

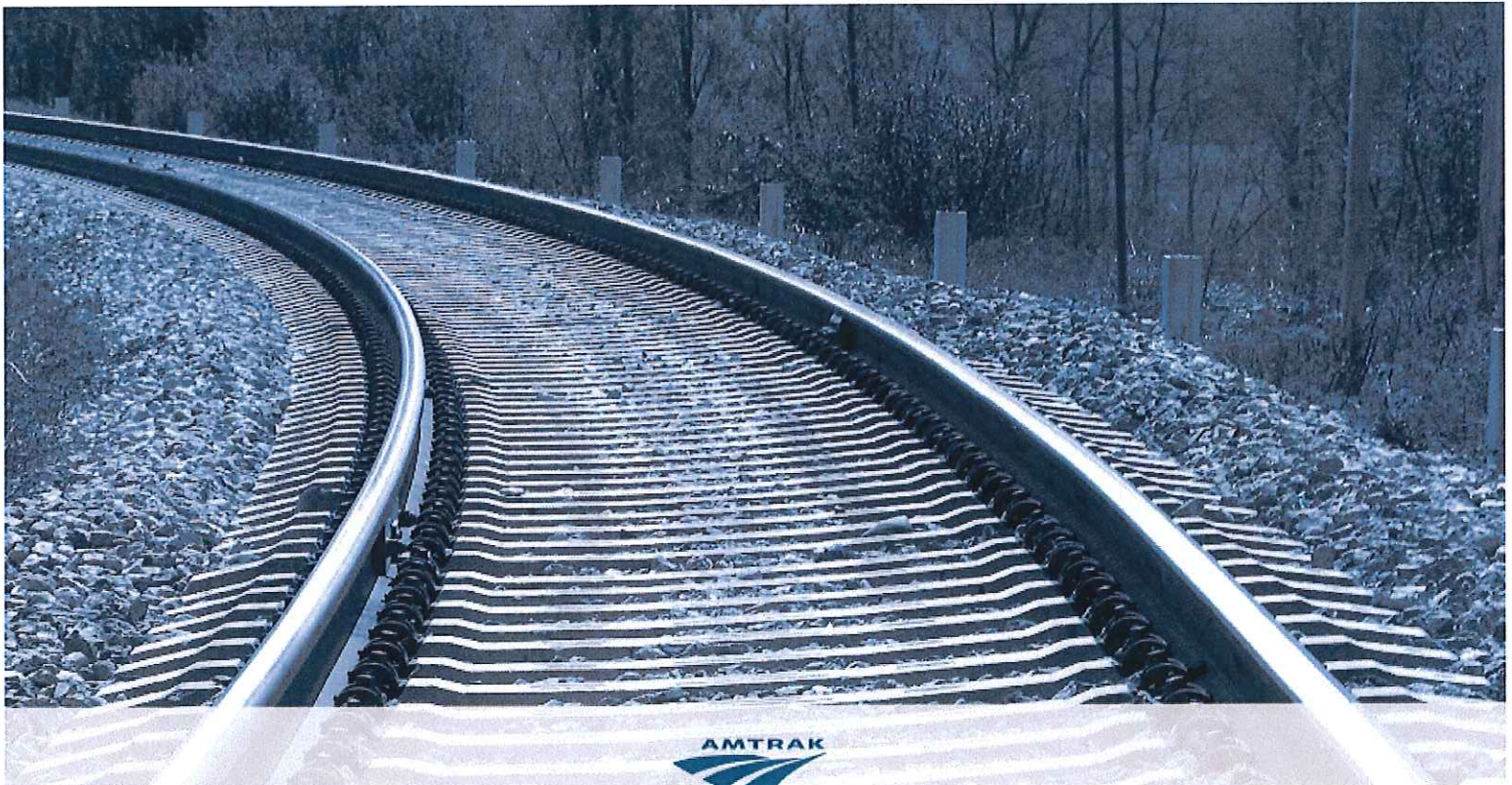


**AMTRAK** | Office of  
Inspector General  
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## Quality Control Review:

Amtrak's Independent Public Accountant Met Applicable Auditing Standards for the Fiscal Year 2012 Audit of the Consolidated Financial Statements

OIG-A-2013-004 | February 1, 2013







## Memorandum

**To:** Anthony Coscia, Chairman, Audit and Finance Committee,  
Amtrak Board of Directors  
Gordon Hutchinson, Acting CFO and Controller

**From:** Ted Alves



**Date:** February 1, 2013

**Subject:** *Quality Control Review: Amtrak's Independent Public Accountant Met Applicable Auditing Standards for the Fiscal Year 2012 Audit of the Consolidated Financial Statements (Report No. OIG-A-2013-004)*

On July 17, 2012, the National Railroad Passenger Corporation (Amtrak) contracted with the independent certified public accounting firm of Ernst & Young LLP to audit Amtrak's consolidated financial statements as of September 30, 2012, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations and other matters. Amtrak's receipt of federal funding assistance requires it to obtain an audit performed in accordance with generally accepted government auditing standards.

Under the authority of the Inspector General Act of 1978, as amended, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards. However, we did not perform sufficient procedures to express assurance on Ernst & Young's audit work over Amtrak's information systems. The key aspects of the Ernst & Young report are discussed below.

In its audit of Amtrak's consolidated financial statements, Ernst & Young concluded that the consolidated financial statements fairly presented, in all material respects, the consolidated financial position of National Railroad Passenger Corporation and subsidiaries at September 30, 2012, and the consolidated results of their operations, and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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Ernst & Young found two significant deficiencies in internal control over financial reporting, but determined that they were not material weaknesses:

1. *Capital Lease Documentation and Analysis.* Capital lease amortization schedules were not properly reviewed before recording monthly entries. Amtrak relied on amortization schedules produced several years ago, using an information technology system that was no longer in service; the schedules did not comply with accounting standards.
2. *Deferred Tax Calculation.* Assets acquired since 1998 with capital grant funds had zero tax basis and Amtrak had not properly accounted for deferred taxes related to the book and tax basis differentials in accordance with accounting standards. This resulted in misstatement of the deferred tax liability and valuation allowance accounts.

Ernst & Young determined that the significant deficiencies identified during the audit of Amtrak's Fiscal Year (FY) 2011 consolidated financial statements had been remediated during FY 2012. The audit of the FY 2011 statements was performed by another certified public accounting firm, whose performance we did not monitor.

Our involvement in the FY 2012 audit process consisted of reviewing Ernst & Young's report and related documentation, monitoring audit activities, reviewing auditor independence and qualifications, attending meetings, and reviewing audit planning, testing, and summary workpapers and reports, except for Ernst & Young's audit work over Amtrak's information systems. In that case, we limited our involvement to reviewing planning and summary documents and verifying that audit workpapers were reviewed and approved in accordance with Ernst & Young's quality control policies.

Our monitoring activities, as differentiated from an audit in accordance with generally accepted government auditing standards, were not intended to enable us to express an audit opinion. We do not express an opinion on Amtrak's consolidated financial statements or conclusions about the effectiveness of internal controls and compliance with laws and regulations. Ernst & Young is responsible for its reports dated December 21, 2012, and the conclusions expressed in the reports.

We appreciate the courtesies and cooperation that representatives of Amtrak and Ernst & Young extended to us during this review. If you have any questions, please contact me ([Ted.Alves@amtrakoig.gov](mailto:Ted.Alves@amtrakoig.gov)) or David R. Warren, Assistant Inspector General, Audits ([David.Warren@amtrakoig.gov](mailto:David.Warren@amtrakoig.gov)) at [202.906.4600](tel:202.906.4600).



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<b>Amtrak OIG's Mission</b>	<p>The Amtrak OIG's mission is to</p> <ul style="list-style-type: none"><li>• conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to Amtrak programs and operations;</li><li>• promote economy, effectiveness, and efficiency within Amtrak;</li><li>• prevent and detect fraud, waste, and abuse in Amtrak's programs and operations; and</li><li>• review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.</li></ul>
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