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# ANNUAL FINANCIAL STATEMENT AUDITS:

Observations for Improving Oversight of the Independent  
Public Accountant

Report No. OIG-A-2012-017 | September 27, 2012





## The Inspector General

# Memorandum

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

**From:** Ted Alves 

**Date:** September 27, 2012

**Subject:** *Annual Financial Statement Audits: Observations for Improving Oversight of the Independent Public Accountant (Report No. OIG-A-2012-017)*

Fiscal year 2011 represented the first year of Office of Inspector General (OIG) monitoring of Amtrak's and the independent public accountant's (IPA) performance regarding the annual financial statement and compliance audits. This report provides the results of our work. Effective oversight of the IPA and the audit process can help ensure a high-quality audit and the efficient and effective use of company resources. High-quality audits can result in recommendations for immediate improvements in the company's financial accounting systems and internal controls, increase accountability over company programs, provide timely and accurate reporting of noncompliance with laws and regulations, and ensure the reliability of financial records and reports used by the Congress, the Amtrak Board of Directors, and federal funding agencies in making funding and administrative decisions affecting Amtrak operations. Long-term improvements can also aid public confidence in the company.

During the course of the audit, the OIG brought items to the Audit and Finance Committee's and management's attention concerning best practices for overseeing the work of the IPA. In March of this year we provided management with our observations on best practices that could improve the IPA contract solicitation documents and IPA-specific procurement guidance. This report adds our observations and information on best practices in the areas of contract administration and audit facilitation. Further, in May we provided the Chairman of the Audit and Finance Committee with information on best practices regarding oversight of the IPA for the Audit and Finance Committee's

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consideration. The detailed results of our work are presented in Appendices II, III, and IV of this report, and are summarized below.

Our objectives were to (1) gain an understanding of the company's contract solicitation, administration, facilitation, and oversight activities as they relate to the IPA; and (2) identify best practices for the Audit and Finance Committee's and management's consideration in overseeing the IPA and the audit process. For a discussion of our scope and methodology, see Appendix I.

## **SUMMARY OF RESULTS**

### ***Management Best Practices***

While management carried out its responsibilities for overseeing the audit process in a generally effective manner, we identified opportunities for improvement in the following areas as they relate to the IPA: (1) contract solicitation documents, (2) proposal evaluation, (3) contract administration, (4) audit facilitation, and (5) specific procurement guidance. As our work progressed, we shared our best practices suggestions with management, which has already implemented or is in the process of implementing many of them. The following sections summarize best practices for each of the five areas.

**(1) Contract Solicitation Documents.** Our review of contract solicitation documents provided to offerors on April 27, 2012, showed that management fully incorporated the best practices information we provided in March 2012, while preparing to re-compete the IPA contract. Management's actions to implement the best practices for the IPA contract solicitation documents are summarized below, including the *Request for Proposal—Instructions to Offerors* (RFP), *Statement of Work* (SOW), and contract provisions.

- *The RFP* was enhanced by requiring offerors to provide information such as the relevant experience of the office performing the audit, professional references for key personnel, use of technical experts, and information on subcontractors' qualifications and independence. These data would provide management with information needed to evaluate offerors' qualifications and ability to perform all required audit services.

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- *The SOW* was augmented to provide information on the complexity and risks of the company and on management's expectations of the contractor, including deliverables and timelines that would better ensure acceptable audit progress.
- *Contract provisions* were revised to remove impairments to the IPA's independence. Prior to revision, contract provisions provided management with the ability to (1) dictate who would perform audit procedures by removing any member of the IPA audit team at any time for any reason; (2) interfere with the IPA selection or application of audit procedures, thus impairing the integrity of the current and future-year audits; and (3) negotiate with the IPA to obtain a favorable audit opinion.

**(2) Proposal Evaluation.** Based on best practices information we provided to Amtrak in March 2012, management developed steps to implement best practices related to proposal evaluations. Our discussions with management and review of preliminary documents indicate that Amtrak took steps to implement best practices related to pre-screening proposals, defining evaluation criteria and providing evaluation guidance, holding oral presentations, and benchmarking audit fees. The following section summarizes the best practices identified in the proposal evaluation area.

- *Technical evaluations* could be improved in the areas of pre-screening offerors, defining evaluation criteria and providing evaluation guidance, oral presentations, and evaluating subcontractors. Specific best practices include:
  - *pre-screening proposals* to ensure that only offerors meeting minimum standards are subject to detailed evaluation;
  - *defining evaluation criteria in writing* and providing guidance to the evaluation team to assist it in applying technical evaluation criteria to proposals;
  - *requiring the most technically qualified offerors to make oral presentations* to the evaluation team or the Audit and Finance Committee, to provide a further basis on which to assess offerors' key personnel assigned to the engagement and provide the offerors an opportunity to differentiate themselves from other offerors; and

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- *improving subcontractor evaluations* by reviewing their qualifications and independence. Best practices suggest that subcontractors conducting substantive work, such as the audit of Passenger Railroad Insurance, Limited,<sup>1</sup> should be evaluated against the same criteria used to evaluate the prime contractor.
- *Price evaluations* could be improved by benchmarking the proposed audit fees against the current market price for audits of companies of comparable size and complexity to determine the competitive range. Proposers providing an unrealistically low or high bid may reflect a lack of understanding of the audit requirements, which could result in additional audit fees later or could put significant pressure on the auditor when determining an appropriate audit scope for adequately addressing the higher risk areas.

**(3) Contract Administration.** Based on our discussions with management throughout the fiscal year 2011 audit process, the company has taken steps to implement best practices related to contract administration. For example, best practices included in the SOW for the IPA solicitation will enable management to hold the contractor accountable for meeting specific progress milestones and due dates for deliverables. We identified additional best practices in the contract administration areas of identifying and resolving problems promptly, training for the contracting official's technical representative (COTR) and task monitor, and ensuring consistency in applying the contract administration process.

- *Identifying and resolving problems concerning IPA compliance* with contract terms and meeting performance expectations could be improved. This can be accomplished by developing a clear understanding among the contracting official (CO), COTR, and task monitor on how they will work together and, further, ensuring that any potential or actual problems with the contractor's performance, changes in the scope of work, or noncompliance with contract terms are communicated to the CO to develop an action plan for addressing the situation and promptly communicating it to the contractor. Another best practice is for the CO to hold periodic meetings with the responsible contractor representative, COTR, and task monitor, to discuss the contractor's performance and other matters of concern. Additionally, maintaining a

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<sup>1</sup> Passenger Railroad Insurance, Limited, a wholly-owned subsidiary of Amtrak, incorporated in 1996 under the laws of Bermuda to provide excess liability and property insurance coverage to Amtrak.

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separate COTR file of the contractor's job progress and problems as they occur would be helpful in resolving issues with the contractor's performance.

- *Providing the COTR and task monitor with training* specific to managing contracts would strengthen the contract administration process. This specialized training would help ensure that the COTR and task monitor are properly prepared and understand their roles, responsibilities, and authority for managing the technical performance of a contract. According to management, Amtrak procurement officials provided the task monitor with an overview of COTR roles and responsibilities; however, formal COTR training would increase the likelihood that the COTR and task monitor will monitor contracts reliably by giving these officials appropriate background knowledge related to contracts.
- *Developing a contract administration plan* helps ensure consistency in understanding and applying the contract administration process, and is a roadmap for ensuring that contactors comply with contract terms and performance expectations. Such a plan would also add assurance that any problems are identified and resolved promptly. A contract administration plan frames the who, what, when, where, and how of the contract.

**(4) Audit Facilitation.** According to management, the company has fully implemented or has taken steps to implement the best practices we recommended related to audit facilitation. For example, Amtrak implemented our recommendation to utilize *SharePoint* to manage document requests from the IPA, and best practices included in the SOW will strengthen the structure of weekly status meetings and require the IPA to issue notices of findings and recommendations throughout the audit. We identified best practices for improvement in audit facilitation in the areas of managing the IPA's requests for information (prepared by client-PBC-documents), strengthening the structure of weekly status meetings, using notices of findings and recommendations, and holding lessons-learned meetings. A summary of the best practices in these areas follows.

- *Managing the IPA's PBC requests* was improved by utilizing the *SharePoint* application to house and track information provided to the contractor. Management implemented this recommendation early in the FY 2011 audit process and plans to continue to use *SharePoint* to manage PBC requests for the FY 2012 audits.

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- *Restructuring the weekly audit status meetings* between the IPA and Amtrak staff could strengthen two-way communication between management and the contractor to focus on audit progress, audit issues, delays in PBC requests, and difficulties encountered by the audit team. The company could also use these meetings to keep the contractor abreast of significant activities, changes in company leadership, and issues that may affect the audit process, such as turnover of key company executives or significant new company initiatives and transactions.
- *Using written notices of findings and recommendations* issued by the contractor during the audit would help facilitate the prompt resolution of any disagreements with the facts or recommended corrective actions, and allow management time to understand the issues and determine whether the auditors have all relevant information.
- *Conducting lessons-learned meetings* could enhance the efficiency and effectiveness of future years' audits by identifying areas for improvement in the past year's audit process so issues could be appropriately addressed prior to the next year's audit.

**(5) IPA-Specific Procurement Guidance.** In March 2012 we provided management and the Audit and Finance Committee with best practice information to strengthen Amtrak's policies and procedures for acquiring and overseeing external independent audit services by incorporating specific considerations and requirements necessary to meet professional auditing standards and obtain a high-quality audit. Specifically, Amtrak's policies and procedures for acquiring IPA services do not include requirements for the CO or COTR to pre-screen offerors, verify prime and subcontractor independence and qualifications, evaluate the contractor's quality control system, evaluate price proposals based on audit fee benchmarks, develop an understanding between the procurement office and the Chief Financial Officer's (CFO) office for how they will work together to administer the IPA contract, or develop a contract administration plan. According to management, Amtrak is evaluating whether to develop policies and procedures for the contract administration plan best practice.

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### ***Audit and Finance Committee Best Practices***

We reviewed best practices from several organizations, including the American Institute of Certified Public Accountants (AICPA) and large public accounting firms, and identified practices that the Audit and Finance Committee could consider for strengthening its oversight of the IPA. Examples of best practices for audit committees are presented below and discussed in detail in Appendix IV.

We provided this list of best practices to the Audit and Finance Committee in a May 4, 2012, letter to the Audit and Finance Committee Chairman, and believe that the Audit and Finance Committee is already utilizing many of them, such as playing an active role in approving additional audit fees and discussing the IPA's performance during fiscal year 2011 with the engagement partner after the audit.

