AMTRAK OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

Management Advisory Report

ASSET MANAGEMENT:

Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management

Report No. OIG-MAR-2016-005 | February 19, 2016

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AMTRAK OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

Memorandum

To: Gerald Sokol, Jr., Executive Vice President/Chief Financial Officer
DJ Stadtler, Executive Vice President/Chief Operations Officer
Bernard Reynolds, Vice President/Chief Procurement and Logistics Officer

From: Stephen Lord,
Assistant Inspector General, Audits

Date: February 19, 2016

Subject: *Asset Management: Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management (*Report No. OIG-MAR-2016-005)

In October 2015, we issued a Management Advisory Report on Amtrak's (the company's) management of its vehicle fleet.[1] This Management Advisory Report provides supplemental observations on the company's management of vehicles assigned to the New Jersey High-Speed Rail Improvement Program (NJ HSRIP) that we developed in response to questions raised by Amtrak's board members about the information in our October report.

Our reporting objective was to provide additional information and observations on the effectiveness of certain vehicle fleet management practices on the NJ HSRIP that may assist you in developing and implementing plans to improve the oversight and management of the company's vehicle fleet.

[1] Amtrak OIG, *Asset Management: Observations on Vehicle Fleet Management*, OIG-MAR-2016-001, October 16, 2015.

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SUMMARY OF OBSERVATIONS

Our review of vehicle management practices on the NJ HSRIP identified a number of opportunities for vehicle management improvements that could also inform the company's ongoing evaluation of company-wide vehicle management controls:

- Opportunities may still exist for the company to save as much as $212,000 per year on the NJ HSRIP by leasing common vehicles such as pick-up and utility trucks from the General Services Administration (GSA). Of 38 vehicles that the company is commercially leasing for the NJ HSRIP, 26 are available through GSA's federal fleet program at significantly lower costs than the commercial leases. The potential savings are dependent upon the terms of the existing leases and availability of GSA vehicles.

- The company could have saved an estimated $127,240 by purchasing—rather than leasing—some vehicles on the NJ HSRIP. For example, the company is leasing 8 utility trucks for 44 months with an extended per-vehicle lease cost of $52,800. By comparison, the company could have purchased the same vehicles new at a per-vehicle purchase price of $36,895. In November 2015, when the leases were extended, the company performed a lease-vs-buy analysis, which indicated that it was no longer cost-effective to purchase the vehicles.

- The company is paying $9,500 per month to commercially lease a vehicle to support overhead electrical work because it was not able to borrow an idle company-owned vehicle from another Engineering unit.

- For 24 vehicles leased at higher costs to support the NJ HSRIP, the company's written justification[2] includes the statement that the project is "reimbursable," meaning that the lease costs would be covered by the NJ HSRIP grant, not by the company's operating budget.

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[2] Amtrak's corporate policy [P/I 11.39.0] requires that leases extending beyond 12 months must be approved by the Chief Financial Officer. Requests for this approval are accompanied by a memorandum explaining the requesting department's rationale for the lease.

As the company continues to work to improve the management of its vehicle program, we suggest that you look closely at ways to exercise effective fiscal controls over all publicly funded projects under company control, including those funded through special grants or external sources. We also suggest that you consider the potential opportunities to reduce vehicle leasing costs for the NJ HSRIP described in this report.

Vehicle Use in New Jersey High-Speed Rail Improvement Program (NJ HSRIP)

