

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General



OCTOBER 1, 2006 – MARCH 31, 2007

Semiannual Report to Congress



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**REPORT NO. 35
OCTOBER 1, 2006 – MARCH 31, 2007**





April 30, 2007

Honorable David Laney
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

This Semiannual Report, submitted pursuant to the Inspector General Act, summarizes the more significant audits, evaluations, and investigations for the six-month period ending March 31, 2007.

The OIG issued 15 audit reports in the last two quarters, including performing oversight work for the company's audited financial statements, and performing a review of Amtrak's capital budgeting processes. We have recommended that Amtrak make some changes to its current business processes to document better its "state-of-good-repair" program for infrastructure and equipment. We are working closely and cooperatively with management to improve the financial bases and justifications for all capital budget requests. Our auditors are also working closely with Amtrak's Information Technology department to develop a comprehensive plan for a new 'enterprise architecture' that will better serve Amtrak's future business needs.

Our investigators and special agents opened 79 new cases in the past six months and closed 107 cases; 289 investigations remain active as of March 31. We have eight civil and criminal referrals pending with federal prosecutors. We concluded two joint investigations with the Federal Bureau of Investigation and the General Services Administration that involved bribery in a construction project and credit card fraud. We also were successful in recommending several administrative actions involving employee theft and embezzlement cases.

For the past eighteen months, the OIG has been heavily engaged in evaluating Amtrak's maintenance activities, with a desire to identify areas for new maintenance approaches, including examining the potential for implementing condition-based rather than time-based maintenance, rationalizing and making better use of facilities and personnel, and ultimately improving Amtrak's overall fleet availability and reliability. We continue to work with Amtrak's Chief Operating Officer (COO) to evaluate implementation of the Reliability-Centered Maintenance (RCM) program for Acela. The company's goal is to increase fleet availability by placing two additional train sets (#16 and #17) into revenue service by the end of the fiscal year. Additionally, the OIG is working closely with the COO to facilitate the introduction of RCM into the conventional fleet; a separate briefing on full RCM implementation will be provided to the Board, including a fully resource loaded schedule and timeline for implementation.



With regard to other OIG work involving Amtrak's mechanical maintenance operations, the OIG has been examining the potential for improving the 'cycle time' required for equipment to be serviced. Following a pilot program at the Washington, DC's Ivy City yards, the OIG authorized an expansion of the cycle time reviews to Chicago's maintenance operations. The OIG is also transferring this work to the COO as the pilot is expanding into more of the conventional fleet and will become programmatic.

On three occasions, I appeared before two House Committees to comment on the OIG's oversight of security operations at Amtrak. These appearances were intended to support Amtrak's inclusion into two House-sponsored bills calling for increased security spending for rail passenger operations. In the past three years, Amtrak has been authorized to receive only \$23 million in security funding through DHS grants. It is expected that as much as \$100+ million will now be made available to Amtrak through pending legislation. The OIG has been working with Amtrak management to facilitate a consolidated security bill by the end of the fiscal year.

We are continuing our evaluations of Amtrak's security needs at several major stations. Using non-Amtrak funding, the OIG obtained digital mapping of three California stations during the past six months. The digital mapping services are identical to those provided at Washington Union Station and are designed to provide Amtrak, law enforcement, and first responders with highly detailed, site specific data to better prepare for emergency response to security and special events at these locations. The digital mapping is being used to complement other vulnerability assessments being conducted by Lawrence Livermore National Laboratories (LLNL). LLNL has provided assessments of Washington Union Station and parts of New York Penn Station. Preliminary assessment work is planned for Chicago in the next quarter.

A major concern for the OIG (with regard to security evaluations and implementation of 'best practices') is the absence of rail and transit standards. At the request of the American Public Transit Association, OIG staff has joined the Security Standards Committee to help draft protocols that will lay the foundations for many of the transit security standards. We believe this approach will allow for a consistent approach to infrastructure protection for those shared Amtrak-transit properties.

I appreciate the Board's support of the OIG's oversight efforts. We look forward to finding ways through which the OIG can add value to Amtrak's bottom line.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General

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Inspector General Viewpoint

FY 2007 MID-YEAR FINANCIAL RESULTS & PERFORMANCE

Amtrak completed the first two quarters of the fiscal year with \$1.018 billion in total revenue, and total expenses were \$1.225 billion. Amtrak's financial results YTD are \$98.8 million favorable to budget, and \$48.3 million favorable to last year.

Amtrak's revenue performance is a positive sign, with ticket revenue up \$26.1 million, primarily due to the very strong performance of the Acela services, where ridership and revenue are up 14% and 16% respectively. Expenses were favorable mostly due to lower salary, wages, and benefit expenses favorable by \$62.1 million. Both Amtrak's Northeast Corridor services and long-distance services yielded results better than budget, with some lower than expected results from Amtrak's state corridor services.

Capital investments were \$279.1 million YTD, \$13.7 million below forecasted spending (reflecting a budget reset). Amtrak will be entering its main work season for capital work during the next two quarters.

The OIG has encouraged the use of more traditional transportation metrics for reporting financial and operating results; Amtrak posts Monthly Performance reports on its commercial web site. Among the more important metrics, ticket yield YTD rose from 26.13 cents to 27.82 cents, year over year. Amtrak's operating ratio improved from 1.60 to 1.46, year over year. And, Amtrak's overall cost recovery ratio also improved from .63 to .69. We generally view these positive results as important trend indicators, and we comment on these trends elsewhere in this Semiannual Report.

AMTRAK'S FY08 GRANT & LEGISLATIVE REQUEST

On February 15, 2007, Amtrak's CEO Alex Kummant submitted the corporation's FY08 Budget & Legislative Request, pursuant to Section 24315 (b), Title 49 USC. The full text of the correspondence may be found at www.amtrak.com at the "Inside Amtrak" section.

In its budget submission, Amtrak comments on the recent successes the company has enjoyed in achieving some modest expense reductions and in a better-than-expected performance in revenue and ridership results.

Amtrak indicates in its submission that it will focus its operational improvements in FY07 and into FY08 in seven critical areas: investing in security; ridership and revenue growth; deliv-



Coast Starlight | North of Santa Barbara, CA

ering more effective long-distance rail operations; positioning for corridor development; making improvements in mechanical operations; implementing a new information technology architecture; and completing labor negotiations. Within this report, we comment on several of these initiatives, and we agree with management that renewed focus and attention in these areas will yield real dividends.

