTEREST

- The OIG investigated an allegation that certain New England Division Engineering Division employees may have violated Amtrak's Conflict of Interest Policy by engaging in personal business transactions with vendors doing business with Amtrak.

Our results identified that at least one (1) employee did, in fact, contract for personal business services with a firm simultaneously engaged in business with Amtrak; and that the employee(s) immediate supervisor had knowledge and did not report the conduct to higher authorities.

We recommended that management prohibit the employee from further work with the vendor, and recommended disciplinary action as appropriate, or necessary. Management implemented the recommendations.



Chicago, IL

## ATTENDING TO DUTIES

- The OIG performed a facility check at a New York mechanical facility and discovered some employees were not attending to their duties by either sleeping on the job or they were not present for duty during their scheduled hours of service. As a result two Amtrak managers and three union employees were disciplined and a new security system was installed at the entrance to the facility building.

## TIME AND ATTENDANCE REVIEWS

- The OIG conducted an investigation into a North Carolina Baggage Handler, who was alleged to be punching in at the time clock and either leaving the station without permission or refusing to work. It was also alleged that the employee asked other employees to punch in their time card when they were going to be late. As a result of the investigation, the Baggage Handler was charged with violations under Amtrak's Standards of Excellence and received a letter of counseling.

## 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.

### RPU INITIATED FOOD & BEVERAGE REVIEWS

Amtrak provides food and beverage service to millions of passengers each year through sales conducted on board trains in Café Cars and Dining Cars, provided on select trains. These sales generate millions of dollars in revenue each year as well as provide an opportunity for revenue abuse by dishonest employees.

During this reporting period, through observations and analysis of the applicable programs, systems and documents, RPU prepared and distributed seventy-four (74) administrative referral letters on two union positions, Lead Service Attendant (LSA) and Debriefing Clerk, that have some responsibility in accounting for food and beverage usage.

At the close of the reporting period, sixty-one (61) responses have been received with discipline ranging from verbal or written counseling's to formal reprimand or suspensions and final warnings. In addition, several procedural changes have been addressed and adopted to reinforce accountability and responsibility for LSAs.

# Inspections and Evaluations

## SIGNIFICANT INSPECTIONS & EVALUATIONS

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

Our report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past year we have been working with the Mechanical Department to help them implement our recommendations.

#### ■ **Implementation of Reliability-Centered Maintenance**

To assist the Mechanical Department in evaluating the possible use of Reliability-Centered Maintenance, we engaged a consulting firm, T-solutions, who had facilitated the implementation of RCM at both the U.S. Navy and the U.S. Coast Guard. We recommended that the initial efforts to determine the application of RCM be focused on the Acela high-speed fleet. Through a series of Maintenance Effectiveness Reviews, every preventive maintenance task has been reviewed and either validated, modified or eliminated. Based on the results of these reviews, plans are now being developed by management to reschedule when and where preventive maintenance will be done. We anticipate significant improvements in reliability and availability of the Acela Fleet in FY07 based on this initiative. We also expect maintenance costs per Acela train mile to noticeably decrease during FY07. Once RCM is fully implemented for the Acela fleet, efforts will move to Amtrak's conventional fleets of equipment.

#### ■ **Mechanical Maintenance Process Improvement**

In addition to helping Amtrak evaluate an RCM approach, we have been facilitating an effort to improve maintenance efficiency by improving the cycle time of key maintenance processes. To assist with this effort, the OIG engaged the services of Thomas Group Inc. (TGI), with the initial effort focused on Amtrak's Ivy City Maintenance Facility in Washington, DC. Through the establishment of regularly scheduled meetings of cross-functional teams, numerous obstacles to achieving higher performance have been eliminated. This has resulted in significant improvements in process cycle times. For example, for Amfleet cars, the preventative maintenance cycle time has been reduced from 4 days to 3 days, the unscheduled repair cycle time from 3 days

to 2 days, and the number of cars requiring additional work after completion of the preventive maintenance process was reduced by 25%. Similar results have been achieved for electric locomotives. During the next reporting period, we plan on continuing to stay engaged at Ivy City while we roll this effort out to additional maintenance locations throughout the country.