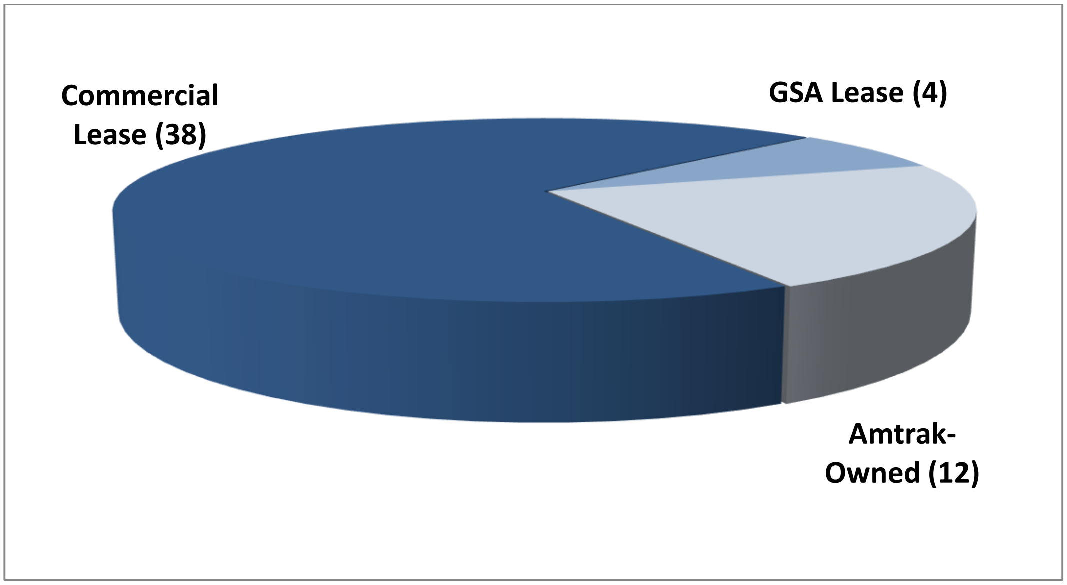
The company initiated the NJ HSRIP to upgrade its rail infrastructure to support higher maximum train speeds, increase capacity, and improve service reliability over a 23-mile section of track between Trenton and New Brunswick, New Jersey. In August 2011, the Federal Railroad Administration agreed to provide the company a $450 million grant to fund the program, with a performance period spanning nearly six years—from October 1, 2011, through June 30, 2017.

In a 2015 report, we projected that the cost to complete the NJ HSRIP would likely exceed the amount of the grant by $83.14 million.[3] We also anticipated that the overrun would increase as work progressed and that the company was in danger of missing the target date of June 2017. We attributed the program's cost and schedule problems to weaknesses in program management and oversight. The program is managed by Engineering, in the Operations department.

As of December 2015, the company had assigned 54 vehicles to the NJ HSRIP. Of these, 38 vehicles were leased from commercial vendors, 12 were Amtrak-owned, and 4 were leased from the GSA. See Figure 1.

[3] Amtrak OIG, *Acquisition and Procurement: New Jersey High-Speed Rail Improvement Program has Cost and Schedule Risks*, OIG-A-2015-012, June 17, 2015.