Best practices for audit committees includes:

- Using a comprehensive charter matrix to ensure the committee meets all responsibilities and duties outlined in its committee charter.
- Including in audit committee charters a provision to oversee the IPA procurement process.
- Benchmarking audit fees against those of other comparable entities to ensure the reasonableness of the fees.
- Establishing a direct relationship with the IPA to meet oversight responsibilities.
- Reviewing the audit scope and plan with the IPA, management, and the OIG, to ensure completeness of coverage.
- Approving changes in important accounting principles and their applications in financial reports.
- Reviewing all audit reports issued by the IPA prior to approving their release to the public, government agencies, or other third parties.
- Reviewing all material written communications between the IPA and management.



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- Assessing the steps management has taken or proposes to take to minimize significant financial risks, and periodically reviewing the extent to which management has implemented those steps.
- Participating in the oversight of the employee benefit plan audits because a high level of fiduciary responsibility for the administration of the employee benefit plan remains with the plan sponsor.

## **CONCLUSIONS**

The Audit and Finance Committee and management have already implemented or have taken significant steps to implement most of the best practices we identified. These actions will enhance the oversight of the fiscal year 2012 financial statement audit.

## **RECOMMENDATIONS**

To improve the Audit and Finance Committee's and management's oversight of the IPA and the audit process, we recommend that

The Audit and Finance Committee, Amtrak Board of Directors,

1. approve the guidance developed in response to recommendation 5 as part of its role to oversee the external auditors. The Audit and Finance Committee should review the guidance prior to each audit service solicitation and revise it, as necessary, to ensure that it is consistent with current industry best practices; and
2. review and select for implementation, as appropriate, the best practices presented in Appendix IV.

The Acting Chief Financial Officer and Controller

3. complete implementation of the best practice suggestions identified as *Implementation in Progress* in Appendices II and III;

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4. provide more comprehensive training for the COTR and task monitor to ensure that they understand their roles, responsibilities, and authority for managing the technical performance of a complex service contract; and
5. develop guidance for the IPA procurement that addresses the unique requirements for procuring external independent audit services. The guidelines should incorporate best practices for preparing solicitation documents, establishing selection criteria, performing proposal evaluations, and analyzing audit fees. The guidance should also describe management's process for administering the contract and facilitating the audit.

## **MANAGEMENT AND AUDIT AND FINANCE COMMITTEE COMMENTS AND OIG ANALYSIS**

In commenting on a draft of this report, the Chairman, Audit and Finance Committee, and the Acting CFO and Controller stated that management and the Audit and Finance Committee are committed to implementing the necessary best practices suggested by the OIG in order to strengthen the company's procedures related to the facilitation and oversight of the annual financial statement audit process. As discussed below, the Chairman and the Acting CFO agreed with all recommendations.

With regard to recommendation 1, the Audit and Finance Committee agreed with the recommendation and stated that it had reviewed and approved the guidance for procuring external independent audit services; the Audit and Finance Committee will ensure that management periodically reviews the guidance and revises it as necessary to incorporate industry best practices. Recommendation 1 also stated that the guidance also describe management's process for administering the contract and facilitating the audit. Management's response did not specifically address this part of the recommendation. Concerning recommendation 2, the Audit and Finance Committee agreed, and stated that it had taken the appropriate action necessary to review and implement the best practices identified within Appendix IV of this report.

Management agreed with recommendations 3, 4, and 5. Regarding recommendation 3, management stated that it had taken or will take the appropriate action to implement the best practices identified within Appendices II and III of this report. Concerning recommendation 4, management concurred with the recommendation to offer a more

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in-depth training program that would provide the appropriate level of attention to the vital role of the COTR, and will determine by September 30, 2012, whether this new program should be offered in-house or be presented by an outside firm specializing in this type of education. With regard to recommendation 5, management prepared and presented to the Audit and Finance Committee for its review and approval, guidelines that incorporate best practices for preparing solicitation documents, establishing selection criteria, performing proposal evaluations, and analyzing audit fees that will be utilized for IPA services.

We are encouraged by the Chairman's and management's described actions. Consistent with our standard process, we will follow up to assess the Audit and Finance Committee and management's progress in implementing this report's recommendations during our work on the FY 2012 financial statement audit.

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## Appendix I

### SCOPE AND METHODOLOGY

The objectives of this performance audit were to (1) gain an understanding of the company's contract solicitation, administration, facilitation, and oversight activities as they relate to the IPA; and (2) identify best practices for the Audit and Finance Committee's and management's consideration in overseeing the IPA and the audit process. We performed our work from March, 2011 through August, 2012.

We interviewed the former chairperson of the Audit and Finance Committee; the former CFO; the Acting CFO and Controller (who is also the COTR); the CO; the Senior Director, Internal Controls/Audits (who is also the task monitor); and members of the technical evaluation committee for the FY 2011 contract award. We also met with senior directors, directors, managers, and other representatives from the finance and procurement offices in Washington, D.C., and Philadelphia. We reviewed the IPA contract file and IPA solicitation documents for procuring the IPA for the FY 2011 and FY 2012 audits.

We attended meetings between the company and IPA audit staff; IPA presentations to the Board; and Audit and Finance Committee meetings. We also monitored e-mail correspondence between management and IPA audit staff, and attended site visits with IPA staff, including at Bear and Boulden in Wilmington, Delaware; Indianapolis; and Groton and Southbury, Connecticut.

We consulted with the Government Accountability Office's (GAO) technical assistance office, the AICPA Professional Ethics Division, and the AICPA Professional Ethics Executive Committee on matters related to auditor independence and compliance with government auditing standards and generally accepted auditing standards.

To identify industry best practices, we researched and identified best practices and guidance from public accounting firms, the Council of the Inspectors General on Integrity and Efficiency and GAO, and current practices from other OIG offices on solicitation of external independent audit services, administration of the IPA contract, facilitation of the audit process, and audit committee best practices for overseeing the IPA to ensure audit quality. We identified 43 sources for best practices, which are listed

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in Appendix IV. We also interviewed representatives from 11 OIG offices responsible for overseeing the IPA and the audit process to gain an understanding of their current practices for overseeing the IPA and the financial statement audit. Finally, we reviewed sample documents from several OIG offices. We compared Amtrak's existing policies, procedures, and guidance with best practices, to determine how well they aligned.

We performed our audit work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit was not designed to enable us to express an opinion on the company's financial statements and we do not express any opinion on the company's financial statements.

## **Internal Controls**

Our review focused on activities used by the Audit and Finance Committee and management for performing oversight of the IPA and the audit process, which included contract solicitation, administration, facilitation, and oversight activities as they relate to the IPA. We addressed the controls related to each of these activities, but not management's overall system of controls for each activity.

## **Computer-Processed Data**

Due to the nature of the audit objectives and the audit methodology, we did not rely on computer-processed data during the audit.

## **Prior Coverage**

We reviewed the following audit reports and considered the information from those reports in developing our review approach:

*National Railroad Passenger Corporation and Subsidiaries (Amtrak) Single Audit Report, Year ended September 30, 2010 (with Independent Auditor's Report Thereon), February 18, 2011*

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*National Railroad Passenger Corporation and Subsidiaries (Amtrak) Consolidated Financial Statements and Independent Auditors' Report, For the Years Ended September 30, 2010 and 2009 (and independent auditor's report issued under auditing standards generally accepted in the United States), December 16, 2010*

*National Railroad Passenger Corporation and Subsidiaries (Amtrak) Consolidated Financial Statements and Independent Auditors' Report For the Years Ended September 30, 2010 and 2009 (and independent auditor's report issued under Government Auditing Standards issued by the Comptroller General of the United States), December 16, 2010*

*Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (and independent auditor's report), December 16, 2010*

*Penn Station Leasing, LLC Financial Statements September 30, 2010 and 2009 (and independent auditor's report), December 16, 2010*

*Passenger Railroad Insurance, LTD. Financial Statements September 30, 2010 and 2009 (with Independent Auditor's Report Thereon), December 16, 2010*

*Passenger Railroad Insurance, LTD Statutory Financial Statements for the year ended September 30, 2010 (and report of Chartered Accountants), December 10, 2010*

*Retirement Income Plan for the Employees of National Railroad Passenger Corporation, Financial Statements and Supplemental Schedules, December 31, 2009 and 2008 (with Independent Auditor's Report Thereon), September 24, 2010*

*Amtrak's Retirement Savings Plan for Agreement Employees, Financial Statements and Supplemental Schedules, December 31, 2009 and 2008 (with Independent Auditor's Report Thereon), July 29, 2010*

*National Railroad Passenger Corporation Savings Plan, Financial Statements and Supplemental Schedules, December 31, 2009 and 2008 (with Independent Auditor's Report Thereon), July 29, 2010*

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## Appendix II

# MANAGEMENT BEST PRACTICES FOR AUDIT OVERSIGHT FOR IPA SELECTION

*(Status of Recommendations Implemented through April 27, 2012)*

**Summary of status of best practice recommendations found in Appendices II and III):**

Number of best practices or recommendations applied/implemented	55
Number of best practice implementations in progress	15
Number of best practice evaluations in progress	<u>2</u>
<b><i>Total management best practices</i></b>	<b>72</b>

<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
<b>REQUEST FOR PROPOSAL—INSTRUCTIONS TO OFFERORS</b>	
<b>A. General provisions and considerations to include in the RFP—Instructions to Offerors Document</b>	
<p>1. Identify the minimum mandatory qualification that the auditor must meet in order to be included in the evaluation process, which should include the following:</p> <ul style="list-style-type: none"> <li>• The firm should provide a statement affirming that it meets the independence standard outlined in generally accepted government auditing standards with respect to the company;</li> <li>• The firm has a history of performing quality audits of comparable entities;</li> <li>• The firm and the key personnel are licensed to practice in the state or locality where the audit will be performed; and</li> <li>• The firm complies with peer review and continuing professional education standards, i.e., provide a copy of the latest peer review report.</li> </ul> <p>[Ref: 1, 2, 3, 4]<sup>3</sup></p>	Best practice applied <sup>4</sup>

<sup>2</sup> Based on OIG review of 2012 RFP solicitation documents issued and revised through April 27, 2012

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
2. Results of prior audits or availability of prior audit reports. [Ref: 1, 2, 3, 4]	Best practice applied
<b><i>B. A description of what offerors' should be required to address in their technical proposals</i></b>	
3. Describe how the offeror meets the minimum mandatory qualification as described in the instructions to offerors. [Ref: 1, 3]	Best practice applied
4. Describe the relevant experience of the offeror's local office performing the work, in addition to the experience of the firm as a whole. [Ref: 3, 4]	Best practice applied
5. Discuss whether the offeror has been the object of any disciplinary action during the past 3 years. [Ref: 3, 4]	Best practice applied
6. Discuss the level of staffing, by level, the offeror proposes to assign to the engagement, e.g., number of partners, senior managers, supervisory seniors, seniors, and staff auditors who will be assigned to the engagement and the amount of time dedicated for each person. [Ref: 2]	Best practice applied
7. Identify and provide professional references for all key personnel assigned to the audit team. If a subcontractor is used and the subcontractor will take responsibility for all aspects of performance and reporting of an audit area, key personnel should also include these subcontractors. [Ref: 1, 29]	Best practice applied
8. Affirm that key personnel proposed to be assigned to the engagement do not have a record of poor-quality work. [Ref: 1]	Best practice applied

<sup>3</sup> See Appendix V for list of references used to identify best practices.