#### ■ **Amtrak Fleet Planning Process – Improvements can lead to better equipment utilization and productivity** **Report E-06-02 – issued 4/6/2006**

One of the recommendations contained in OIG Report E-05-04 (Amtrak Mechanical Maintenance Operations) 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. To assist with this effort, the OIG engaged the Thomas Group to conduct an assessment of Amtrak's current Fleet Planning Process.

The assessment found that, in the past, Amtrak used a tactical versus a strategic process to develop its Fleet Plan; that critical fleet related functions are managed separately rather than as cross-functionally linked processes; and that effective metrics are not used to quantify either the productivity of the fleet or the implementation of the Fleet Plan. The assessment also found that these shortcomings have helped to produce lower average load factors and a lower percentage of fleet availability than what is reasonably expected from a rail operator that closely manages its assets. It was estimated that Amtrak has the opportunity to improve its overall financial performance by \$28 million to \$36 million annually by increasing the productivity and/or utilization of its rolling stock fleet.

Using this assessment, the OIG developed specific recommendations on how Amtrak should produce, implement and monitor its Fleet Plan so that it supports the corporate long-term strategic goals and optimizes the productivity of Amtrak's fleet of locomotives and cars.

### LONG DISTANCE TRAIN OTP

#### **Long Distance Train OTP – Financial impact of poor OTP quantified**

#### **Report E-06-05 – Issued 09/29/2006**

- The on-time performance (OTP) of Amtrak's Long Distance Trains have been steadily declining for the past five years and the OTP of some of these trains has declined to the point where over 80% of the trains arrive late at their final destination. The

purpose of this report was to examine the financial impact of the poor OTP of Amtrak's Long Distance Trains and to develop a high-level estimate of the potential financial benefit to Amtrak if the trains ran more on-time. The evaluation quantified the changes in passenger revenue, time-related operating expenses and Host Railroad performance payments that would occur if the OTP of Long Distance trains improved from their FY 2005 levels. This evaluation was intended to highlight where management could focus its actions to get the most financial benefits from improved Long Distance Train OTP.

Overall, this evaluation found that improving the OTP of all Amtrak Long Distance Trains has the potential of providing around \$40 million in annual financial benefits to the collective performance of these trains. It was also found that approximately 50% of the potential financial benefits could be achieved by improving the OTP of only three (3) of the fourteen (14) Long Distance Train routes. Finally, we discovered that the incremental financial benefits to Amtrak peak around 75% OTP. This occurs mainly because of the current structure of Amtrak's Host Railroad operating agreements that provide incentive payments to Host Railroads when Amtrak's trains achieve a high OTP.

The evaluation produced three recommendations on where Amtrak should focus its Long Distance Train OTP improvement efforts to maximize the bottom-line financial benefits.

## **FACILITY MAINTENANCE**

### **Facility Maintenance Program – Amtrak's program lacks many of the elements recognized as important to an effective facility maintenance program Report E-06-04 – issued 8/24/2006**

- During this reporting period, the OIG completed its evaluation on the efficiency and effectiveness of Amtrak's facility (building) maintenance program. Our findings revealed that, overall, Amtrak does not give facility maintenance the same level of attention and effort that it devotes to maintenance of its Right of Way (track/bridge/tunnel) and its rolling stock. Because of this lack of attention, some of Amtrak's facilities are currently in poor condition, with leaking roofs, inadequate lighting, uncontrollable temperatures, and inoperable equipment. These conditions have an adverse effect on employee productivity, safety and morale.

Our recommendations in this report included developing comprehensive inventories of the systems and equipment in each facility; developing maintenance standards and measuring the condition of facilities against these standards; instituting a comprehensive facility maintenance strategy; implementing a

management information system to assist in planning, programming and monitoring maintenance activities; and implementing a process to periodically assess the effectiveness and efficiency of the facility maintenance program.

## **HARASSMENT AND INTIMIDATION COMPLAINTS**

### **Harassment and Intimidation Complaint – Allegation substantiated**

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, one formal investigation that was opened in the previous reporting period was concluded. The OIG substantiated an allegation that an Amtrak manager harassed and intimidated an employee with the intent to discourage and dissuade the employee from properly reporting a workplace injury. The manager was also found to have violated Amtrak policies concerning accident investigations and reporting injuries. A report was issued to the Senior Vice President for Operations for action.
- In addition, the OIG received three new employee complaints of Harassment and Intimidation. After conducting an inquiry into each of the complaints, it was determined that none of the allegations could be substantiated as acts of harassment or intimidation.