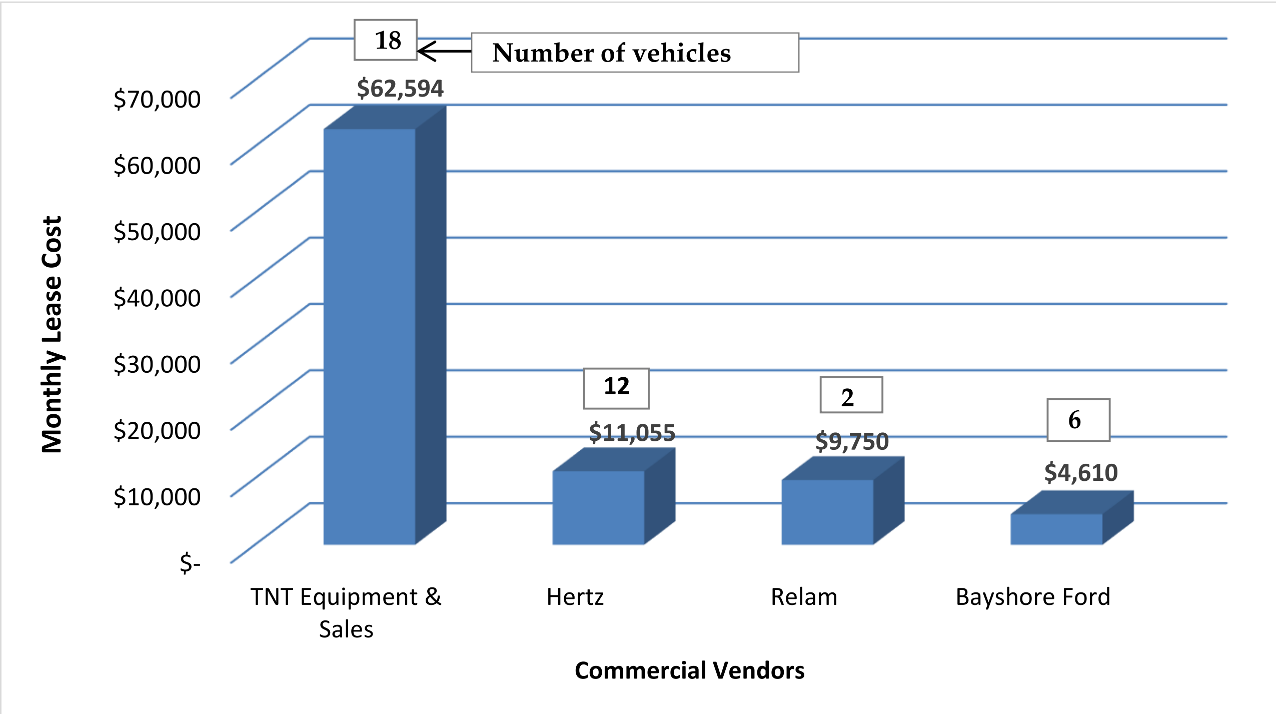
Figure 1. Sources of 54 Vehicles Assigned to NJ HSRIP, December 2015



Source: OIG analysis of the company's December 2015 Maximo data

The 38 commercially leased vehicles were sourced from 4 vendors; the monthly lease costs for December 2015 totaled $88,009. For the monthly lease costs and the number of leases by vendor for December 2015, see Figure 2.

Figure 2. NJ HSRIP Monthly Vehicle Commercial Lease Costs by Vendor, December 2015



Source: OIG analysis of the company's December 2015 Maximo data

Multiple business units in the company share responsibilities for the planning, procurement, management, and oversight of NJ HSRIP vehicles. The NJ HSRIP program office, within Engineering, determines the types, quantities, and timing of vehicles needed and manages the day-to-day vehicle use, according to NJ HSRIP managers. The program office also decides whether to purchase or lease the vehicles, taking into account the vehicle cost, the length of time the vehicle is needed, available funds, and how quickly the program needs the vehicles. The Automotive division, within Procurement and Materials Management, locates sources for the needed vehicles—including looking for vehicles within the company that could be reassigned, and determining whether vehicles are available from GSA. Procurement contracting officers execute the leases and purchase orders.