<sup>4</sup> "Best Practice Applied" indicates that OIG's review of RFP solicitation documents showed that the best practice was applied to the RFP documents.



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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
9. Discuss the use of technical experts (i.e., statisticians, information systems experts) that the offeror plans to include as members of the audit team, and whether the offeror commits to maintaining continuity of technical experts. <b>[Ref: 2]</b>	Best practice applied
10. Discuss whether the offeror will use subcontractors and to what extent and what capacity. Offerors should provide sufficient information about all subcontractors in their technical proposals, so that the technical evaluation criteria can also be applied to the subcontractor. Offeror should also submit the most recent copy of the subcontractor's external peer review reports. <b>[Ref: 29]</b>	Best practice applied
11. Firms should be asked to describe in their proposals all work, including nonaudit services, they have done for the audited entity in the last several years. <b>[Ref: 8, 30]</b>	Best practice applied
<b>STATEMENT OF WORK</b>	
<b>C. General provisions and considerations to include in SOW</b>	
12. Overall objective of this statement of work. <b>[Ref: 2, 8]</b>	Best practice applied
13. Period of performance for the SOW. <b>[Ref: 1, 2, 8]</b>	Best practice applied
14. Extent to which company will provide administrative, work space, information technology (IT), or other support to contractor. <b>[Ref: 2]</b>	Best practice applied
15. Include requirements for the contractor to review other accompanying information containing auditing financial statements, e.g., review of Amtrak's Annual Report. <b>[Ref: 2]</b>	Best practice applied

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
16. Approximate dates records would be ready for audit. [Ref: 1]	Best practice applied
17. The COTR and a task monitor should be identified in the SOW.  (Note: Although the COTR is officially named in the contract, best practices suggest including the COTR and a task monitor in the SOW as well, as these individuals are responsible for oversight and day-to-day implementation of the SOW.) [Ref: 2, 8]	Best practice applied
18. Provide information and instruction to the contractor about obtaining security access badges and network access for audit team members working at Amtrak offices. [Ref: 2]	Best practice applied
19. Require contractor's audit staff to attend Amtrak's contractor safety training, as required by Amtrak policies and procedures. [Ref: 2, 8]	Best practice applied
<b><i>D. Provide information necessary for offerors to gain an understanding of the complexity and risks of the company and to assist offerors in determining the type and level of testing to be performed</i></b>	
20. Describe the company's mission, history, organizational structure, governance structures, and work, etc. [Ref: 1, 2, 8]	Best practice applied
21. Describe significant funding/revenue sources, including government funds. [Ref: 1, 2]	Best practice applied
22. Describe the accounting systems used, and list of other systems or applications that affect financial reporting and network systems. [Ref: 1, 2, 3, 4, 8]	Best practice applied
23. Describe the finance/accounting department structure and who has the responsibility for preparing each set of financial statements and the accounting principles under which financial statements are prepared. [Ref: 2, 8]	Best practice applied

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
24. Additional consideration for employee benefit plans to provide offerors with perspective on the magnitude and complexity of the plans; at a minimum, describe: type of plan, number of participants, total assets, location of personnel files and payroll, whether third-party service providers' control reports will be available. <b>[Ref: 7]</b>	Best practice applied
25. Additional considerations for single audits include providing information concerning federal funding; the cognizant federal audit agency; results of previous audits including the types of auditors' opinions rendered on the financial statements and compliance with federal laws and regulations, contracts and grants; previous audit findings, etc. This information is necessary for prospective proposers to gain an understanding of whether your organization may qualify for 'low-risk auditee' status, including a general understanding of the federal programs that may need to be audited as "major federal programs." <b>[Ref: 3, 4]</b>	Best practice applied
26. How and where accounting records are maintained, and description and magnitude of the entity's accounting records. <b>[Ref: 1, 2, 3]</b>	Best practice applied
27. Establishing a work schedule with specific dates by which certain milestones in the audit process must be reached, which at a minimum should include planning, internal control, substantive testing, reporting, and testing of the IT control environment. <b>[Ref: 1, 2, 4]</b>	Best practice applied
28. Include a schedule of deliverables with due dates. <b>[Ref: 2]</b>	Best practice applied
<b><i>E. Deliverables the contractor should provide</i></b>	
29. The contractor shall submit a list and resumes of every audit team member performing work under the SOW to the COTR for approval. <b>[Ref: 2, 8]</b>	Best practice applied

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
30. Contractor should be required to communicate all changes to the audit team to the COTR, prior to new audit staff performing any audit work under the SOW. <b>[Ref: 2, 4, 8]</b>	Best practice applied
31. Annual independence statement from the contractor to provide sufficient information for the COTR/OIG to assess and verify whether the contractor is independent. <b>[Ref: 2, 8]</b>	Best practice applied
32. The contractor should be required to provide Individual independence and confidentiality statements for each individual assigned to perform work under the SOW. <b>[Ref: 2, 8]</b>	Best practice applied
33. The contractor should be required to provide a Contractor's Quality Control Assurance Statement describing his/her quality control process. <b>[Ref: 2, 8]</b>	Best practice applied
34. The contractor should be required to provide continuing professional education records for each member or individual assigned to the work under the IPA contract. <b>[Ref: 2, 4, 8]</b>	Best practice applied
35. The contractor should be required to hold an entrance conference with company management and the OIG, with a milestone date for holding the meeting. Include due dates for providing meeting materials prior to the meeting. <b>[Ref: 8]</b>	Best practice applied
36. Provide due dates for providing the agenda and briefing materials for weekly status meetings and provide guidance on what the contractor should be prepared to discuss at the status meetings. <b>[Ref: 2, 8]</b>	Best practice applied

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
37. Require the contractor to hold an interim briefing with company management to discuss results of interim internal control and substantive testing, with a milestone date for holding the meeting. Include due dates for providing meeting materials prior to the meeting. <b>[Ref: 8]</b>	Best practice applied
38. Provide plans/dates for the contractor to meet with the Audit Committee and/or the Board. Include due dates for providing the presentation materials with sufficient time for inclusion in the mailing of the meeting materials provided to the Board prior to the date of the meeting. <b>[Ref: 8]</b>	Best practice applied
39. Require the contractor to hold an exit conference with company management and OIG prior to issuance of final reports and audit opinions, with a milestone date for holding the meeting. Include due dates for providing meeting materials prior to the meeting. <b>[Ref: 8]</b>	Best practice applied
40. Hold a <i>Lessons-Learned</i> meeting soon after completion of the audit to discuss what went well and what actions could be taken to improve the process in the next audit cycle. Include a milestone date for holding this meeting and require the contractor and key audit staff to attend. <b>[Ref: 8]</b>	Best practice applied
41. Include the contractor's PBC list as a deliverable and include due dates for providing the PBC list to company management. <b>[Ref: 8]</b>	Best practice applied
42. Utilize Notice of Findings and Recommendations to keep company management and OIG apprised of audit issues arising throughout the audit, rather than waiting until the end of the audit to resolve audit issues. <b>[Ref: 2, 8]</b>	Best practice applied
43. Include a Summary of Unadjusted Audit Differences schedule as a deliverable and include due dates for providing it to company management and OIG for review. <b>[Ref: 2, 8]</b>	Best practice applied

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
44. Include draft and final reports as deliverables and include due dates for providing them to company management and OIG for review. <b>[Ref: 2, 8]</b>	Best practice applied
45. Include draft and final management letter comments as deliverables and include due dates for providing them to company management and OIG for review. <b>[Ref: 2, 8]</b>	Best practice applied
46. Provide status of prior-year's recommendations. <b>[Ref: 2, 8]</b>	Best practice applied
47. Require the contractor to issue a letter addressing auditor's required communications to the Board and include due dates for providing it to company management and OIG for review. <b>[Ref: 24]</b>	Best practice applied
<b>CONTRACT<sup>5</sup> PROVISIONS</b>	
48. Use a payment schedule that is based on acceptance of deliverables or achieving audit milestones. The contractor will be required to submit monthly progress reports detailing how the contractor has met the required deliverable or milestone. <b>[Ref: 2, 8]</b>	Best practice applied
49. All reports rendered to the entity by the contracting auditor are the exclusive property of the entity and subject to its use and control, according to applicable laws and regulations. <b>[Ref: 3, 4]</b>	Best practice applied

<sup>5</sup> The term "contract" as used in this section refers to the Amtrak Services Contract General Provisions document.