## **NON-REMITTANCE OF REVENUE**

### **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.



California Zephyr | UT

Since October 2002, more than 200 conductors and 160 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. In addition, during this same period of time, the LSA percent of cash remittance (cash remittance divided by Food and Beverage gross revenue) has increased from 56% to 63%, at least part of which is due to management's increased focus on OBS accounting procedures.

# Counter-Terrorism and Intelligence

The OIG Office of Counter Terrorism and Intelligence (CT&I) is responsible for oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with other entities within the Amtrak security program, this unit works to increase awareness about the possibilities of terrorist attack against passenger rail services, and the critical importance of security preparedness and risk mitigation. During this reporting period, we have undertaken various security oversight and outreach activities some of which are highlighted below.

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.

## SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

### RAIL CORRIDOR INITIATIVE

The OIG has been facilitating a project to enhance the security in one of its rail tunnels under a project named the Rail Corridor Initiative (RCI). The OIG continues to provide support and facilitate communications between Amtrak offices and the Department of Homeland Security in the execution of the RCI. Both Amtrak and DHS and its contractors sought our assistance in responding to inquiries, setting up meetings, and undertaking fast turn-around resolution of key issues. Ensuring that all of the partners are fully aware of schedule and coordination issues is of critical importance to the achievement of an end-product on time and on-budget. The successful conclusion of the RCI will provide an important security upgrade.

### HOMELAND DEFENSE OPERATIONAL SYSTEMS (HOPS)

The OIG arranged for an assessment to be conducted by the Lawrence Livermore National Laboratory (LLNL) HOPS program at a large metropolitan train station. The now completed assessment is both rigorous and timely, and provides an important decision support tool to managers charged with mitigating certain facility vulnerabilities. Based on the successful execution of this initial study, it is planned that HOPS evaluations will be conducted at other major Amtrak facilities across the nation.

### VIRTUAL MAPPING PROJECT

During this reporting period, the OIG arranged for the virtual digital mapping of a major infrastructure. This mapping product provides first responders and security planners with a contingency planning tool, useful during both pre-incident drills and during and post-incident emergency preparedness operations.

### EMERGENCY ACTION PLAN REVIEW

The CT&I unit conducted a detailed evaluation of the Emergency Action Plan for a major station. The review revealed weaknesses in the plan around evacuation procedures and emergency actions relating to police and security response. Our report made recommendations for Emergency Action Plan revisions to rectify the identified shortfalls.

### TERRORISM CONTINUITY PROGRAM ASSISTANCE

During the reporting period, the OIG participated in strategy deliberations regarding contingency plans for baggage screening, and the deployment of chemical and biological sensor technologies in Amtrak facilities. The Terrorism Continuity Program – an effort undertaken by the Vice President for Security - was scheduled to report its recommendations by the end of calendar year 2006.

### COUNTER-SURVEILLANCE TRAINING AND OPERATIONS

OIG officers and personnel from the Amtrak Police Department participated in a two-week counter-surveillance training session. One of Amtrak's partner railroads also participated in this training.

In the period leading up to the fifth anniversary of the 9/11 attacks, the OIG undertook counter-surveillance activities at a major metropolitan station. These efforts supported enhanced security activities already planned by the Amtrak Police Department.

### OIG PARTICIPATION IN THE POLICE RIDE-A-LONG PROGRAM

The OIG facilitated the first OIG Police Ride-A-Long Program wherein OIG agents worked three full shifts with local police departments, riding with police officers on patrol. The program was instituted as a segment of ongoing training and was designed to provide agents with tangible and current police tactics and procedures that would enhance their own safety and effectiveness while conducting their normal duties. Although the primary role of the agents, while on patrol, was observation, many were able to take on a more active role and assist with citations and arrests. At the conclusion of this reporting period, approximately 75% of OIG Agents have completed their ride-a-long.