OPPORTUNITIES TO IMPROVE VEHICLE MANAGEMENT ON THE NJ HSRIP

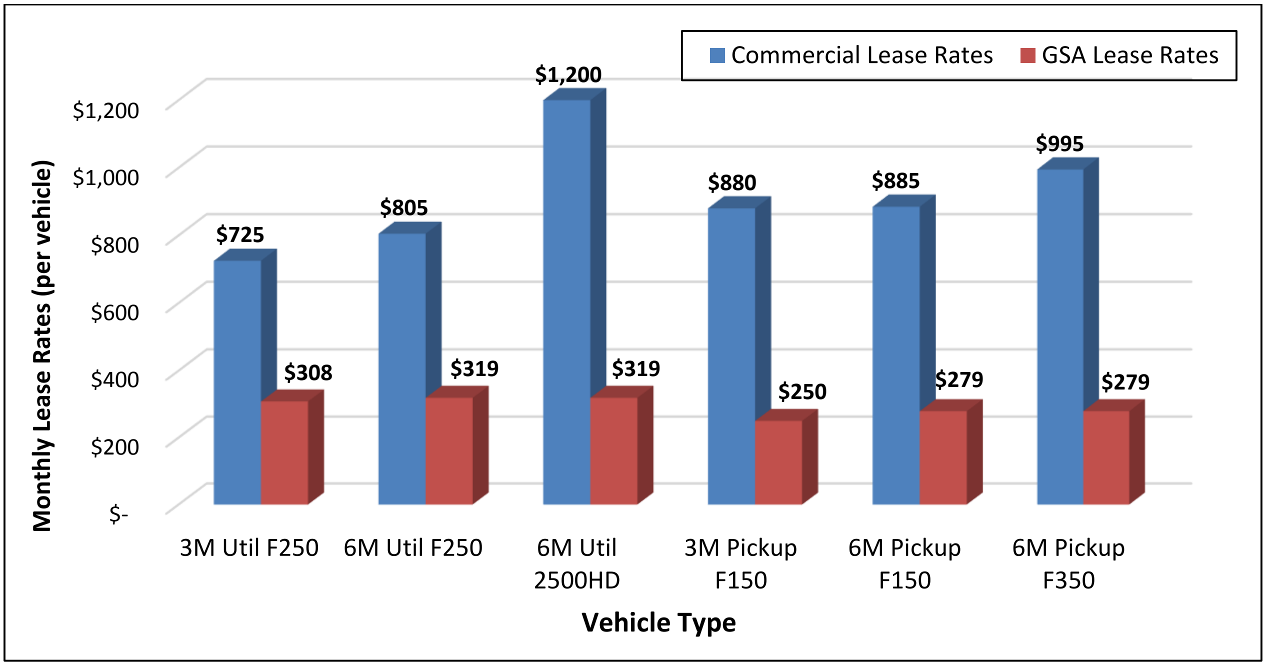
We identified a number of opportunities to improve vehicle management on the project. For example, the company could save as much as $212,000 per year by leasing common vehicles from GSA. Also, the company could have reduced costs by purchasing—rather than leasing—some vehicles on the NJ HSRIP. Further, in one instance, the company is spending $9,500 per month to lease a vehicle from a commercial vendor because it was not able to borrow an idle company-owned vehicle from another business unit.

The Company May be Able to Save Almost $212,000 Annually by Leasing Common Vehicles from GSA

Opportunities may still exist for the company to save as much as $212,000 per year on the NJ HSRIP by leasing common vehicles from GSA. Automotive and NJ HSRIP officials told us that using GSA's federal fleet program is always the most cost-effective alternative when vehicles are available. Twenty-six (26) of the 38 vehicles that the company is commercially leasing for the NJ HSRIP are available through GSA's program at significantly lower costs. The company is paying $25,265 per month to commercially lease these 26 vehicles; identical vehicles from GSA would cost about $7,627 per month—a savings of $17,638 per month. Thus, ;easing these vehicles from GSA would save about $211,656 annually.

Each fall, agencies may request additional or new vehicles from GSA. Although the window to replace NJ HSRIP vehicles for FY 2016 may have closed, vehicles occasionally become available mid-year if other users return excess vehicles. The company might be able to realize some near-term savings if it is able to change out commercially leased vehicles mid-year. Additionally, it would be in the company's interests to advise GSA immediately of needs for 2017 to increase the likelihood that the number, type, and quantity of vehicles will be available to meet NJ HSRIP needs next year. For a comparison of commercial and GSA lease rates for the common vehicles leased to support the NJ HSRIP, see Figure 3.

Figure 3. Difference Between Commercial and GSA Monthly Lease Rates for Common Vehicles Assigned to NJ HSRIP



Source: OIG analysis of the company's December 2015 Maximo data and GSA's Fiscal Year 2015 vehicle lease rates

The director of the Automotive division told us that GSA vehicles were not available in fall 2013 when Engineering obtained most NJ HSRIP vehicles. He stated that GSA did not have the number of vehicles needed with the required specifications, or could not provide them in the timeframe needed to support the program. However, in 2011, the Federal Railroad Administration awarded the company a grant to fund the NJ HSRIP, providing a two-year window sufficient for NJ HSRIP project managers to anticipate basic vehicle needs, submit timely requests, and obtain GSA vehicles.