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<p style="text-align: center;"><b>Best Practices</b></p> <p style="text-align: center;"><i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i></p>	<p style="text-align: center;"><b>Amtrak Status<sup>2</sup></b></p>
<p>50. Include a <i>Removal from Duty</i> clause describing behaviors considered to be misconduct or delinquency that will result in immediate removal of contractor employees. Examples of such behaviors include: neglect of duty, including sleeping while on duty; unreasonable delays, or failure to carry out assigned tasks; conducting personal affairs during official time; and refusing to cooperate in upholding the integrity of company's security program, etc. <i>(refer to recommendation to revise contractor language related to Contractor Personnel / Key Personnel #51 below).</i></p> <p><b>[Ref: 2]</b></p>	<p>Best practice applied</p>
<p>51. Contract section 11, <i>Contractor Personnel / Key Personnel</i>, subsection D:</p> <p><i>Observation.</i> The language in contract section 11.D allows Amtrak to require the contractor (IPA) to remove any member of its audit team at any time and for any reason, and the "contractor must comply." This language impairs independence because it provides the company with the ability to exert undue influence on whom and how the contractor conducts its audit.</p> <p><i>Recommendation.</i> We recommended that management revise the contract language to require a written justification for any request to remove a contractor's employee and provide that the contractor will consider the company's request, but that the ultimate decision to remove a member of the audit team lies with the contractor, not with management. Add a <i>removal from duty</i> clause.</p>	<p>Recommendation implemented</p>
<p>52. Contract section 22, <i>Audit and Inspection</i>:</p> <p><i>Observation.</i> The language in contract section 22 provides Amtrak the right to "inspect, copy and/or audit" "without limitation" the contractor's "work or deliverables in progress." This provision impairs the contractor's independence because it can interfere with the contractor's selection or application of audit procedures, thus impairing the integrity of the current and future-year audits.</p> <p><i>Recommendation.</i> We recommended that management remove references to Amtrak from this provision. Additionally, section 10 of the Supplemental General Provisions for Non-construction Contracts contains similar language that should also be revised. Provisions regarding Amtrak's ability to review invoices and support for equitable adjustments in the audit fee should be addressed in a separate provision as part of the payment clause.</p>	<p>Recommendation implemented</p>

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
<p>53. Contract section 24, <i>Indemnification</i>, subsection B:</p> <p><i>Observation.</i> The language in contract section 24.B requires the contractor to reimburse Amtrak for any costs that Amtrak incurs to defend itself from claims that the contractor's employee or subcontractor may bring against Amtrak due to Amtrak's "negligence or fault," which inappropriately shifts responsibility for potential cost of claims that Amtrak would "be responsible for or pay" to the IPA. This language impairs the IPA's independence because it creates a financial relationship that management can use as leverage with the IPA to obtain a favorable audit opinion that may not be consistent with the audit opinion that the auditor may have given if the financial relationship were not in place.</p> <p><i>Recommendation.</i> We recommend that management revise the contract language to eliminate the requirement for the contractor to indemnify Amtrak for claims that are Amtrak's fault.</p>	Recommendation implemented
<b>TECHNICAL EVALUATION</b>	
<p>54. Prescreen potential offerors to determine those that possess basic or mandatory qualifications. Only evaluate offerors who meet minimum mandatory qualifications required for an independent auditor. The extent to which entities prequalify offerors should be consistent with the size of their audit engagements. [See <i>best practice 1. above for a suggested list of qualifications, which should be included in the RFP.</i>]</p> <p><b>[Ref: 1, 3, 4]</b></p>	Implementation in progress
<p>55. At a minimum, entities should include the following technical evaluation criteria:</p> <ul style="list-style-type: none"> <li>• Firm's technical approach to performing the audit and soundness of technical approach, including the firm's quality control and supervisory and review procedures;</li> <li>• Qualifications and technical backgrounds of staff to be assigned to the engagement;</li> <li>• Qualifications of the firm, e.g., past industry experience, size and location of the firm, range of activities performed by the firm, prior clients' positive opinion of the firm; and</li> </ul>	Best practice applied



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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
<ul style="list-style-type: none"> <li>• Understanding of the audit requirements: does the proposal demonstrate that the proposer has an understanding of the SOW, your organization's needs, and the final products to be delivered?</li> </ul> <p><b>[Ref: 1, 3, 4]</b></p>	
<p>56. Develop written definitions for each technical evaluation criterion and guidelines for how to apply each. For example, define what is meant by "experience" and what specifically members of the technical evaluation committee should look for when applying the "experience" criterion.</p> <p><b>[Ref: 1, 4, 31, 32]</b></p>	Implementation in progress
<p>57. Provide technical evaluation committee members with written guidance on how to perform the evaluation and how to apply each technical criterion when reviewing proposals, e.g.:</p> <ul style="list-style-type: none"> <li>• Initial evaluations should be based on the offerors' proposals as submitted;</li> <li>• As proposals are evaluated, a list of strengths and weaknesses for each should be made to support its technical rating.</li> </ul> <p><b>[Ref: 3, 4, 32, 33]</b></p>	Implementation in progress
<p>58. The most qualified offerors should be asked to make oral presentations to the technical evaluation committee and/or the audit committee. The oral technical proposal should be adequate to demonstrate how the offeror proposes to comply with the requirements of the solicitation, along with full techniques and procedures to be followed.</p> <p><b>[Ref:11, 14, 29]</b></p>	Implementation in progress
<p>59. Management should perform a periodic analysis of audit fees that benchmark the company's fees against those of other companies of comparable size, complexity, and risk. At a minimum, management should analyze the trends in audit fees and understand the cause of fluctuations and apply them to the company's situation.</p> <p><b>[Ref: 5]</b></p>	Implementation in progress

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2010 RFP solicitation documents and understanding of the process to acquire an IPA)</i>	<b>Amtrak Status<sup>2</sup></b>
<b>THE PROCUREMENT PROCESS</b>	
60. GAO recommends that entities formulate detailed procurement guidance [for procuring external independent audit services] as an important vehicle to improving audit quality. <b>[Ref: 1]</b>	Evaluation in process

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**Appendix III**

**MANAGEMENT BEST PRACTICES FOR AUDIT OVERSIGHT  
 FOR IPA CONTRACT ADMINISTRATION  
 AND AUDIT FACILITATION**

*(Status of Recommendations Implemented through April 27, 2012)*

<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2011 IPA Contract Administration and Audit Facilitation processes)</i>	<b>Amtrak Status</b>
<b>CONTRACT ADMINISTRATION</b>	
<p>61. Convening periodic meetings with top level contractor officials and user department officials to discuss the contractor's performance helps the COTR ensure that contract terms and conditions are being adhered to.</p> <p><b>[Ref: 12]</b></p>	Implementation in progress
<p>62. The COTR should ensure that the appropriate audit and company personnel communicate when changes in key personnel are expected at any time during the audit. Similarly, when there have been changes to CFO staff or other critical entity staff, the COTR should notify the contractor and arrange a meeting, if needed, to ensure that all parties are aware of the change.</p> <p>When changes in key personnel occur, either at the company or the contractor (or subcontractor), a more-than-the-usual level of attention should be given to the planning stage and the overall communication strategy.</p> <p>This includes communicating staff changes early enough to ensure contractor compliance with an entity's performance and security requirements.</p> <p><b>[Ref: 9]</b></p>	Implementation in progress
<p>63. The CO responsible for consenting to changes in subcontracts shall review the contractor's notification and supporting data to ensure that the contractor has a sound basis for selecting and determining the responsibility of the particular subcontractor, the proposed subcontract is appropriate for the risks involved, and is consistent with current policy and sound business judgment. The COTR should assist the contracting official in his/her evaluation, as requested.</p> <p><b>[Ref: 11, 12, 23, 26]</b></p>	Implementation in progress

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2011 IPA Contract Administration and Audit Facilitation processes)</i>	<b>Amtrak Status</b>
<p>64. The COTR and the CO should develop a clear understanding of what is expected of the COTR and how the COTR and the CO will work together to monitor performance of the contract. A partnership between the COTR and the CO can be useful in establishing and achieving contract objectives because these two officials are responsible for ensuring that the contracting process is successful.</p> <p>This communication and understanding between the COTR and CO should be documented in the COTR's file.</p> <p><b>[Ref: 12, 13]</b></p>	Implementation in progress
<p>65. The COTR should establish and maintain a current and separate record-keeping system that documents job progress and problems as they occur. Files should be organized so that someone could reconstruct and understand the history of the contract in the absence of the COTR. Contract files should hold all the information necessary to know what was expected and received under the contract. This file must be available for review by the CO, IG, GAO, or any other official authorized by the CO.</p> <p><b>[Ref: 15, 19, 26]</b></p>	Implementation in progress
<p>66. Management should ensure that company personnel assigned to manage and oversee the contract administration function (e.g., the COTR and task monitor), particularly for highly specialized or technical services, are trained and experienced.</p> <p>Many organizations have a mandatory COTR training program. Even in those that do not, their COTRs still attend a basic COTR course; procurement ethics training; refresher COTR training; and procurement ethics and integrity training. COTRs are encouraged to keep pace with changes in procurement by completing a minimum of eight additional hours of contract administration training every 3 years, preferably through a refresher COTR training course. Courses in service contracting and preparing statements of work are very helpful for COTRs who handle complex and service contracts; they help them in the preparation of the contract administration plan.</p> <p><b>[Ref: 12, 17]</b></p>	Evaluation in process

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2011 IPA Contract Administration and Audit Facilitation processes)</i>	<b>Amtrak Status</b>
<p>67. The COTR should develop a contract administration plan (CAP) in order to mitigate the risks associated with service-type contracts. The CAP should describe the methodology for ensuring performance of the SOW and adherence to contract terms. This saves time and resources because the COTR is not monitoring the mundane, routine portions of the contract; instead the COTR is focusing on the major deliverables of the contract.</p> <p>The COTR must determine what level of oversight is necessary to ensure that the contractor makes satisfactory progress toward the successful completion of the contract.</p> <p>The CAP may be a simple view of planned and completed activities and can be utilized throughout the contract period as a status report. It should detail the methods that the agency will use to monitor the contractor, or it could be more complex.</p> <p>A copy of the CAP should be provided to the CO and to any other member of the oversight team who might benefit. The CAP should be updated during performance to reflect any changes to the contract and be redistributed. The COTR may supplement the elements of the monitoring plan, as needed.</p> <p>The GAO framework identifies the use of contract monitoring plans or risk-based strategies for tracking contractor performance as an indicator that entities are effectively monitoring and providing oversight to contractors.</p> <p><b>[Ref: 12, 19, 20, 28]</b></p>	Implementation in progress
<b>AUDIT FACILITATION AND COORDINATION</b>	
<p>68. We recommended that management implement a project collaboration tool, called SharePoint, to house, track, and manage PBCs provided to the contractor's audit team.</p> <p><b>[Ref: 25]</b></p>	Best practice implemented