In FY08, Amtrak is requesting \$485 million in operating support, \$760 million for capital support, and \$285 million for debt service. With respect to the operating support request, we are pleased to see Amtrak keep its operating subsidy levels trending downward. We would also comment that making this request Amtrak indicates it will offset \$92 million in increased healthcare expenses, and \$71 million in other inflation increases.

Amtrak will have to assume some business risks in requesting a reduced operating subsidy next year. In their second quarter assessment of Amtrak's FY07 operational reforms and YTD financial performance, the DOT Inspector General reports that Amtrak is likely to realize only \$39 million of the planned \$61 million in its proposed FY07 reform savings. The challenge for Amtrak will be to find other savings in its operating expense budget that will offset the reduced savings from earlier initiatives; we think this is possible if Amtrak takes on the task.

The Amtrak OIG recommends that Amtrak revise its strategic reform initiatives to reflect better, and more accurately, its recent experiences in attempting to implement last year's plan. This means that the base line for the planned savings be reset, and other initiatives, especially those associated with maintenance operations, should be updated. For example, we believe that Amtrak has understated the potential benefits arising from the reliability-centered maintenance project.



Adirondack | Lake Champlain, NY

Amtrak's \$760 million for capital funding is considerably more than its projected FY07 actual spend rate. We understand the need to invest in several 'mega-projects' where infrastructure repairs are critical, on projects like the Thames River bridge in Connecticut and the tunnel work included in New York's Fire & Life Safety Project. For much of the capital program, however, we want to see Amtrak better delineate the specific results from these investments and, where feasible, lay out a more rigorous analysis of return on capital invested. 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 the 'mega-projects' of 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. As we recommended earlier, a more complete inventory of major programs and projects, by asset type, should be maintained and made available to Congress.

PENDING REAUTHORIZATION LEGISLATION

On January 16, 2007, Senators Lautenberg and Lott, and other co-sponsors, introduced S. 294, a bill to reauthorize Amtrak through FY 2012. This bill, in the last Congress, previously referred to as the "Lott-Lautenberg" bill (S. 1516), and was re-introduced as promised by a bi-partisan Senate Commerce Committee

The new bill, S. 294, is one of the more important bills affecting Amtrak in the last ten years. Not only does the bill provide Amtrak with a larger, multi-year source of authorizations, the bill prescribes several important new initiatives: allowing states greater access to federal matching monies for passenger rail

expansion; establishing financial management and accounting reforms; setting out new performance metrics for long-distance train services; authorizing unprecedented amounts for security funding; and continuing paying down of Amtrak's debt.

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.

Within S. 294, Congress also is calling for changes with respect to how Amtrak plans to achieve a 'state of good repair' by FY 2012. Congress will require that a comprehensive capital spend plan be submitted to the Secretary of Transportation for review and approval. The OIG is working with the Board and management to re-work the current capital planning, budgeting, and spending processes to link capital projects to the company's strategic plans and to the goals, objectives, and outcomes anticipated in the company's strategic plans.

Section 210 of S. 294 calls for a re-appraisal of all long-distance routes, including possible route restructuring. One of the more discussed areas 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. The new provisions will require Amtrak to rank order its long distance services and make improvement to those services whose performance falls within the bottom third of the specified route performance metrics.

ONGOING SAFETY & SECURITY CONCERNS

SAFETY

Amtrak's recent performance in a major safety performance reporting area, "Employee Reportable Injury Ratio" (FRA-reportable incidents per 200,000 man-hours) improved greatly from 3.7 reportable incidents to 2.7 reportable incidents. Overall, this is a very significant achievement for the corporation.

The OIG believes that Amtrak can achieve even better results, especially if greater emphasis and investment are made in the System Safety program. In a recent industry report comparing Amtrak's safety performance with other large Class 1. railroads,

it is clear that some Amtrak departments have considerable room for improvement. This is particularly true for Amtrak’s Mechanical Department employees, whose injury ratios are almost three times higher than other similar railroads’ mechanical departments. The OIG will be reviewing Amtrak’s overall safety performance much more closely in the next few reporting quarters.

SECURITY

Several important events concerning passenger rail safety occurred over the past six months. Internally, Amtrak’s Board of Directors and senior management firmly committed in its FY 08 Grant and Legislative Request to make security a primary focus of Board oversight. As one of the seven critical goals identified by Amtrak CEO Alex Kummant and Amtrak’s Board, Amtrak is committed to “Coordinate and integrate security enhancements into capital investments and the protection of critical assets...[and] Develop a comprehensive passenger screening strategy.” The OIG fully supports the direction Amtrak is taking in making security a renewed area of investment and focus. From an OIG perspective, we will do our part in making recommendations for improvement in Amtrak’s security preparedness programs and operations, and we plan to increase our oversight in this area in the next two quarters and into the next fiscal year.

The OIG also testified before the Department of Homeland Security Committee on February 13, 2007, and one of our authorizing committees, the House Transportation & Infrastructure Committee, on March 7, 2007, to present the OIG’s assessment of passenger rail security and to comment on two draft bills sponsored by the Committees. In my testimony, I reiterated that I believed more federal funds should be available for passenger rail and transit security counter-measures and security personnel. I stressed that the time to take action to mitigate and recover from a passenger rail terrorist attack was passing, and that Congress needs to act quickly to pass legislation that would provide funds to ‘build-in’ security into rail passenger and transit wherever feasible. I also encouraged the development of security standards and best practices within the rail sector, and to ensure that security and safety initiatives in the rail sector become more closely linked. My complete testimony is available at the Amtrak OIG Web site.

CONCLUSIONS

The OIG fully supports the re-authorization of Amtrak and consideration of S.294, and any companion House bill. It is extremely important that Amtrak be able to plan its future from a strong, multi-year funding base, and it is equally important that Congress provide clear direction with respect to the levels of financial and operating performance expected from Amtrak.

We believe many of the bill’s provisions will 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.



Lake Shore Limited | Mohawk River, NY

Amtrak Profile

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 18,670 persons, of which about 15,800 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.

OFFICE OF INSPECTOR GENERAL

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 **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, abuse, and misconduct, particularly with regard to 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. 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, 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, and the overall quality of service delivery throughout Amtrak.