### REGIONAL SECURITY EFFORTS

The OIG is involved in regional security and terrorism planning. Philadelphia OIG Agents and the Amtrak Police Department conducted a joint information session with the FBI's Joint Terrorism Task Force and area first responders, Philadelphia Police Bomb Squad and various other emergency response units regarding emergency preparedness.

# 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.

As part of the annual audit process, the OIG informs the external auditors on the scope of the ongoing audit activities being conducted by the OIG, and continues to coordinate significant audit issues with Amtrak management and the external auditors, as necessary.

## LEASE AUDIT

### **Lease Audit Identified \$129,680 in Overpayments.**

The OIG engaged Lease Audit and Advisory Services, Inc. to review Trammell Crow Company's books and records for the Amtrak lease at 10 G Street, NE, Washington DC. The audit identified overpayments stemming from inaccurate calculations of rent cap by the landlord. The OIG has notified Amtrak management to request a refund of \$129,680 from the Trammell Crow Company.

## WORKPAPER AUTOMATION

### **Automation of Audit Work Papers and Management Process**

As discussed in our previous reports, the Amtrak OIG selected TeamMate application to automate various audit processes such as risk assessment, planning and scheduling, electronic work paper documentation, time and expense tracking, and report writing. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls and virtual private network (VPN) was built to host the TeamMate application and related databases.

During this semi-annual period, we successfully completed the testing and implementation of the OIG Secure Subnet. We developed the TeamMate Protocol and Library which guides auditors on how to use the application and document their audit work. We conducted the end-to-end testing for all offices and started training our audit staff. By early FY2007, we plan to complete the training for all audit staff and start using TeamMate for all new projects

# Appendices



# Appendix 1

## INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

4/1/06 – 9/30/06

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	5	\$1,224,836	\$277,348
B. Reports issued during the reporting period.	5	\$311,197	\$12,928
Subtotals (A + B)	10	\$1,536,033	\$290,276
<b>LESS</b>			
C. For which a management decision was made during the reporting period.	8		
(i) dollar value of recommendations that were agreed to by management.		\$786,925	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$2,716	\$0
D. For which no management decision has been made by the end of the reporting period.	2	\$746,392	\$290,276

# Appendix 2

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

4/1/06 – 9/30/06

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	1	\$27,068
B. Reports issued during the reporting period.	2	\$15,854,469
Subtotals (A+B)	3	\$15,881,537
<b>LESS</b>		
C. For which a management decision was made during the reporting period.	3	
(i) dollar value of recommendations that were agreed to by management.		\$14,534,247
(ii) dollar value of recommendations that were not agreed to by management.		\$1,347,290
D. For which no management decision has been made by the end of the reporting period.	0	\$0

# Appendix 3

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

4/1/06 – 9/30/06

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
08/01/2006	107-2005	Fire and Life Safety – Fire Suppression Installation	\$0	\$0	\$0
07/27/2006	108-2005	Federal Equitable Sharing Program	\$0	\$0	\$0
09/08/2006	111-2005	Balance Sheet Account Reconciliations	\$0	\$0	\$0
08/15/2006	201-2006	Cleveland Track	\$ 2,716	\$0	\$0
06/19/2006	202-2005	eTrax Procurement – Pcards	\$0	\$0	\$0
09/25/2006	202-2006	Bombardier First Class Car Repair PO#S-065-09639	\$19,776	\$12,928	\$0
04/14/2006	203-2006	Hudson News Lease Audit	\$0	\$0	\$0
05/08/2006	206-2006	Washington, DC Station	\$0	\$0	\$0
04/17/2006	207-2006	Emergency Exchange Voucher Review - DC	\$0	\$0	\$0
07/12/2006	211-2006	Harrisburg Station	\$0	\$0	\$0
05/22/2006	213-2006	Fire and Life Safety Final Audit Working Capital Advance Fund	\$0	\$0	\$0
09/08/2006	214-2006	KWO Associates Lease Audit	\$1,389	\$0	\$0
09/29/2006	217-2005	Attleboro Agreement	\$0	\$0	\$13,943,657
05/16/2006	405-2005	CPR Railway OTP Audit – 1/02 - 5/04	\$ 33,056	\$0	\$0
08/28/2006	405-2006	Glenview, IL Ticket Office	\$0	\$0	\$0
06/02/2006	407-2005	Canadian Pacific Railway Non-OTP	\$0	\$0	\$1,910,812
07/11/2006	503-2005	Kiewit Pacific Company – Seattle Holgate	\$254,260	\$0	\$0
Total (17)			\$311,197	\$12,928	\$ 15,854,469