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<b>Best Practices</b> <i>(Based on OIG review of Amtrak's FY 2011 IPA Contract Administration and Audit Facilitation processes)</i>	<b>Amtrak Status</b>
<p>69. One auditor appointed by the contractor and a representative from the company should be the points of contact and held responsible for coordinating the PBC requests to and responses from the company. These representatives should meet at least weekly to review the PBC list together. The purpose of these meetings is to identify changes in or deletions from the PBC list, discuss any delays or accelerations in providing information, clarify any requests, and discuss PBC items coming due within the next 2 weeks. These representatives should be informed of all new PBC requests, including follow-up requests.</p> <p>Key outstanding PBC items overdue from company personnel should be discussed at the weekly status meetings. This allows for discussion and resolution of problems before significant delays occur. Overdue PBC items should also be elevated to the CFO for explanation and a revised due date.</p> <p><b>[Ref: 9, 23, 25, 27]</b></p>	Implementation in progress
<p>70. Regular status meetings could be strengthened by developing a structure that allows two-way communication between the contractor and management. This structure provides opportunities for feedback, facilitate reaching agreements, and eliminate surprises.</p> <p>These meetings are a means for the contractor to provide information on audit issues, obstacles, and timelines; they also provided an opportunity for management to ask questions and express concerns. These meetings become more frequent as the financial statements are prepared and the audit draws to conclusion (e.g., weekly in the beginning and daily toward the end).</p> <p><b>[Ref: 9, 23, 24]</b></p>	Implementation in progress
<p>71. Require the contractor to provide written notice of findings and recommendations during the audit so that management is made aware, as soon as feasible, of the issues identified by the contractor. This process facilitates the resolution of any disagreements with the facts or recommended corrective actions and allows management time to understand the issues and determine whether the auditors had all relevant information.</p> <p><b>[Ref: 23]</b></p>	Implementation in progress

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<p style="text-align: center;"><b>Best Practices</b></p> <p style="text-align: center;"><i>(Based on OIG review of Amtrak's FY 2011 IPA Contract Administration and Audit Facilitation processes)</i></p>	<p style="text-align: center;"><b>Amtrak Status</b></p>
<p>72. Following completion of the audit, representatives from the company, contractor, and management should hold a <i>lessons-learned</i> meeting to discuss how coordination may be further improved and to highlight challenges for the next audit cycle. This meeting should be conducted soon after the completion of the audit so that the past year's experience and issues can be appropriately addressed.</p> <p><b>[Ref: 9]</b></p>	<p>Implementation in progress</p>

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## Appendix IV

### AUDIT COMMITTEE BEST PRACTICES FOR IPA OVERSIGHT

**1. Best practice:** *Audit committees use a comprehensive charter matrix to ensure that they meet all responsibilities and duties outlined in its committee charter.*

Audit committees use an audit committee charter matrix to set an agenda for the year and guide audit committee meetings. The matrix can be improved by including all responsibilities and duties outlined in the charter with defined steps to accomplish each objective; any support provided by management, the OIG, or external experts; the associated performance measure (e.g., report to the Board that reviews have taken place and any matters that need to be brought to its attention have been done); and the schedule of events. Additionally, committees review and approve a new audit committee charter matrix prior to the start of each year and update it at least quarterly.

**2. Best practice:** *Audit committee charters include a responsibility to oversee the IPA procurement process.*

Our research shows that audit committees can play a critical role in ensuring that the organization's independent audit services request for proposal (RFP) is complete and contains the necessary elements for the successful procurement of professional auditing services. This can be done through the following steps: (1) reviewing the organization's RFP documents to ensure that they contain the information necessary for potential offerors to fully understand the company and result in an efficient and effective independent audit; (2) obtaining an understanding of management's process for planning and preparing the RFP, including the expertise of the individuals preparing, reviewing, and approving the RFP documents, the information requested from offerors, the technical criteria used to evaluate proposals, and the method used to select members of the technical evaluation committee who will review and score the technical proposals; (3) advising, reviewing, and approving specific guidance for procuring independent financial audit services as part of its role to oversee the IPA; and (4) approving the IPA-specific guidance as part of its role in overseeing the external auditors. The Committee should review the guidance prior to each audit service



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solicitation and revise it as necessary to ensure consistency with current industry best practices.

**3. Best practice: *Audit committees benchmark audit fees against those of other comparable entities.***

Audit committees consider the reasonableness of a company's audit fees as benchmarked against other organizations of comparable size and complexity to evaluate fee proposals prior to approving initial audit fees. Audit committees use the benchmark results as a tool to lower audit fees that are too high or to increase audit fees that are too low in comparison to fees charged to similar entities. The benchmarking of audit fees occurs as a regular part of the IPA audit fee approval process. Committees consider that "...while it may be natural to review the [proposed audit] fee solely from the perspective of being 'too high,' a fee that is too low may actually provide more risk to the company. An 'overly aggressive' negotiated fee can put significant pressure on the auditors when determining an appropriate audit scope that adequately addresses the higher risk areas." Using a market price analysis of audit fees is a useful tool to establish fee expectations and to negotiate fees to ensure that a company does not pay wildly divergent fees from other organizations of comparable size and complexity.

**4. Best practice: *Audit committees establish a direct relationship with the IPA to meet its oversight responsibilities.***

Audit committees establish a relationship with the IPA's lead engagement partner by having frequent and ongoing communications, including meeting and communicating outside of regularly scheduled meetings.

Dialogue between the audit committee and the lead engagement partner includes the following:

- Establishing expectations regarding the nature and method of communications and exchange of insights;
- Establishing and reinforcing the understanding that the IPA is accountable to the board of directors and the audit committee;

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- Communicating that it is the IPA's responsibility to maintain his or her objectivity and to comply with all applicable independence regulations and requirements, and that it is the audit committee's responsibility to assess whether the auditor has done so;
- Discussing matters that affect the integrity of the financial statements, such as the appropriateness of management's application of accounting principles and practices, and the quality of internal controls;
- Discussing fraud risks and issues that "keep [the committee] awake at night" and understanding IPA concerns;
- Discussing IPA disagreements with management regarding accounting practices and alternative treatments of financial information and how it may affect the IPA's audit approach and the integrity of the financial statements;
- Understanding the qualifications of the lead engagement partner and his/her senior team members;
- Discussing the IPA's assessment of management's competency and effectiveness in executing its responsibilities; and
- Obtaining IPA's perspective on the progress of the audit and addressing issues as they arise to prevent their becoming more severe.

**5. Best practice: *Audit committees review a written independence statement from the IPA to ensure IPA independence.***

Audit committees annually obtain a written statement from the IPA delineating all relationships between the auditing firm and the company and describing the IPA's process to ensure its independence with respect to the company. Committees also review and inquire about the IPA firm's partner rotation requirements and whether those requirements meet the needs of the company to ensure continued objectivity when performing the company's audits.

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**6. Best practice: *Audit committees review the audit scope and plan with the IPA, management, and the OIG to ensure completeness of coverage.***

Audit committees enhance their reviews of the IPA's annual audit plan by ensuring that the scope and audit plan cover all of the audits for which the IPA is engaged to perform under the statement of work, and any specific requirements or considerations for each type of audit, including those for single audits, employee benefit plans, and subsidiary audits.

**7. Best practice: *Audit committees approve major changes in significant accounting principles and their application in financial reports.***

Audit committees review major changes to significant accounting principles and policies with the IPA, management, and the OIG. Company accounting policies should require management to submit major changes to accounting principles and practices to the audit committee for consideration and approval, which helps ensure that changes in significant accounting principles and policies are brought to the attention of the audit committee.

**8. Best practice: *Audit committees review all audit reports issued by the IPA prior to approving their release to the public, government agencies, or other third parties.***

Audit committees obtain and review all of the company's audited financial statements and reports issued by the IPA and discuss them with the IPA, management, and OIG. They cover the overall quality of financial reporting and the external auditor's judgments on the quality, not just the acceptability, of the organization's accounting principles as applied in its financial reporting. Discussions may be most effective with management officials directly responsible for each audit report.

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**9. Best practice: *Audit committees receive letters from the IPA regarding matters required to be discussed by current auditing standards upon completion of its audits.***

Audit committees obtain letters from the IPA covering matters required to be communicated under Statement on Auditing Standards (SAS) 114, The Auditor's Communication with Those Charged with Governance, after all audit procedures are complete. The scope of the SAS 114 letter(s) incorporates all audits performed by the IPA, which may result in more than one SAS 114 letter.

**10. Best practice: *Audit committees review all material written communications between the IPA and management.***

Audit committees review all material written communications between the external auditors and management, such as any management representation letters and schedules of unadjusted differences, for all audit engagements performed by the IPA.

**11. Best practice: *Audit committees assess the steps management has taken or proposes to take to minimize significant financial risks and periodically reviews the extent to which management has implemented the steps.***

Audit committees can enhance their assessments of steps taken to minimize significant financial risks to the company by having a process to assess the extent to which management addresses outstanding audit recommendations and improvements in financial or accounting practices throughout the year. The process includes reviewing with management the course of action to be taken for any deficiencies that have not been resolved and monitor any follow-up action.

**12. Best practice: *Audit committees oversee employee benefit plan audits.***

Audit committees participate in the oversight of the employee benefit plan (EBP) audits because a high level of fiduciary responsibility for the administration of the EBPs remains with the plan sponsor. The plan sponsor and the plan administrator have responsibility for meeting annual reporting and other compliance-related matters. There is a significant amount of risk to plan sponsors associated with the audits of their Employee Retirement Income Security Act (ERISA) plans. Recent Department of Labor

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studies of audit quality have identified significant deficiencies in plan audits. Accordingly, Labor has dramatically increased and revised its enforcement strategies with respect to audit deficiencies. The penalties for such audit failures can be substantial. Labor can assess penalties on plan sponsors of up to \$1,100 a day (capped at \$50,000) per annual report filing, where the required auditor's report is missing or deficient. Plan sponsors should make the selection of the plan auditor a high priority and oversee the audit process, and also review audited financial statements of EBPs.

**13. Best Practices also suggest including the following responsibilities and duties in the audit committee charter:**

***A. Formally review and evaluate the IPA's performance (post-audit quality evaluation) on an annual basis.***

After the audit, the Audit and Finance Committee Chairman met with the engagement partner, in person, to provide feedback on the IPA's performance during the FY 2011 audit, and communicate expectations for the FY 2012 audit.

***B. Review the experience and qualifications of the lead partner each year.***

Audit committees ensure that the lead engagement partner has the appropriate technical expertise and relevant industry experience by having annual conversations with the lead engagement partner about his or her related experience and qualifications to perform the audit, and the experience of other key personnel assigned to the engagement.