The **Office of Counter-Terrorism and Intelligence** 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. This group 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 personnel are located in eight offices in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Office of Audits

SIGNIFICANT AUDITS

INTERNAL OPERATIONS REVIEW

Record keeping and follow-up over employee contributions were inadequate Report #103-2006 – Issued 01/12/2007

As a result of employee complaints regarding the distribution of employee contributions to United Way and designated recipients, the OIG initiated an audit of the program. Amtrak participates in an annual United Way Campaign through the United Way of the National Capital Area in Washington DC. This annual campaign is administered by Amtrak's Human Resources Department under the direction of a Project Manager. The United Way office in Washington DC is responsible for ensuring that Amtrak contributions are forwarded to the employee-designated recipients.

Our review indicated that both Amtrak and United Way records were either incomplete or unreliable; and, we concluded that record keeping and follow-up were inadequate to ensure for the proper accounting and transmittal of employee contributions to the designated agencies.

We recommended process changes to strengthen record keeping and follow-up. Amtrak Human Resources and the United Way of the National Capital Area concurred with the OIG recommendations and agreed to implement process changes to strengthen controls.

Time card adjustment process for reclassification of labor from operating to capital lacked adequate internal controls Report #109-2005 – Issued 12/19/2006

The OIG initiated this audit at the request of KPMG, Amtrak's external auditor, as part of the annual FY 04 financial statements audit. In FY 04, the Finance Department performed a review of a sample of labor charges associated with the Engineering capital projects and found instances of adjustments where timecards originally coded to operating expenses were later transferred to capital projects. Their review also indicated a potential risk that the adjustment process may enable unauthorized or unsupported transfers affecting reliability of the financial statements. Due to the risk identified in the Engineering labor timecard adjustments, KPMG requested that the OIG expand the audit scope to include the Mechanical Department labor charges.

While capital reclassification of labor charges was appropriate, the observed adjustments did not follow Amtrak's procedures which require that a corrected source document must be prepared with an explanation of why an adjustment is necessary. The



Union Station | Los Angeles, CA

unsupported adjustments pose the risk that employee hours and wages may be adjusted without authorization and inappropriate classifications of expenses may occur affecting the reliability of data and the financial statements.

We recommended that Mechanical Department management require adequate documentation and approval for all timecard adjustments. When operating expenses are transferred to capital projects, information about the specific capital project should be included in the supporting documents. The Mechanical Department provided a written response indicating corrective actions planned.

New England Flagmen – Over \$370,000 not billed for flagging protection Report #204-2006 – Issued 1/30/2007

Our review disclosed that Amtrak had not billed the State of Rhode Island for over \$370,000 for flagging protection labor, and that Amtrak was not performing a thorough review of documentation to ensure that flagmen billings were accurate and complete. Amtrak management agreed with the majority of the audit findings and will ensure that adequate supporting documentation is maintained for future billings.

Sale and Disposal of Material and Equipment Report #203-2007 – Issued 3/30/2007

Our review disclosed that the sale and disposal of material and equipment were being handled properly in accordance with existing policy. However, we reported that the existing policy

could be improved by providing more explicit and detailed instructions. We recommended and management agreed to revise the current policy to address specific procedures in the sale and disposal of material and equipment.

Internal Controls Over Regulatory and Amtrak Mandated Training

Report #300-2004 – Issued 11/21/2006

The OIG reviewed the internal controls over Amtrak employee training to determine whether the controls are adequate to ensure that Amtrak employees are receiving all regulatory and other Amtrak mandated training. Weaknesses in the system used by the Amtrak Human Resource (HR) Department to ensure that Amtrak employees complete mandatory training in a timely manner were noted. These weaknesses make it difficult to determine if employees received all regulatory and Amtrak required training for their positions. We found that there is no consistent or centralized way to identify and monitor required training or internal controls to notify employees and supervisors of the need of the training requirements. Some of the individual regulatory and other mandated training courses are sometimes part of a larger training initiative and specific training courses are not listed separately on the training transcript. Formal guidelines and procedures for recording completion of required training do not exist so there is no assurance that training documentation is adequate and consistent for all regulatory and other Amtrak mandated training. In addition, the Human Resource department maintained training profiles for some but not all job titles in the database. These profiles would provide a description of the training required for the position. The HR department had initiated the development of training profiles but did not complete the task.

To ensure that Amtrak interests are fully protected, we recommended that controls be strengthened in order to reasonably assure that employees are completing required training. We recommended that the Vice-President of HR implement a formal written policy to better control required training.

Management agreed to all of the findings and indicated that controls would be strengthened to assure that required training is accomplished and properly recorded.

INVENTORY

Physical Inventory of ACELA High-Speed Rail Parts

Questioned Costs \$222,186

Report #215-2006 – Issued 1/25/2007

Amtrak's Materials Management Department requested that the OIG assist in counting the Acela "Parts" inventory. The inventory was owned by the Bombardier/Alstom OEM consortium.

We were also asked to perform a pricing review. Subsequent to the pricing review, Amtrak's Procurement and Materials Management Department made the decision to purchase a limited number of spare parts. Based upon our audit of the consortium vendor invoices, we identified \$222,186 in questioned costs.

Observation of FY2006 Annual Maintenance of Way Inventory – Unreported Withdrawals of Stock and Continued Increase in Inventory Value

Report #218-2006 – Issued 2/16/2007

We observed the annual maintenance of-way physical inventory conducted by Amtrak's Materials Management and Engineering Departments. We found that the inventory was generally taken in accordance with instructions. We offered observations and recommendations about some inventory process weaknesses that resulted in changes to the counts after the auditor's visits. We also found that Amtrak could not ascertain the correct inventory count for concrete tie clips because the vendor with custody of this stock item had intermingled Amtrak and the vendor's stock, and was not maintaining inventory records indicating ownership of the intermingled stock. In addition, we uncovered a problem at three material stores that were not reporting withdrawals of large dollar value stock; therefore, we recommended that Engineering require its personnel to comply with policy and provide Materials Management with a properly authorized material charge out document at the time material is taken from the location.

We also noted that the trend of increasing maintenance of way valuation (13% in FY06) and decreasing inventory turnover (from 2.44 in FY04 to 1.46 in FY05 to 1.33 in FY06) continued. Based on our review, the trend has resulted from some overstocking of material used as spares and to meet normal maintenance and capital requirements as well as project delays. We recommended that the Materials Management and Engineering Departments establish and monitor a goal of not receiving ordered material more than a specified time period prior to the planned installation.