# Appendix 4

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

*4/1/06 – 9/30/06*

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**NONE**

# Appendix 5

## OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

*4/1/06 – 9/30/06*

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:

<b>Questioned Cost</b>	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.
<b>Unsupported Cost</b>	A cost that is not supported by adequate documentation at the time of the audit.
<b>Funds To Be Put To Better Use</b>	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
<b>Management Decision</b>	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:

<b>APD</b>	Amtrak Police Department	<b>LLNL</b>	Lawrence Livermore National Laboratory
<b>ATAC</b>	Anti Terrorism Advisory Council	<b>MBTA</b>	Massachusetts Bay Transportation Authority
<b>CFR</b>	Code of Federal Regulation	<b>NEC</b>	Northeast Corridor
<b>CPR</b>	Canadian Pacific Railway	<b>NED</b>	New England Division
<b>CSXT</b>	CSX Corporation	<b>OBS</b>	On Board Services
<b>CT&amp;I</b>	Counter Terrorism & Intelligence	<b>OIG</b>	Office of Inspector General
<b>CUSCO</b>	Chicago Union Station Corporation	<b>OTP</b>	On time Performance
<b>DHS</b>	Department of Homeland Security	<b>Pcard</b>	Procurement Card
<b>DOJ</b>	Department of Justice	<b>RCI</b>	Rail Corridor Initiative
<b>EEV</b>	Emergency Exchange Voucher	<b>RCM</b>	Reliability Centered Management
<b>eTrax</b>	Electronic Transaction Express Software System	<b>RPU</b>	Revenue Protection Unit
<b>FAR</b>	Federal Acquisition Register	<b>SRI</b>	Strategic Reform Initiatives
<b>FBI</b>	Federal Bureau of Investigation	<b>TGI</b>	Thomas Group Inc
<b>FMLA</b>	Family Medical Leave Act	<b>VPN</b>	Virtual Private Network
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>WUS</b>	Washington Union Station
<b>HOPS</b>	Homeland Defense Operational Systems		
<b>LSA</b>	Lead Service Attendant		

# Reporting Requirements Index

## INDEX OF REPORTING REQUIREMENTS PURSUANT TO THE INSPECTOR GENERAL ACT AMENDMENTS OF 1988

Topic	Reporting Requirements	Page
Section 4(a)(2)	Review of Legislation and Regulations	24
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-8, 10-11, 14-17
Section 5(a)(2)	Recommendations for Corrective Action to Significant Problems	5-8, 10-11, 14-17
Section 5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Completed	8-9
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	12
Section 5(a)(5)	Information or Assistance Refused or Not Provided	23
Section 5(a)(6)	Audit Reports Issued in This Reporting Period	22
Section 5(a)(7)	Summary of Significant Reports	5-8, 10-11, 14-17
Section 5(a)(8)	Audit Reports with Questioned Costs	20
Section 5(a)(9)	Audit Reports with Recommendations That Funds Be Put to Better Use	21
Section 5(a)(10)	Previous Audit Reports Issued with No Management Decision Made by End of This Reporting Period	8
Section 5(a)(11)	Significant Revised Management Decisions	8
Section 5(a)(12)	Significant Management Decisions with Which the IG is in Disagreement	8

# Stop Fraud, Waste, Mismanagement, and Abuse

**Who pays? You pay. Act like it's your money... it is!**

## **Tell Us About It**

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Maybe you are aware of fraud, waste, mismanagement, or some other type of abuse at Amtrak.

Amtrak's Office of Inspector General has a toll free hotline number for you to call. You can also write to us.

We will keep your identity confidential. If you prefer, you can remain anonymous. You are protected by law from reprisal by your employer.

## **Call the hotline:**

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Nationwide (800) 468-5469

Philadelphia (215) 349-3065  
ATS 728-3065

## **Write to us:**

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Inspector General  
P.O. Box 76654  
Washington, DC 20013-6654



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