Some of the vehicles under commercial lease are not offered by GSA; however, 14 are standard utility trucks,[4] a staple of GSA's inventory. We noted that the company leases 530 standard utility trucks from GSA for use in various track maintenance and repair

[4] Standard refers to vehicles that are not fitted with cranes or HyRail equipment.

operations company-wide, yet GSA provided none of the 14 standard utility trucks leased for the NJ HSRIP.

For 24 vehicles leased at higher costs to support the NJ HSRIP, the company's written justification includes the statement that the project is "reimbursable," which means the lease costs would be covered by the NJ HSRIP grant, not by the company's operating budget. However, high vehicle costs contribute to the NJ HSRIP's growing cost overruns and reduced project scope; both outcomes will ultimately affect the company's long-term financial position. The NJ HSRIP grant amount is fixed; therefore, the company must fund any overruns. Additionally, a reduced NJ HSRIP scope could undermine plans to increase service capacity and meet rising demand for high-speed service in the Northeast Corridor.

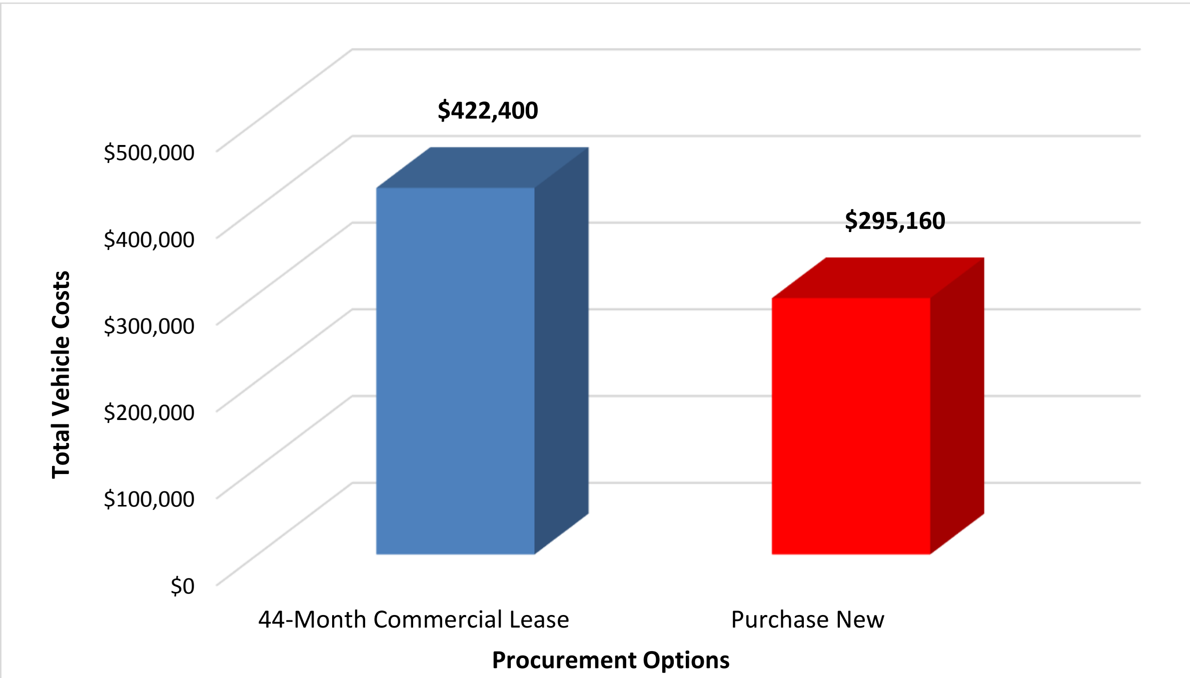
Purchasing Vehicles Instead of Leasing Could Have Resulted in More Than $127,000 in Cost Savings

The company could have saved money by purchasing—rather than leasing—some NJ HSRIP vehicles. Many of the vehicles leased for the NJ HSRIP were assigned to the project in late 2013 and have leases that run through the project's targeted completion in mid-2017.[5] Given the total duration of these leases, it would have been more economical to have purchased some of the vehicles from the start.