STATIONS

Emergency Exchange Voucher and Miscellaneous Station Expenses (302-2006)

Report #302-2006 – Issued 1/11/2007

We performed an audit of Emergency Exchange Voucher (EEV) and miscellaneous station expenses at five stations in the New England Division to determine if transactions were processed in compliance with guidelines and properly supported by valid



Acela Express | Northeast Corridor

receipts and other required documentation. The results of the audit indicated that there is a lack of consistency in the processing of EEV and the supporting documentation; some transactions were processed without passenger signatures. Stations using Miscellaneous Billing Forms to process miscellaneous expenses used an obsolete version of the form that lacked adequate signature requirements for the recipient and issuing agent.

We discussed the results of our audit with the Senior Director of On Board Services & Station Operations, who was in the process of reviewing and revising EEV and miscellaneous expense guidelines for the Amtrak Station Services Standards and Operations, and reviewed the proposed revisions, and recommended several changes and additions which were incorporated into the proposed revisions.

We recommended and management agreed that the revised sections of the Amtrak Station Services Standards and Operations Manual be issued to all stations with instructions that they be strictly followed, and those Amtrak managers responsible for station operations periodically review EEV and miscellaneous expense transactions to ensure that the new procedures are being followed.

RAILROAD AUDITS

Union Pacific Audit

\$144,659 Excess Billings Identified

Report #407-2004 – Issued 3/7/2007

Amtrak entered into an Agreement with the Union Pacific Railroad Company (UP), which consolidated the four previous contracts for the Southern Pacific, the Union Pacific, the Southern Pacific Central States Line, and the Denver and Rio Grande Western Railroads for intercity rail passenger operations on tracks and properties owned by UP. Under the agreement provisions, the UP bills Amtrak each month for specific services

and facilities for intercity rail passenger operations. The OIG review of charges billed to Amtrak and identified a net adjustment of \$144,659. We found erroneous billings in 10 of the 14 items selected for audit, \$230,282 overbilled and \$85,623 underbilled for a net total of \$144,659 due Amtrak. UP representatives agreed with our findings. We recommended and management agreed to initiate a final settlement letter and collect monies due to Amtrak.

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 OIG continues to monitor and follow up with management on corrective action measures. The following items were reported in previous semiannual reports and additional information is being reported.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned Costs \$63,184

Report #219-2005 – Response 1/25/2006

The Procurement and Materials Management Department is still involved in ongoing settlement negotiations with the contractor and his suppliers and we will continue to monitor actions taken.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/1/06	44
Audit projects postponed or cancelled	7
Audit projects started	19
Audit reports issued	15
Audit projects in progress 3/31/07	41

Audit Findings

Questioned costs	\$1,106,993
Unsupported costs	\$0
Funds to be put to better use	\$0
Total	\$106,993

eTrax Trip Manager Review – Agreed to Actions in Progress.

Report # 215-2005 – Response 9/9/2005

We made several recommendations to improve the internal control over airfare procurements. Management's issuance of P/I 11.48 has resolved various procurement and authorization issues; however, we are still testing to determine whether controls relating to airfare procurements and related payments are adequate.

eTrax Payment Request Review

Report#202-2004 – Response 1/14/2005

We made several recommendations to address the weakness in internal controls, improve procedures to clarify roles and responsibilities and monitor compliance. Management agreed with our findings and has implemented improvements. We are currently reviewing these control improvements to determine if corrective actions have been adequately completed.

eTrax Expense Report Review

Report #201-2005 – Response 5/18/2005

We found a high degree of non-compliance with Amtrak's travel policy and eTrax instructions. Management has issued P/I 11.48 and an eTrax manual, addressing the majority of the findings. We are still testing the link between Travel Authorization and Expense Report to ensure compliance with Amtrak policy.

eTrax P-Card Review

Report #202-2005 – Response 7/7/2006

We found varying degrees of non-compliance with the P-Card reconciliation and approval process and recommended that additional resources be expended to monitor the reconciling, documenting and approval of credit card charges. Management agreed with our findings and implemented improvements. We are currently testing to determine whether a management exception report adequately monitors and ensures proper usage of P-Cards.

NEC Work Trains

Report #212-2003 – Response 10/28/2003

Our review disclosed that Amtrak could establish a more efficient system to fuel Mid-Atlantic work trains by fueling work trains at a closed fueling location. Management has stated that they believe the problem has been resolved. We will continue to monitor the actions taken.

Amtrak's Overtime Expenses – Internal Control Issues Not Yet Resolved

Report 03-205 – Response 4/20/2005

Management issued a response addressing our findings and indicated that management will ensure proper training and oversight of timekeepers regarding the completion of payroll operation field audits as required. Additionally, management informed us that they have submitted a new policy for staff summary approval. We will continue to monitor the actions taken.

CSXT – Non-On-Time Performance Items Audit

\$1,003,964 Erroneous Billings Identified

Report #01-105 – Response 8/20/2001

The Chicago office re-evaluated proposed audit adjustments, supporting documentation, correspondence, and audit workpapers in preparation for discussions with CSXT to resolve remaining outstanding issues.

The following items have been reported in previous semiannual reports. As of this reporting period, no new developments were reported:

CSX – New York High Speed Line Agreement

Report #207-2003 – Response 5/18/2006

Southern Pacific Central States Line – Questioned Costs Not Yet Resolved

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

Office of Investigations

CASE STATUS OF INVESTIGATIONS

10/1/06 – 3/31/07

Total Open Cases as of 10/1/06	317
Closed Cases	(107)
Opened Cases	79
Total Ongoing Cases as of 3/31/07	289

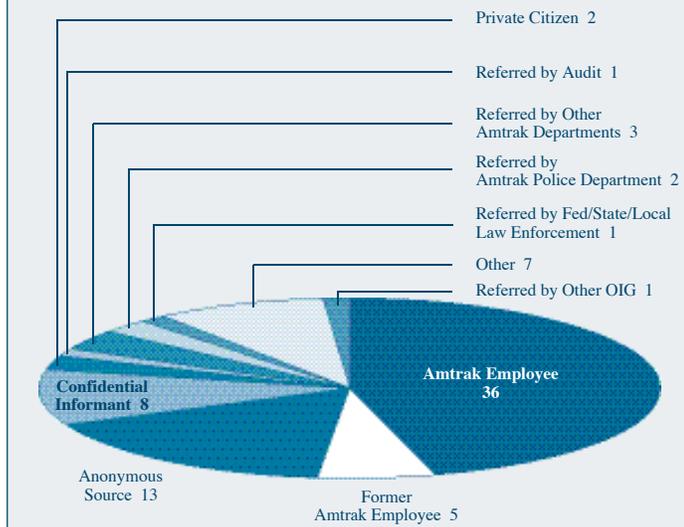
CASE HANDLING

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 289 investigations: in the last six months, we opened 79 cases and closed 107 cases.