***C. Obtain a written statement of the IPA's quality control policies and procedures to ensure that they have an adequate quality control process in place to meet professional and regulatory requirements, as well as client expectations.***

Audit committee charters include a responsibility, as part of its initial and continuing evaluation of the capabilities of the IPA, to assess the IPA's system of quality control that includes having conversations with the lead engagement partner about the audit team's quality controls, including the extent of partner review of audit workpapers; annually obtaining and reviewing a letter from the IPA describing the IPA firm's internal quality-control procedures; obtaining the results of the IPA firm's latest peer and internal quality assurance reviews; and the existence and nature of any significant

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litigation or disciplinary actions against the IPA firm or members of the engagement team.

*D. Preapprove additional audit fees and non-audit services provided by the IPA.*

Consistent with best practices, the Audit and Finance Committee was actively involved in approving additional audit fees for the FY 2011 audits by asking management to recommend an equitable settlement amount for consideration and to explain its process to prevent additional billings in the future.

Additionally, audit committee charters include a responsibility to preapprove all non-audit services to help ensure that the audit committee is made aware of all services provided by the IPA.

*E. Review and approve all significant related-party transactions.*

Audit committee charters include a responsibility to review and approve the company's significant related-party transactions to ensure that all transactions are conducted in manner similar to an arm's length transaction, in keeping with normal market conditions, and recorded and disclosed in compliance with generally accepted accounting principles. Having this responsibility in place helps ensure that potential risks in this area are identified and that significant risks are mitigated in a timely manner.

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**Appendix V**

**SOURCES OF BEST PRACTICES**

**Management Best Practices**

- (1) *CPA Audit Quality: A Framework for Procuring Audit Services*, Government Accountability Office, GAO/AFMD-87-34, August 18, 1987
- (2) *Request for Proposal for the Annual Financial Statement Audit*, a guide prepared by the Council of the Inspectors General on Integrity & Efficiency
- (3) *How to Avoid a Substandard Audit: Suggestions for Procuring an Audit*, National Intergovernmental Audit Forum, May 1988
- (4) *Selecting an External Auditor, Guide for Making a Sound Decision*, Mid-America Intergovernmental Audit Forum, May 2007
- (5) *AICPA Audit Committee Toolkit: Government Organizations*, 2nd Edition, American Institute of Certified Public Accountants
- (6) *Effective Audit Committees in the Ever Changing Marketplace*, BDO Ac'sense; 2010
- (7) *Obtaining Quality Employee Benefit Plan Audit Services: The Request for Proposal and Auditor Evaluation Process*, AICPA Employee Benefit Plan Audit Quality Center
- (8) Examples of RFP solicitation documents prepared and used by other federal Offices of Inspectors General
- (9) *Best Practices Guide for Coordinating the Preparation and Audit of the Federal Financial Statements*, issued by the Chief Financial Officers Council & President's Council on Integrity and Efficiency
- (10) *Best Practices Procurement Manual*, Federal Transit Administration, November 6, 2001
- (11) *Federal Acquisition Regulation, Volume I*, March 2005
- (12) *A Guide to Best Practices for Contract Administration*, Office of Management and Budget, Office of Federal Procurement Policy, October 1994

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- (13) *Purchasing Manual: Chapter 6 Contract Administration, Issue 3*, United States Postal Service, December 25, 2003
- (14) *Best Practices for Multiple Award Task and Delivery Order Contracting*, Office of Management and Budget, February 19, 1999
- (15) Harmon, Kathleen; Stephan, Bruce. *CDR. 01, Claims Avoidance Techniques—Best Practices for Contract Administration*, AACE International Transactions, ABI/INFORM, 2001
- (16) *Contract Management: Improving Services Acquisitions*, congressional testimony, Government Accountability Office, GAO-02-179T, November 1, 2001
- (17) *Policy Letter 93—Management Oversight of Service Contracting*, Office of Management and Budget, Office of Federal Procurement Policy, May 18, 1994
- (18) *Contracting for Services*, National State Auditors Association, 2003
- (19) Hinton, Russell, *Best Practices in Government: Components of an Effective Contract Monitoring System*, State of Georgia Department of Audits and Accounts, July 2003
- (20) *FDIC's Contract Administration*, FDIC OIG Report 06-026, September 2006
- (21) *Post-award Contract Administration—Lessons Learned and Best Practices, Contract Management*, National Contract Management Association, July 2007
- (22) *Contracting Officer's Technical Representative (COTR) Training Blueprint*, prepared by Federal Acquisition Institute, Office of the Chief Acquisition Officer, General Services Administration, September 2004
- (23) *Lessons Learned from the FY 2005 Financial Statement Audit*, Memorandum Report 2006-10-FA-0023, Pension Benefit Guarantee Corporation, Office of Inspector General, April 6, 2006
- (24) *AU 380—SAS 114, The Auditors Communication With Those Charged With Governance*, American Institute of Certified Public Accountants, effective December 15, 2006
- (25) *Lessons Learned from the FY 2004 Financial Statement Audit*, Memorandum Report 2007-3-FA-00323, Pension Benefit Guarantee Corporation, Office of Inspector General, March 30, 2007
- (26) *Contracting Office Handbook*, Army Sustainment Command, March 2009



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- (27) *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statement of the Year Ended September 30, 2011*, Report 22-12-006-13-001, Department of Labor, Office of Inspector General, March 29, 2012
- (28) *Framework for Assessing the Acquisition Function at Federal Agencies*, Government Accountability Office, GAO-05-218G, September 2005
- (29) *Guidelines for Preparation of Requests for Proposals*, Georgia Department of Audits and Accounts, 2009
- (30) *Financial Audit Manual*, Volume I, Section 650, Government Accountability Office and President's Council on Integrity and Efficiency, GAO-08-585G, July 2008
- (31) *Guide to Federal Agencies' Procurement of Audit Services from Independent Public Accountants*, Government Accountability Office, GAO-AFMD-12.19.3, April 1, 1991
- (32) *Proposal Evaluation Guide*, Tricare Management Activity, April 2009
- (33) *Technical Evaluation Panel Members' Responsibilities*, a guide prepared by the Council of the Inspectors General on Integrity & Efficiency

### **Audit Committee Best Practices**

- (1) *AICPA Audit Committee Toolkit: Government Organizations*, 2nd Edition, American - Institute of Certified Public Accountants;
- (2) *AICPA Audit Committee Toolkit: Private Companies, Audit Committee Effectiveness Center*, American Institute of Certified Public Accountants;
- (3) *Audit committee: Leading Practices and Trends*. Ernst & Young LLP, February 2012;
- (4) *Audit Committee Resource Guide*, Deloitte;
- (5) *14 Ways to Reduce External Audit Fees, Audit Director Roundtable, Corporate Executive Board*;
- (6) *Audit Committee Best Practices Handout*, Raffa and Associates, Inc. Council on Foundations Website;
- (7) *Obtaining Quality Employee Benefit Plan Audit Services: The Request for Proposal and Auditor Evaluation Process*, AICPA Employee Benefit Plan Audit Quality Center;

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- (8) *Selecting An Auditor For Your Employee Benefit Plan*, guidance developed by Department of Labor's Employee Benefits Security Administration;
- (9) *CPA Audit Quality: A Framework for Procuring Audit Services, Government Accountability Office* (GAO/AFMD-87-34, Aug. 18, 1987); and *Effective Audit Committees in the Ever Changing Marketplace*, BDO Ac'sense.
- (10) *AU 380—SAS 114, The Auditors Communication With Those Charged With Governance*, American Institute of Certified Public Accountants, effective December 15, 2006

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**Appendix VI**

**COMMENTS FROM AMTRAK'S CHAIRMAN, AUDIT AND  
 FINANCE COMMITTEE, AMTRAK BOARD OF DIRECTORS  
 AND ACTING CFO AND CONTROLLER**

NATIONAL RAILROAD PASSENGER CORPORATION  
 60 Massachusetts Avenue, NE, Washington DC 20002  
 tel 202 906.3069 fax 202 906.2174

Memo



Date	July 30, 2012	From	Anthony Coscia, Chairman, Audit and Finance Committee, Amtrak Board of Directors <i>A. Coscia</i>
			Gordon Hutchinson, Acting CFO and Controller <i>G. I. Hutchinson</i>
To	Ted Alves, Inspector General	Department	Finance
		Subject	<i>Observations for Improving Oversight of the Independent Public Accountant Performing the Annual Financial Statement Audits (Draft Report)</i>
		cc	Thomas C. Carper, Chairman, Board of Directors Joseph Boardman, President and CEO Jeff Moreland, Member, Audit and Finance Committee, Board of Directors Nancy Naples, Member, Audit and Finance Committee, Board of Directors Eleanor D. Acheson, Vice President, General Counsel Jessica M. Scritchfield, Senior Director, Internal Controls/Audit William Herrmann, Managing Deputy General Counsel DJ Stadtler, Vice President, Operations John Carten, Director, Board Liaison

This memo serves as Management's response to Draft Office of Inspector General Report "*Observations for Improving Oversight of the Independent Public Accountant Performing the Annual Financial Statement Audits*" which was issued on June 22, 2012. Management and the Audit and Finance Committee (the "Committee") have reviewed the OIG's report in its entirety and are committed to implementing the necessary best practices suggested by the Office of Inspector General in order to strengthen the Company's procedures related to the facilitation and oversight of the annual financial statement audit process.

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**Recommendation 1:**

The Committee, Amtrak Board of Directors should approve the guidance developed in response to recommendation 5 as part of its role to oversee the external auditors. The Committee should ensure that management periodically reviews the guidance and revises it, as necessary, to ensure the guidance is consistent with current industry best practices.

**Management Response:**

The Committee agrees with the OIG's recommendation. The Committee reviewed and approved the guidance for procuring external independent audit services created by management in response to recommendation 5. Additionally, the Committee will ensure that Management periodically reviews the guidance and revises it as necessary to incorporate current industry best practices.

**Recommendation 2:**

The Committee, Amtrak Board of Directors should review and select for implementation, as appropriate, the best practices presented in Appendix IV.

**Management Response:**

The Committee agrees with the OIG's recommendation and has taken the appropriate action necessary to review and implement the best practices identified within Appendices IV. Please refer to Attachment A.

**Recommendation 3:**

The Acting Chief Financial Officer should complete the implementation of the best practices suggestions identified as *Implementation in Progress* in Appendices II and III.

**Management Response:**

Management agrees with the OIG's recommendation and has taken or will take the appropriate action necessary to implement the best practices identified within Appendices II and III. Please refer to Attachment B.