For example, the company leased 8 Chevrolet 2500HD utility trucks beginning in November 2013 and later extended these leases through July 2017, for a total of 44 months. At $1,200 a month, the total cost over the life of each lease will be $52,800. By comparison, the company could have purchased the same vehicles new in November 2013 for $36,895 apiece, according to data provided by the Automotive division. Purchasing all eight vehicles would have saved the company an estimated $127,240 if the company had conducted an analysis based on utilizing the vehicles through the expected length of the project. For the estimated projected costs associated with purchasing or leasing these vehicles, see Figure 4.

[5] The NJ HSRIP grant expires on June 30, 2017; no funds can be drawn on the grant beyond that date. If the project is not completed by that date, the company must identify an alternative source of funds to support remaining project costs.

Figure 4. Comparison of Total Projected Costs for Eight Chevrolet 2500HD Utility Trucks, by Procurement Option



Source: OIG analysis of the company's December 2015 Maximo data and purchase data provided by the Automotive division

The leases for these eight utility trucks were most recently renewed in November 2015 to extend through July 2017. As part of this lease justification, the company performed a lease-vs-purchase analysis that showed that purchasing the vehicles at this point in the project would not be the most cost-effective option. However, current NJ HSRIP managers told us that, in retrospect, purchasing these vehicles at the project's start would have been more cost-effective than leasing. For a photo of the commercially leased utility trucks, see Figure 5.

Figure 5. Chevrolet 2500HD Utility Trucks Leased for $1,200 Each, per Month

Source: TNT Equipment Sales & Rentals Facebook page dated November 20, 2013

Borrowing an Idle Company-Owned Vehicle Could Have Saved $9,500 in Monthly Lease Costs

In December 2015, the company signed a lease requiring it to pay $9,500 per month through June 2017 for a specialty vehicle to perform overhead electrical work on the NJ HSRIP rather than using an idle company-owned vehicle. In March 2015, NJ HSRIP project managers identified what they believed was an idle crane truck assigned to Engineering's Buildings and Bridges division, but were told by Engineering department officials that the vehicle was not available. Fuel purchase records from January 2014 to December 2015 showed that the vehicle in question had been fueled just twice in two years—an indication that utilization of this vehicle has been minimal. In January 2016, an Engineering department manager told us that the company has future plans to use the vehicle on the Empire corridor for "continued production and [to] fulfill requirements of planned maintenance and capital projects."

To fill its need, the NJ HSRIP is leasing a vehicle at a monthly cost of $9,500 through May 2017, for a total projected cost of $171,000. If the company vehicle had been made available to the project during its period of no/low utilization, the length of this lease could have potentially been shortened, or the lease may have been altogether unnecessary. For a photograph of the leased vehicle, see Figure 6.

Figure 6. Specialty Vehicle Leased to Support NJ HSRIP Overhead Electrical Work

Source: TNT Equipment Sales & Rentals, Inc. website

CONCLUSIONS

Our prior work on oversight of the NJ HSRIP and our current observations on the management of vehicles assigned to this project indicate that the company could have exercised more effective fiscal stewardship of federal grant funds. Planning weaknesses and a lack of effective vehicle management controls have resulted in costly commercial leases and missed opportunities to conserve funds by obtaining vehicles from more economical sources, purchasing new vehicles, and more effectively utilizing existing company vehicles. All three alternatives would likely have resulted in cost-savings over the life of the NJ HSRIP, freeing up funds to meet other project needs.

The company is in the process of evaluating alternatives for improving vehicle management company-wide. As you consider changes to the automotive management function, we suggest that you look closely at ways to exercise stronger and more effective fiscal controls over all publicly funded projects under company control, including those funded through special grants or external sources. We further suggest that you consider the extent to which current NJ HSRIP vehicle costs can be reduced as discussed in this report.