As set forth in the chart below, entitled “Sources of Allegations”, employees and anonymous source referrals accounted for about 62 percent of the allegations during this reporting period, with employees being the source of 36 of the 79 allegations or 46 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

10/1/06 – 3/31/07



HOTLINE STATISTICS

10/1/06 – 3/31/07

	Total
Hotline Complaints Received	5
Sources of Hotline Complaints	
Amtrak Employee	4
Anonymous Source	1
Classification of Complaints	
Non-criminal – Other	2
Criminal – Other	2
Mismanagement	1
Complaints Referred To:	
OI Field Offices	4
Human Resources	1

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 answer 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 five (5) telephonic HOTLINE complaints during this reporting period. The HOTLINE complaints received during this reporting period were from a private citizen and an Amtrak employee.

SIGNIFICANT INVESTIGATIONS

Theft and fraud is a problem for many organizations that handle large amounts of cash. Due to the nature of the passenger rail business, cash transactions on both our trains and in our stations are at risk for employee embezzlement and/or theft of company assets. The OIG spends considerable time and effort identifying and addressing these issues, with examples of such investigations listed below.

- In a previously reported case regarding our investigation of a former Amtrak Assistant Conductor based in Shelby, Montana, the employee pled 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 An Organization Receiving Federal Funds. He was sentenced on December 15, 2006, to five (5) years probation and ordered to pay \$18,986 in restitution to Amtrak.
- In another case, which we previously reported upon, fifteen (15) Amtrak Lead Service Attendants (LSAs) based in Chicago, Illinois were indicted for Theft by a Grand Jury in the Circuit Court of Cook County on October 30, 2006. These 15 employees failed to remit monies to Amtrak totaling \$62,095.82. Under this scheme, generally the employees misreported their on board sales figures and as a result failed to remit all monies collected from passengers due to Amtrak.
- The OIG received information from a Maryland Area Rapid Commuter (MARC) Conductor that he had taken possession of a fraudulent MARC ticket from a passenger. The subsequent investigation revealed that the passenger, a former employee of the U.S. Department of Housing & Urban Development (HUD), was using HUD equipment to create fraudulent MARC monthly tickets from at least June 2006 through December 2006. As a result of the OIG investigation, a warrant was issued and on March 8, 2007, the suspect was arrested by the Jefferson County Sheriff's Department and charged with Uttering Fraudulent Schemes. On March 29, 2007, the suspect pled guilty and was ordered to pay restitution of \$731 to MARC, given one year probation and 40 hours of community service.



Acela Express | Hellgate Bridge, NY

- The OIG conducted an investigation of a Conductor assigned to Fort Worth, Texas for embezzling monies from on-board ticket sales. The Conductor, who had been terminated from Amtrak for insubordination, accepted a pre-trial agreement with the United States Attorney's Office. Under the agreement prosecution was deferred for eighteen (18) months on condition that the former employee not violate any laws, complete sixty (60) hours of community service and pay restitution to Amtrak in the amount of \$12,000.

MISUSE OF COMPANY ASSETS

The OIG conducted several investigations pertaining to the misuse of company assets.

- The OIG investigated the improper use of an Amtrak General Services Administration (GSA) leased vehicle by a Road Foreman for the MARC Service in Baltimore, Maryland. The Road Foreman, who did not have alternate garaging privileges under Amtrak's policies regarding vehicle use, was regularly using the vehicle to travel from Baltimore's Penn Station to his residence and to a non-work related location. In addition, the Road Foreman's supervisor, the Superintendent of Commuter Services, had knowledge of the unauthorized use of the vehicle and did not insure that Amtrak's vehicle policy was followed. As a result, the Road Foreman offered his resignation of his management position, which was accepted. The Superintendent was counseled.

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 concerning quality improvement to which management generally responded positively and implemented, for the most part, those recommendations as detailed below.

- The OIG conducted a review that showed that an Amtrak department routinely spent excessive funds for hotel stays, meal hosting at expensive restaurants, out-sourced catering, and on-board services for recurring inspection tours. These findings were reported to the Department head who issued a new protocol for these inspection trips, which was designed to significantly reduce their expense to Amtrak.
- The OIG found during an investigation that Amtrak employees who were furloughed and suspended were

retaining their Amtrak identifications. One incident involved furloughed and suspended employees who were using their Amtrak identifications to assist other Amtrak employees during their theft of copper wire. OIG referred this information to Human Resources, the Chief Operations Officer and the Amtrak Police. Management responded to our referral and advised that a new Amtrak employee identification card policy was in the process of being issued. Management further advised that a section of that policy would require supervisors to obtain employee identification cards from suspended and out of service employees.

- The OIG investigated the Amtrak Police Department (APD) Internal Affairs (IA) Office release to another law enforcement entity an Officer's service records of arguably privileged information. OIG recommended and APD agreed to implement procedures and controls regarding the interviewing of APD personnel by outside parties and consider developing written policies and procedures on the release of investigative files.

CONFLICT OF INTEREST

Amtrak policy states, in relevant part, "Amtrak requires all employees to observe the highest standards of business ethics. They must conduct the business and operation of Amtrak and their affairs in a manner that complies with applicable law and high moral and ethical standards and avoids any possible conflict of interest or appearance of a conflict of interest. They shall not realize personal gain, or help others to gain, from their positions with Amtrak or from knowledge or information not released to the public." Although this policy is in place to help avoid and address conflict of interest situations, during this reporting period, the OIG investigated the following allegations pertaining to transgressions of this policy.

- OIG found that certain management employees provided free travel on Amtrak trains to individuals having no legitimate claim to complimentary travel. The OIG determined that Amtrak travel tickets, valued in excess of \$180,000, were provided to persons on a complimentary basis under the guise of legitimate Amtrak programs. Travel included numerous complimentary trips on Acela Express, Regional Service, Auto Train, and long distance service including first class accommodations. The OIG also learned during the inquiry referenced herein that the same Washington based management employees provided complimentary hotel rooms courtesy of Amtrak to individuals having no legitimate claim to said hotel rooms. Other management employees also used Amtrak supplied hotel rooms for personal business.