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**Recommendation 4:**

The Acting Chief Financial Officer should provide more comprehensive training for the COTR and task monitor to ensure they understand their role, responsibility, and authority for managing the technical performance of a complex service contract.

**Management Response:**

Management agrees with the OIG's recommendation. The Procurement and Materials Management Department currently offers on a monthly basis a six (6) hour course entitled Procurement Process Overview to various departments throughout Amtrak. As part of this training, portions are devoted to the roles and responsibilities of the Contracting Agent's Technical Representative ("COTR" or Project Manager). This course is intended as an overview of the COTR function thus Management concurs with the recommendation to offer a more in depth training program that would provide the appropriate level of attention to this vital role. Management is in the process of determining if this new program should be offered in-house or if our needs are better served utilizing an outside concern that specializes in this type of education. By September 30, 2012, a decision on how to offer this new program will be made by the Deputy Logistics Officer – Procurement.

**Recommendation 5:**

The Acting Chief Financial Officer should develop guidance for the IPA procurement that addresses the unique requirements for procuring external independent audit services. The guidelines should incorporate best practices for preparing solicitation documents, establishing selection criteria, performing proposal evaluations and analyzing audit fees. The guidance should also describe management's process for periodically reviewing the guidance for administering the contract and facilitating the audit.

**Management's Response:**

Management agrees with the OIG's recommendation. The Director – Procurement Services and Senior Director – Internal Controls / Audit jointly created specific guidelines which incorporate best practices for preparing solicitation documents, establishing selection criteria, performing proposal evaluations, and analyzing audit fees that will be utilized for IPA services. These guidelines were presented to the Committee for their review and approval.

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**Attachment A**

<b>Recommendation</b>	<b>Response</b>
1 Audit committees use a comprehensive charter matrix to ensure that they meet all responsibilities and duties outlined in its committee charter.	The Committee utilizes a comprehensive charter matrix which is updated quarterly by the CFO and helps to ensure that the Committee is meeting all of the responsibilities and duties outlined in the Committee's charter.
2 Audit committee charters include a responsibility to oversee the IPA procurement.	The Committee oversaw the 2012 RFP process and specifically reviewed the Statement of Work, reviewed the procurement schedule outlining dates and deliverables, monitored and remained apprised of the RFP process, reviewed management's technical scoring, approved the selection of the IPA, and recommended to the full Board the approval of the IPA selected.
3 Audit committees benchmark audit fees against those of other comparable entities.	Management benchmarked the audit fees against those of other comparable entities and provided this information to the Committee as part of the 2012 RFP process.
4 Audit committees establish a direct relationship with the IPA to meet its oversight responsibilities.	Prior to the approval of the 2012 IPA contract, the Chairman of the Committee met with the signing partner of the IPA to establish a direct relationship.
5 Audit committees review a written independence statement from the IPA to ensure IPA independence.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 2. In the past, IPAs have cited their independence during Board of Director meetings. Additionally, this information has usually been included in the IPA's presentation materials.
6 Audit committees review the audit scope and plan with the IPA, management, and the OIG to ensure completeness of coverage.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 3. In the past, the Committee (and usually the Board of Directors) reviewed the audit scope and plan with the IPA, management and the OIG. The Committee (and specifically, the Board of Directors) will continue this practice.

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**Attachment A**

<b>Recommendation</b>	<b>Response</b>
7 Audit committees approve major changes in significant accounting principles and their application in financial reports.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 17. The Committee will approve major changes in significant accounting principles and their application in financial reports.
8 Audit committees review all audit reports issued by the IPA prior to approving their release to the public, government agencies, or other third parties.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 7. The Committee will review and approve the audit reports issued by the IPA associated with the consolidated financial statement audit (GAAS and GAGAS reports) and the Single Audit compliance report prior to their release.
9 Audit committees receive letters from the IPA regarding matters required to be discussed by current auditing standards upon completion of its audits.	In the past, the Committee has received required communications in written form in accordance with Statement on Auditing Standards (SAS) 114. In FY11, this information was provided as part of the Board of Director presentation materials. Prior to FY11, a formal communication was presented to the Committee. The Committee anticipates obtaining a SAS 114 letter from the current IPA.
10 Audit committees review all material written communications between the IPA and management.	The Committee will review all material written communications between the IPA and management. Material written communications are considered to include: In-house legal counsel letter detailing significant legal cases, management representation letter, and SAS 115 detailing material and significant control deficiencies.
11 Audit committees assess the steps management has taken or proposes to take to minimize significant financial risks and periodically reviews the extent to which management has implemented steps.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 8. The Committee will continue to review management's action plans to address material and significant control deficiencies.

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**Attachment A**

<b>Recommendation</b>	<b>Response</b>
12 Audit committees oversee employee benefit plan audits.	This best practice recommendation is incorporated into the Audit Committee Charter dated March 17, 2011, as item 24. In the past, the IPA has presented to the Committee (and specifically the Board of Directors) the results of employee benefit plan audits. The Committee will continue to obtain presentations (e.g., results) from the IPA on employee benefit plan audits.
13 Include the following responsibilities and duties in the audit committee charter: --Formally review and evaluate the IPA's performance (post-audit quality evaluation) on an annual basis. --Review the experience and qualifications of the lead partner each year. --Obtain a written statement of the IPA's quality control policies and procedures to ensure that they have an adequate quality control process in place to meet professional and regulatory requirements, as well as client expectations. --Preapprove additional audit fees and non-audit services provided by the IPA. --Review and approve all significant related-party transactions.	<p>The first three best practice recommendations fall within the Committee's overall purpose to oversee the Corporation's audits of its financial statements. The Committee evaluated the IPA's performance at the completion of the fiscal year 2011 audit. Additionally, the Audit Committee Chairman met with the lead partner of the newly selected IPA prior to approval of the IPA; additional reviews will occur with a change in leader or change in circumstance. Finally, the technical evaluation committee reviewed the IPA's quality control policies and procedures during the RFP process and in the past the IPA presented this information at the conclusion of their audit during the December Board meeting.</p> <p>The best practice recommendation for the pre-approval of fees to be paid to the IPA is incorporated into the Audit Committee Charter dated March 17, 2011, as item 1.</p> <p>The best practice recommendation for the review and approval of all significant related-party transactions is incorporated into the Audit Committee Charter dated March 17, 2011, as item 25 to review and approve significant financial transactions of the Corporation.</p>



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**Attachment B**

	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
1	Pre-screen potential bidders to determine those that possess basic or mandatory qualifications. Only evaluate bidders who meet minimum mandatory qualification required for an independent auditor. The extent to which entities prequalify bidders should be consistent with the size of their audit engagements.	During the 2012 RFP process, potential bidders were pre-screened to determine that the bidders possessed basic and mandatory qualifications. Basic qualifications were listed in the Instructions to Offerors. Please see procurement file for documentation that all bidders met the basic and/or mandatory qualifications.	Complete
2	Develop written definitions for each technical evaluation criteria and guidelines for how to apply each criterion. For example, define what is meant by "Experience" and what specifically should members of the technical evaluation committee looking for when applying the "Experience" criterion.	Technical evaluation criteria was broken down into smaller, more clarifying criteria allowing the technical evaluation committee to understand what was meant by "experience" and other general categories. Prior to receipt of the proposals, the committee discussed the technical evaluation criteria and the guidelines for how to apply each criterion. The scoring criteria was provided to the OIG on 05/02/12.	Complete
3	Provide technical evaluation committee members with guidance on how to perform the evaluation and how to apply each technical criteria when reviewing proposals, e.g.,  --Initial evaluations should be based on the bidders' proposals as submitted; --As you evaluate the proposals, make a list of strengths and weaknesses for each to support its technical rating.	A technical evaluation committee kick-off meeting was held on 03/19/12. Guidance on how to perform the evaluation and information on the technical evaluation criteria was discussed. Minutes of the kick-off meeting were provided to the OIG on 05/04/12.  Documentation supporting each technical evaluation committee member's rating was documented and is included in the procurement file.	Complete
4	The most qualified bidders should be asked to make oral presentations to the technical evaluation committee and/or the audit committee. The oral technical proposal should be adequate to demonstrate how the bidder proposes to comply with the requirements of the solicitation, along with full techniques and procedures to be followed.	All qualified bidders were asked to make oral presentations. Oral presentations were held on 05/14/12 and 05/15/12. All technical evaluation committee members were present.	Complete

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
5	Management should perform a periodic analysis of audit fees that benchmark the Company's audit fees against other companies of comparable size, complexity, and risk. At a minimum, management should analyze the trends in audit fees and understand the cause of fluctuations and apply them to the Company's situation.	Management developed a listing of comparable company audit fees and analyzed these fees against the fees in the prior year and the fees within the proposals. This information was provided to the OIG on 06/25/12.	Complete
6	GAO recommends that entities formulate detailed procurement guidance as an important vehicle to improving audit quality.	The OIG expanded this best practice and included it separately in the Draft Report as recommendation 5. Please see management's response letter for actions to be taken.	Complete
7	Convening periodic meetings with top level contractor officials and user department officials to discuss the contractor's performance helps the COTR ensure that contract terms and conditions are being adhered to.	During the FY11 audit, periodic meetings were held with IPA partners and Amtrak's CFO, Controller, and Senior Director of Internal Controls / Audit to discuss performance. Additionally, during the FY11 audit, the COTR and task monitor spoke with all user departments including assistant controllers on a recurring and/or weekly basis to discuss progress of the audit in addition to speaking with the IPA's senior managers. Additionally, the Controller's department spoke about audit progress during their weekly Controller's meetings. These periodic meetings will continue in FY12.	Complete

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
8	<p>The COTR should ensure that the appropriate audit and company personnel communicate when changes in key personnel are expected at any time during the audit. Similarly, when there have been changes to CFO staff or other critical entity staff, the COTR should notify the contractor and arrange a meeting, if needed, to ensure that all parties are aware of the change.</p> <p>When changes in key personnel occur, either at the company or the contractor (or subcontractor), a more-than-the-usual level of attention should be given to the planning stage and the overall communication strategy.</p> <p>This includes communicating staff changes early enough to ensure contractor compliance with an entity's performance and security requirements.</p>	<p>Key personnel have been established in the contract and thoroughly discussed during the RFP and contracting process. The COTR will monitor key personnel. Weekly status meetings will provide the forum to discuss staff changes.</p>	<p>As needed; no personnel changes have been identified</p> <p style="text-align: center;">Complete</p>
9	<p>The CO responsible for consenting to changes in subcontracts shall review the contractor's notification and supporting data to ensure that the contractor has a sound basis for selecting and determining the responsibility of the particular subcontractor, the proposed subcontract is appropriate for the risks involved, and is consistent with current policy and sound business judgment. The COTR should assist the contracting officer in his/her evaluation, as requested.</p>	<p>Once the contractor brings changes to the attention of either the COTR or CO (or the COTR determines that changes to the contract are likely or needed), both the COTR and CO will review and discuss contract changes together and with the contractor. Current policy and sound business judgment will be utilized.</p>	<p>As needed; no subcontract changes have been identified</p> <p style="text-align: center;">Complete</p>