MANAGEMENT COMMENTS AND OIG ANALYSIS

We requested that the company provide comments on a draft of this report. In written comments, the Vice President/Chief Procurement and Logistics Officer responded, stating that the company agrees with our observations. He indicated that the company would address our observations through an action plan developed in response to our previous report and by continuing to work with other end users. This plan is still in process, and we will continue to monitor Amtrak's progress in meeting plan milestones and addressing issues raised in this and prior reports. Appendix B contains management's complete letter of comment.

Appendix A

SCOPE AND METHODOLOGY

This Management Advisory Report provides our observations about the company's management of vehicles on the NJ HSRIP. The information we are providing supplements our October 16, 2015 report on vehicle fleet management.[6] Our reporting objective was to provide observations on the effectiveness of certain vehicle fleet management practices on the NJ HSRIP. Our scope of work included 54 vehicles assigned to the program, of which 38 were commercially leased, as of December 15, 2015. We performed our work from December 2015 through February 2016.

Our methodology included reviewing and analyzing vehicle records in the company's Maximo database, an automated asset management system. We also reviewed procurement documentation in the eTrax automated system.[7] We did not verify the accuracy of the data reported by these systems; however, we verified that our methodology for extracting data was consistent with protocols used by Engineering staff. Using this data, we compared current vehicle lease rates with FY 2015 General Services Administration rates and the price of comparable new vehicles provided by the Automotive division.

We interviewed officials in the Finance department, which includes the Office of Procurement and Materials Management and its Automotive division. We interviewed Engineering department officials in the NJ HSRIP office and conducted selected testing of vehicle fuel records using Audit Command Language, a specialized data analysis tool.

We conducted this analysis in accordance with standards we developed for alternative products.

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[6] Amtrak OIG, *Asset Management: Observations on Vehicle Fleet Management*, OIG-MAR-2016-001, October 16, 2015.

[7] eTrax is the automated system the company uses to process requisitions, payments, and other administrative processes requiring approval.

Internal Controls

We did not review the company's management controls over its vehicle fleet or systems used to track and report data on vehicle procurement, management, utilization, and other metrics. Therefore, our observations apply to the specific management practices we address in the report and not the overall system of controls.

Computer-Processed Data

We relied on computer-processed data in Maximo. We did not verify the accuracy, completeness, or reliability of these data, but we did assess the data to determine their suitability for our analyses. Although we noted that data appeared to be missing in some Maximo fields, all data fields used in our analysis appeared complete. Based on tests we conducted, we concluded that the data were sufficiently reliable for reporting observations about the company's management of its NJ HSRIP vehicles.

Prior Reports

In conducting this work, we reviewed the following Amtrak OIG reports:

- Amtrak OIG, *Asset Management: Observations on Vehicle Fleet Management* (OIG-MAR-2016-001, October 16, 2015)

- Amtrak OIG, *Acquisition and Procurement: New Jersey High-Speed Rail Improvement Program has Cost and Schedule Risks* (OIG-A-2015-012, June 17, 2015)

Appendix B

COMMENTS FROM AMTRAK'S MANAGEMENT

Memo

Date:	February 10, 2016	From:	BGR Bernard Reynolds, Vice President & Chief Procurement & Material Management
To:	Edward Stulginsky Deputy Assistant Inspector General, Audits	Department:	Finance
		Subject:	***Asset Management:*** *Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management*
		cc:	DJ Stadtler, Executive Vice President, Chief Operations Officer Matthew Gagnon, Senior Director, Amtrak Controls Gerald Sokol Jr., Executive Vice President/Chief Financial Officer

This memorandum provides Procurement & Logistics' (P&L) response to the OIG Draft Management Advisory Report for Project 007-2016, January 21, 2016: "Asset Management: *Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management.*"

This report does not contain OIG recommendations but rather provides additional observations pertaining to a previous report regarding this subject matter.

Observation #1:
Opportunities may still exist for the company to save as much as $212,000 per year on NJ HSRIP by leasing common vehicles such as pick-up and utility trucks from the General Services Administration (GSA). Of 38 vehicles that the company is commercially leasing for the NJ HSRIP, 26 are available through GSA's federal fleet program at significantly lower costs than the commercial leases. The potential for saving is dependent upon the terms of the existing leases and availability of GSA vehicles.