California Zephyr

As a result of the OIGs' inquiry, Amtrak is implementing new guidelines for complimentary travel, as well as creating policies and procedures for auditing departments and programs that participate in providing complimentary travel for legitimate business related travel.

- The OIG discovered that an Amtrak executive and senior manager had accepted meals and other entertainment from a major Amtrak service vendor in violation of Amtrak's conflict of interest policy. The personnel involved were disciplined.

TIME AND ATTENDANCE REVIEWS

Amtrak's success depends on using available resources in an efficient and productive manner, including their most valuable resource, Amtrak employees. Therefore, it is important for employees to report to work on time and perform their duties during their assigned hours, including those designated for overtime. The OIG receives and investigates allegations regarding time and attendance issues. The following are illustrative of OIG Time and Attendance investigations conducted during this reporting period.

- The OIG received information that a New England Division clerk submitted overtime hours for work performed during his normal workday. During the investigation, OIG determined the clerk submitted more than \$30,000 in questionable overtime over a five year period. The clerk often performed clerical work outside his regular duties without using a time clock. Because the overtime was forwarded from a different department, the clerk's supervisors only checked that the hours would be charged to the other department, and simply accepted the overtime without any verification of the hours

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

10/1/06 – 3/31/07

Type	Number
Fraud	21
Theft/Embezzlement	8
Kickbacks	2
False Statements	2
False T&A Issues	8
Other Criminal	4
Waste	4
Abuse of Position	4
Mismanagement	5
Conflict of Interest	1
Administrative Inquiries	10
Other Non-Criminal	10
TOTAL	79

worked or direct supervision of the performance.

Additionally, Amtrak management made an arrangement to pay the clerk two and one-half overtime hours to clean a remote station platform once a week. OIG determined through observation and interviews that the clerk usually spent one hour or less at the remote station. Amtrak management simply paid the overtime without verifying the hours worked and only infrequently checked that the work was even performed.

In response to the OIG inquiry and findings, Amtrak management implemented policies to prevent such lapses in supervision. Subsequently, Amtrak disciplined the clerk's direct supervisor and reaffirmed with passenger services managers the existing policies requiring the use of available time clocks and active time monitoring.

- At the request of a former Amtrak Police Chief, the OIG conducted a review of overtime and miscellaneous expense reimbursement within the Amtrak Police Department. The review uncovered two situations of arbitrary overtime being incurred without prior management approval; and identified specific job classifications that are subject to overtime abuse potential due to difficulty in obtaining prior management approval. In addition, several instances of miscoding of over-

time were discovered. As a result of the review, APD Management instituted a policy that requires prior approval for arbitrary overtime.

The OIG recommended and APD management agreed that oversight and review of incurred overtime take place to prevent or identify incidents of abuse; controls should be in place to ensure that proper payroll coding is utilized, and that attention be given to any officer who works a special duty assignment and can receive overtime based on the needs of that assignment. The OIG further recommended that the APD review the special duty positions and determine if there is a more efficient way to assign them. At the close of this reporting period, the APD have included the recommendations as agenda items to be adopted.

JOINT INVESTIGATIONS

- The OIG recently investigated an allegation regarding an employee receiving a bribe in connection with contract work. Through a joint investigation between Amtrak's OIG and the Oakland, California Office of the Federal Bureau of Investigation (FBI), it was determined that an Amtrak Project Manager had solicited an Amtrak contractor to increase his prices fraudulently while performing an Amtrak project to cover the costs of a construction project in the Project Manager's home. As a result of the investigation, the Project Manager was terminated as an Amtrak employee, and indicted by a Grand Jury. Subsequently the employee entered a plea of guilty in federal district court on December 3, 2006. A federal judge sentenced the former employee to six (6) months confinement at a halfway house, six (6) months house arrest, and three (3) years supervised probation.
- The OIG received an allegation that an Amtrak employee was using an Amtrak-issued credit card for personal gain, which was reported lost/stolen. A joint investigation by Amtrak's OIG and the Government Services Administration OIG substantiated the allegation. The employee was terminated as a result of another company violation. In March 2007, as a result of the joint investigation, the former employee was arrested and indicted for violation of Access Device Fraud under Title 18 USC 1029, these charges are currently pending in federal district court.

REVENUE PROTECTION UNIT

Amtrak provides food and beverage service on board trains to millions of passengers each year. The revenue generated by these sales as well as the food stock and supplies used to supplement these sales, afford a dishonest employee the means for

revenue abuse or theft. 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 Train Service Reviews

- During this reporting period, RPU analyzed the applicable support documents for on board food and beverage sales on over two hundred, ninety (290) trains for seventy-eight (78) various Lead Service Attendants (LSA). The completed reviews resulted in administrative referrals, regarding more than 51% of the LSAs reviewed, ranging from theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed for over twenty (20) LSAs.
- RPU also conducts preliminary reviews of conductor cash fares to identify, analyze and document, then refer for continued handling, conductor reviews that indicate possible theft or misappropriation situations. During the second half of this reporting period, RPU completed and forwarded to the appropriate management personnel, nine (9) conductor referrals indicating possible discrepancies or inconsistencies in remittance procedures.

PROSECUTIVE REFERRALS			
<i>10/1/06 – 3/31/07</i>			
Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	0	0	0
Convictions/Pleas	1	0	1
Pending*	6	0	6
Declinations	0	0	0
Resolved	0	0	0
TOTAL	7		7
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	1	1
TOTAL			1
Total Civil and Criminal			8
*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.			

Office of Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

AMTRAK MECHANICAL OPERATIONS – OIG CONTINUING TO HELP WITH IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

In September 2005, we issued report E-05-04, which resulted from a yearlong 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 eighteen months we have been working with the Mechanical Department to help them implement our recommendations.

Implementation of Reliability-Centered Maintenance

Although day to day administration of this initiative is now under the Chief Operating Officer, the OIG remains engaged in an oversight role to help facilitate progress. We anticipate greater than a 10% improvement in availability of the Acela Fleet in FY08 based on this initiative. We also expect maintenance costs per Acela train mile to noticeably decrease under RCM. Efforts are already underway to expand RCM beyond Acela to Amtrak's conventional fleets of equipment, with similar results expected.