Management Response/Action Plan:
Management agrees with the observation.

These opportunities are being addressed in the Action Plan responses to the Management Advisory Report of October 2015. GSA is the first choice for all vehicle requirements. Unfortunately, GSA may not have the required vehicles available for Amtrak. Obtaining a GSA vehicle can be a long process that can take up to a year to complete. Additional vehicle availability is driven by GSA budget requirements, other federal agency vehicle requirements, and executive orders for alternatively fueled vehicles.

When NJHSR requisitioned the lease of the required vehicles, there was one GSA vehicle available. Since that time four GSA vehicles have been added to the HSR fleet.

Total NJHSR fleet is 55 vehicles.

- 13 are Amtrak owned
- 5 are under GSA agreement
- 7 are unique equipment, not available from GSA
- 30 are non-GSA

When a requisition is submitted for GSA vehicles the Automotive Fleet Officers immediately start searching GSA for any available trucks utilizing a listing (VAT) of used vehicles. They then utilize the relationships developed with the local GSA fleet service representatives to determine if there are any additional vehicles available that were not included in the initial listings.

If no GSA vehicles can be found to fill the requirement a commercial lease must be utilized. Procurement goes out by bid to fill the need.

Observation #2:
The company could have saved an estimated $127,240 by purchasing-rather than leasing-some vehicles on the NJ HSRIP. For example, the company is leasing 8 utility trucks for 44 months with an extended per-vehicle lease cost of $52,800. By comparison, the company could have purchased the same vehicles new at a per-vehicle purchase price of $36,895. In November, when the leases were extended, the company performed a lease-vs-buy analysis, which indicated that at this point it is not cost-effective to purchase the vehicles.

Management Response/Action Plan:
Management agrees with the observation.

Longer term financial and project planning would allow funds to cross fiscal years in order to save money on the purchase of vehicles. P&L has and will continue to assist Amtrak's various departments by conducting lease vs buy analyses in order to help the end user make the most prudent financial decisions possible.

Observation #3:
The company is paying $9,500 per month to commercially lease a vehicle to support overhead electrical work because it was not able to borrow an idle company-owned vehicle from another engineering unit.

Management Response/Action Plan:

Management agrees with the observation.

The above observation will be addressed by the Fleet Governance Council being established in response to the Management Advisory Report of October 2015. Please be advised that Amtrak Engineering did not release the equipment due to imminent project commitments.

Observation #4:
For 24 vehicles leased at higher cost to support the NJ HSRIP, the company's written justification includes the statement that the project is "reimbursable," meaning that their costs would be covered by the NJ HSRIP grant, not by the company's operating budget.

Management Action Plan:
Management agrees with the observation.

Amtrak regards itself as a steward of tax payer dollars and as such takes this responsibility seriously. Procurement & Logistics follows the same processes and procedures for all procurements regardless of who the end user is. In this case, the NJ HSRIP's timeline and project schedule required that these leases be executed in a time sensitive fashion. Many times the tradeoff for such a requirement is an increase in cost, as many of these vehicles were not readily available through GSA.

Appendix C

ABBREVIATIONS

GSA	General Services Administration
NJ HSRIP	New Jersey High Speed Rail Improvement Project
OIG	Amtrak Office of Inspector General
the company	Amtrak

Appendix D

OIG TEAM MEMBERS

Leila Kahn	Senior Director
J.J. Marzullo	Senior Audit Manager
John Borelli	Senior Auditor
Andy Mollohan	Auditor

OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

OIG MISSION AND CONTACT INFORMATION

Mission	The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.
Obtaining Copies of Reports and Testimony	Available at our website: www.amtrakoig.gov.
Reporting Fraud, Waste, and Abuse	Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous): Web: www.amtrakoig.gov/hotline Phone: 800-468-5469
Contact Information	**Steve Lord** **Assistant Inspector General, Audits** Mail: Amtrak OIG 10 G Street NE, 3W-300 Washington D.C., 20002 Phone: 202-906-4600 Email: Stephen.Lord@amtrakoig.gov