Mechanical Maintenance Process Improvement

The OIG-initiated efforts to improve the cycle times of key maintenance processes have continued, and this initiative is now also under the control of the Chief Operating Officer. The OIG has remained engaged in an oversight role to help facilitate progress. During this period, additional improvements have been made in several key processes. For example, the preventive maintenance cycle time for Amfleet Cars, previously reduced from 4 days to 3 days, has continued to be reduced to now under 2 days. The preventive maintenance and repair cycle time for Superliner Cars in Chicago have been reduced from over 9 days per car to approximately 6 days per car. These, along with other process improvements, have resulted in significant improvements in equipment availability (in some fleets greater than 5%) and over \$2 million in reductions in annual maintenance costs.

Diesel Locomotive Maintenance Consolidation

One of the recommendations in our report on Amtrak's Mechanical Maintenance Operations was for Amtrak management to examine the costs and benefits of outsourcing part of the maintenance operation to an experienced maintenance provider. To assist Amtrak management in this regard, we engaged a consultant who had helped in the negotiations of several large locomotive maintenance contracts. With his assistance, Amtrak management is in discussions with one of the largest locomotive maintenance providers in North America. In preparation for possible outsourcing, Amtrak has consolidated its diesel locomotive maintenance operations and made significant facility improvements. Even if an agreement does not come to fruition, these actions will lead to improved efficiencies and overall reduced maintenance costs – potentially as much as was envisioned through outsourcing.

Equipment Reliability Improvements

The OIG continues to facilitate and support the establishment of teams dedicated to conducting Root Cause Analyses into recurring equipment failures. The teams that have been established have made significant contributions to the improvements in reliability of both the Acela trainsets and the High Horsepower (HHP) Locomotives. Acela delays due to mechanical failures have decreased by 33% over the past six months and HHP Locomotive availability has increased by 42% during the first half of FY07 versus FY06.

PROCUREMENT AND MATERIAL SUPPLY CHAIN MANAGEMENT – OIG FACILITATING IMPROVEMENT EFFORTS

Alstom Parts Contract

Amtrak entered into a contract with Alstom TLS to supply and manage the parts inventory for the Acela trainsets, effective October 1, 2006. This contract has an estimated value of close to \$200 million over the five-year term. Based on the value of the contract and the importance of the contract to the success of Amtrak's premium Acela service, the OIG conducted an evaluation to determine if the terms and conditions of the contract were being fully complied with and if processes have been put in place by Amtrak to adequately measure and monitor the contractor's performance. We have issued preliminary findings and are working with the Mechanical and Procurement Departments in resolving identified shortfalls. We plan on issuing a "lessons learned" report as a guide for Amtrak to use in managing similar contracts in the future.

Mechanical Supply Chain Effectiveness

At the request of the Vice President of Procurement, the OIG is sponsoring and helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Dallas-based Thomas Group, the assessment teams are reviewing current processes and revising them to more align with industry best practices. Although still early, the initial results from these assessments have been promising with significant results expected during the next reporting period.

HARASSMENT AND INTIMIDATION COMPLAINTS – ALLEGATIONS NOT 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. The OIG investigates allegations of violation of this policy.

During this reporting period, three formal complaints that were received in the previous reporting period were investigated and concluded. The OIG determined that none of the allegations were acts of harassment or intimidation by management in their handling of employee’s injuries. It was determined, however, that several Amtrak policies and procedures surrounding the accurate reporting and handling of injuries and illnesses were not properly followed in one of the alleged complaints. These results were documented and discussed with management for follow-up training.

In addition, the OIG received one new employee complaint of Harassment and Intimidation. After conducting an inquiry into the complaint, it was determined that the allegations could not be substantiated as acts of harassment or intimidation as defined by FRA 49 CFR 225.33. The OIG, however, is continuing a review of the work environment as it relates to local management’s handling of employee discipline.



Crescent | VA

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 we made recommendations to improve the oversight and control of cash generated from these on-board sales.

The OIG Inspections and Evaluations staff works closely with the OIG Revenue Protection Unit (RPU), whose work is highlighted earlier in this report. Also, the I&E staff continues to interact with both Amtrak’s Transportation and Product Management departments to advise on conductor and On-Board Service (OBS) employee remittance policy and procedures as well as process improvements for safeguarding both on-board ticket sales and food and beverage revenues as well as an increased focus on OBS accounting procedures.

Since October 2002, more than 220 conductors and 180 OBS employees have either resigned or been terminated from the company, in part as a result of OIG’s efforts in this area, for misappropriation of revenues and/or violation of Service Standards related to on-board sales. Additional OIG reviews of food and beverage operations are planned in the next reporting period.

Office of Counter-Terrorism and Intelligence



Union Station | Washington, DC

The OIG Counter-Terrorism and Intelligence (CT&I) unit is responsible for the 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. OIG is willing to discuss projects and highlights with Congressional members and staff.

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

TEN STATION STRATEGY (10SS) – ASSESSING SECURITY AT MAJOR URBAN STATIONS

The OIG has developed a security assessment program whereby the ten major stations in Amtrak's national system are to be eval-

uated for vulnerabilities and detailed recommendations are to be formulated to improve the security preparedness of the stations. During this reporting period, the OIG continued to facilitate implementation of the Ten Station Security Strategy. The OIG procured funding and coordinated the development of security support product packages at these sites. The OIG provided technical reviews and facilitated stakeholder outreach initiatives described here.

■ **Station Action Team (SAT)**

The CT&I continued to assist the Washington Union Station (WUS) Station Action Team. The SAT is intended to provide an informal organization where stakeholders can discuss crisis and risk management, incident response, emergency preparedness, and risk mitigation. The SAT model being used in Washington, DC, will be used as a base model for the other designated stations in the Ten Station Strategy (10SS).

■ **Homeland Defense Operational Systems (HOPS)**

The OIG arranged for the services of the Lawrence Livermore National Laboratory (LLNL) HOPS program to undertake a scientific assessment of critical vulnerabilities at two major stations. These assessments will provide important decision support tools to managers charged with mitigating vulnerabilities at these important shared facilities. Based on the successful execution of previous studies, CT&I will facilitate HOPS assessments other major Amtrak facilities across the nation.

■ **Virtual Digital Mapping Project for Critical Infrastructure**

The OIG continued to provide administrative and tactical support to obtain virtual, digital mapping of major Amtrak stations. This 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.

■ **Other Security Reviews**

During this reporting period, the OIG sponsored the vulnerability assessment of a major metropolitan station using a nationally recognized team of crisis management experts. The Full Spectrum Infrastructure Vulnerability Assessment (FSIVA) team from the California National Guard undertook a comprehensive review of security and evacuation plans.

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 the Finance Department and KPMG, the OIG conducted a review of fiscal year 2006 labor charges for both the Engineering and Mechanical departments. The review consisted of analyzing the entire population of labor charges for both departments in order to determine the amounts adjusted and assess the risk that the labor cost adjustments may be inappropriate. 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. We concluded that the risk of inappropriate changes was very low and informed KPMG on the results of our review.

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.

TEAMMATE IMPLEMENTATION

OIG SECURE SUBNET AND TEAMMATE IMPLEMENTATION

As previously reported, the Amtrak OIG selected the TeamMate application for electronic workpapers and automation of 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 fully implemented the technical infrastructure, finalized the TeamMate protocol and library, revised paper-based audit procedures for the electronic

work environment, trained all audit staff, and rolled out the TeamMate application to all audit offices across the country. All new audits will use the TeamMate.

Currently, the OIG is planning to implement PricewaterhouseCoopers Global Best Practices (GBP) in our TeamMate environment. GBP provides continuously updated best practices and benchmarking information for standardized business processes. This enhancement will assist us in performing audits and making value-added recommendations to management. In addition, we plan to implement additional TeamMate modules, initiate development of the OIG intranet, and extend the secure subnet access and capabilities to all OIG groups.

AMTRAK IT CHALLENGES AND GROUPS ANALYSIS

To assist the new CIO the OIG prepared a high-level overview of the Amtrak IT environment and identified key challenges, such as organization and reporting structure; IT strategic planning; outsourcing and vendor management; speed and quality of management information; ERP and legacy application portfolio management; system development methodology; e-ticketing; disaster recovery and business continuity; information security; network management; and e-commerce.

Amtrak spends about \$275 million per year on IT with a total manpower of about 760 consisting of about 440 employees and 320 contractors. The analysis showed that over \$100 million of the \$275 million in IT spend is controlled by departments other than the Amtrak IT department. This organizational misalignment results in disjointed development efforts, inefficient use of funds and difficulty in implementing enterprise applications and data integration. The OIG work to date is helping the CIO, and other senior managers, in forming a basis for company-wide IT restructuring and Enterprise Systems Strategy development. We will report on the work of the CIO in our next Semiannual Report.

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

Appendices



Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

10/1/06 – 3/31/07

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	\$746,392	\$290,276
B. Reports issued during the reporting period.	3	\$1,106,993	\$0
Subtotals (A + B)	5	\$1,853,385	\$290,276
LESS			
C. For which a management decision was made during the reporting period.	3		
(i) dollar value of recommendations that were agreed to by management.		\$982,110	\$3,817
(ii) dollar value of recommendations that were not agreed to by management.			\$9,111
D. For which no management decision has been made by the end of the reporting period.	2	\$871,275	\$277,348

Appendix 2

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

10/1/06 – 3/31/07

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period.	0	\$0
Subtotals (A+B)	0	\$0
LESS		
C. For which a management decision was made during the reporting period.	0	\$0
(i) dollar value of recommendations that were agreed to by management.		\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$0
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

10/1/06 – 3/31/07

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
01/12/2007	103-2006	United Way Campaign Process Review	\$0	\$0	\$0
12/19/2006	109-2005	Mechanical Capital Projects Labor Charge	\$0	\$0	\$0
12/22/2006	201-2007	Cycle Inventory Review	\$0	\$0	\$0
03/26/2007	202-2007	Tri Rail Maintenance & Operation Insourcing Bids	\$0	\$0	\$0
03/30/2007	203-2007	Sale and Disposal of Equipment	\$0	\$0	\$0
01/30/2007	204-2006	New England Division Conductor/Flagman	\$740,148	\$0	\$0
01/30/2007	205-2006	Amtrak/FRA Grant Compliance Reporting	\$0	\$0	\$0
03/30/2007	209-2006	LSA Remittances	\$0	\$0	\$0
01/24/2007	215-2006	NECMSC Inventory	\$222,186	\$0	\$0
02/28/2007	216-2006	Gent's Enterprise, Inc. Lease Audit	\$0	\$0	\$0
02/16/2007	218-2006	Observation of FY06 Annual M/W Inventory	\$0	\$0	\$0
12/22/2006	220-2006	Pittsburgh Station Review	\$0	\$0	\$0
11/21/2006	300-2004	Compliance with Training Requirements	\$0	\$0	\$0
01/09/2007	302-2006	Emergency Exchange Vouchers South Station	\$0	\$0	\$0
03/07/2007	407-2004	Union Pacific Railroad	\$144,659	\$0	\$0
Total (15)			\$1,106,993	\$0	\$0

Appendix 4

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

10/1/06 – 3/31/07

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

10/1/06 – 3/31/07

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.

The Inspector General testified before the Department of Homeland Security with regard to pending security legislation on February 13, 2007. Additional testimony was provided before the House Transportation and Infrastructure Committee, on March 7, 2007, with regard to security legislation being advanced by that Committee.

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:

10SS	10 Station Strategy	IA	Internal Affairs (Amtrak Police)
APD	Amtrak Police Department	IT	Information Technology
CFR	Code of Federal Regulation	LLNL	Lawrence Livermore National Laboratory
CIO	Chief Information Officer	LSA	Lead Service Attendant
CSXT	CSX Corporation	MARC	Maryland Area Rapid Commuter
CT&I	Counter Terrorism and Intelligence	NEC	Northeast Corridor
EEV	Emergency Exchange Voucher	OBS	On-Board Services
eTrax	Electronic Transaction Express Software System	OIG	Office of Inspector General
T&A	Time and Attendance	Pcard	Procurement card
FBI	Federal Bureau of Investigation	RCM	Reliability Centered Management
FRA	Federal Railroad Administration	RPU	Revenue Protection Unit
FSIVA	Full Spectrum Vulnerability Assessment	SAT	Station Action Team
GBP	PricewaterhouseCoopers Global Best Practices	UP	Union Pacific Railroad
HHP	High Horse Power locomotives	WUS	Washington Union Station
HOPS	Homeland Defense Operational System		
HR	Human Resources		
HUD	Housing and Urban Development		

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