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
10	<p>The COTR and the CO should develop a clear understanding of what is expected of the COTR and how the COTR and the CO will work together to monitor performance of the contract. A partnership between the COTR and the CO can be useful in establishing and achieving contract objectives because these two officials are responsible for ensuring that the contracting process is successful.</p> <p>This communication and understanding between the COTR and CO should be documented in the COTR's file.</p>	<p>The COTR and CO have developed a working relationship / partnership since the RFP process began for the external audit and the COTR's attendance at COTR training. Their understanding of what is expected of the COTR and how the COTR and CO will work together to monitor performance of the contract was documented and is included in the COTR's file.</p>	Complete
11	<p>The COTR should establish and maintain a current and separate record-keeping system that documents job progress and problems as they occur. Files should be organized so that someone could reconstruct and understand the history of the contract in the absence of the COTR. Contract files should hold all the information necessary to know what was expected and received under the contract. This file must be available for review by the CO, IG, GAO, or any other official authorized by the CO.</p>	<p>The Statement of Work clearly defines specific milestones and what is expected (by when) throughout the audit. If issues arise or if milestones are missed, these items will be dealt with immediately between the contractor, COTR, and CO (and CFO as appropriate). An annual job progress review will be documented at the completion of each annual audit.</p>	Complete

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
12	<p>Management should ensure that company personnel assigned to manage and oversee the contract administration function (e.g., the COTR and task monitor), particularly for highly specialized or technical services, are trained and experienced.</p> <p>Many organizations have a mandatory COTR training program. Even in those that do not, their COTRs still attend a basic COTR course; procurement ethics training; refresher COTR training; and procurement ethics and integrity training. COTRs are encouraged to keep pace with changes in procurement by completing a minimum of eight additional hours of contract administration training every 3 years, preferably through a refresher COTR training course. Courses in service contracting and preparing statements of work are very helpful for COTRs who handle complex and service contracts; this helps them in the preparation of the contract administration plan.</p>	<p>Both the COTR and task monitor previously worked for public accounting firms and specifically worked in the audit practice; both are trained and experienced.</p> <p>Both the COTR and task monitor are familiar with Amtrak's General Policy 1.3.3, Ethical Conduct and Conflict of Interest Policy. Additionally, the COTR is a licensed CPA in three states and the District of Columbia.</p> <p>Both the COTR and task monitor attended specific and tailored COTR training explicitly applicable to the external audit contract on 02/08/12. The training was taught by the CO and the Assistant Deputy of Procurement. Management understands that the OIG disagrees that the COTR training attended was sufficient; as a result, additional trainings will be investigated. Within the Draft Report, the OIG included this best practice separately as recommendation 4. Please see management's response letter for actions to be taken.</p>	09/30/12

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13	Recommendation	Status	Estimated Completion Date
	<p>The COTR should develop a contract administration plan in order to mitigate the risks associated with service-type contracts. The CAP should describe the methodology for ensuring performance of the statement of work and adherence to contract terms. This saves time and resources because the COTR is not monitoring the mundane, routine portions of the contract; instead the COTR is focusing on the major deliverables of the contract.</p> <p>The COTR must determine what level of oversight is necessary to ensure that the contractor makes satisfactory progress toward the successful completion of the contract.</p> <p>The CAP may be a simple view of planned and completed activities and can be utilized throughout the contract period as a status report. It should detail the methods that the agency will use to monitor the contractor, or it could be more complex.</p> <p>A copy of the CAP should be provided to the CO and to any other member of the oversight team who might benefit. The CAP should be updated during performance to reflect any changes to the contract and be redistributed. The COTR may supplement the elements of the monitoring plan, as needed.</p> <p>The GAO framework identifies the use of contract monitoring plans or risk-based strategies for tracking contractor performance as an indicator that entities are effectively monitoring and providing oversight to contractors.</p>	<p>The detailed Statement of Work is a performance management task list which details expectations, deliverables, dates, and deadlines. A separate contract administration plan will not be developed as management believes the Statement of Work provides a sufficient outline to ensure performance and adherence to contract terms.</p>	Complete

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
14	<p>One auditor appointed by the contractor and a representative from the company should be the points of contact and held responsible for coordinating the PBC requests to and responses from the company. These representatives should meet at least weekly to review the PBC list together. The purpose of these meetings is to identify changes in or deletions from the PBC list, discuss any delays or accelerations in providing information, clarify any requests, and discuss PBC items coming due within the next 2 weeks. These representatives should be informed of all new PBC requests, including follow-up requests.</p> <p>Key outstanding PBC items overdue from company personnel should be discussed at the weekly status meetings. This allows for discussion and resolution of problems before significant delays occur. Overdue PBC items should also be elevated to the CFO for explanation and a revised due date.</p>	<p>Due to the size of the Amtrak audit, thousands of requests are made to numerous business owners throughout Amtrak. If one auditor or audit liaison is responsible for all PBC requests and subsequent responses, bottlenecks and inefficiencies are created. Auditors and business owners must be able to communicate without a "middle man". The COTR and task monitor are copied on all e-mail correspondence and attend meetings as applicable to ensure adequate and timely responses are provided to the auditor.</p> <p>During the FY11 audit, the auditor prepared an updated PBC list weekly. The COTR and task monitor reviewed the PBC list and provided comments to the contractor noting incomplete or inaccurate items prior to the weekly status meeting. Each week during the status meeting, the PBC list was discussed by all relevant business owners involved in the audit. During this meeting, PBC delays, clarifications, and overdue PBCs were discussed. The CFO attended most, if not all, weekly status meetings and the COTR additionally kept the CFO up-to-date through the audit.</p> <p>We anticipate continuing weekly meetings during the FY12 audit.</p> <p>The COTR and task monitor regularly discuss PBCs due within the next week or two with business owners ensuring delivery dates are reasonable; as appropriate, the auditor is informed of a revised dates of delivery.</p>	Complete

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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
15	<p>Regular status meetings could be strengthened by developing a structure that allows two-way communication between the contractor and management. This structure provides opportunities for feedback, facilitate reaching agreements, and eliminate surprises.</p> <p>These meetings are a means for the contractor to provide information on audit issues, obstacles, and timelines; they also provided an opportunity for management to ask questions and express concerns. These meetings become more frequent as the financial statements are prepared and the audit draws to conclusion (e.g., weekly in the beginning and daily toward the end).</p>	<p>Weekly status meetings are a part of management's process, allow for two-way communication and are also included in section 5.2 of the Statement of Work. These meetings allow the contractor to summarize progress to-date, discuss upcoming and overdue PBCs, and provide information on audit issues. During these meetings, business owners and the COTR ask questions, discuss significant accounting and audit issues, and express concerns about audit progress. Additionally, the meetings allow the auditor to ask additional questions.</p>	Complete
16	<p>Require the contractor to provide written notice of findings (NFRs) during the audit so that management is made aware, as soon as feasible, of the issues identified by the contractor. This process facilitates the resolution of any disagreements with the facts or recommended corrective actions and allows management time to understand the issues and determine whether the auditors had all relevant information.</p>	<p>Section 7.4 of the Statement of Work requires the contractor to submit NFRs as they arise. Additionally, specific dates within the Statement of Work have been clearly defined for the delivery of draft and final management letter comments. The contractor will be held to milestones and deliverables noted within the Statement of Work.</p>	Complete



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	<b>Recommendation</b>	<b>Status</b>	<b>Estimated Completion Date</b>
17	Following completion of the audit, representatives from the company, contractor, and management should hold a lessons-learned meeting to discuss how coordination may be further improved and to highlight challenges for the next audit cycle. This meeting should be conducted soon after the completion of the audit so that the past year's experience and issues can be appropriately addressed.	Section 5.6 of the Statement of Work requires that a lessons-learned meeting be held no later than January 31 of each year. The contractor will be held to milestones and deliverables noted within the Statement of Work.	Complete

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## **Appendix VII**

### **ABBREVIATIONS**

AICPA	American Institute of Certified Public Accountants
CAP	contract administration plan
CFO	chief financial officer
CO	contracting official
COTR	contracting official's technical representative
EBP	employee benefit plan
ERISA	Employee Retirement Income Security Act
GAO	Government Accountability Office
IPA	independent public accountant
OIG	Office of Inspector General
PBC	prepared by client
RFP	Request for Proposal—Instructions to Offerors
SAS	Statement on Auditing Standards
SOW	Statement of Work

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**Appendix VIII**

**OIG TEAM MEMBERS**

David R. Warren	Assistant Inspector General, Audits
Edward Stulginsky	Senior Director, Governance
Katherine X. Moore	Audit Manager, Auditor-in-Charge
David Yoder	Auditor
Karen Ajayi	Consultant
Nicholas Wieroniey	Consultant
Wilson Kayo	Consultant
John Davis	Consultant
Colin Carriere	General Counsel
Kathleen Ranowsky	Deputy General Counsel
Michael P. Fruitman	Principal Communications Officer

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## OIG MISSION AND CONTACT INFORMATION

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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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<b>Obtaining Copies of OIG Reports and Testimony</b>	Available at our website: <a href="http://www.amtrakoig.gov">www.amtrakoig.gov</a> .
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<b>To Report Fraud, Waste, and Abuse</b>	<p>Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):</p> <p>Web: <a href="http://www.amtrakoig.gov/hotline">www.amtrakoig.gov/hotline</a>          Phone: 800-468-5469</p>
<hr/>	
<b>Congressional and Public Affairs</b>	<p>E. Bret Coulson, Senior Director          Congressional and Public Affairs</p> <p>Mail: Amtrak OIG          10 G Street, N.E., 3W-300          Washington, DC 20002</p> <p>Phone: 202-906-4134</p> <p>Email: <a href="mailto:bret.coulson@amtrakoig.gov">bret.coulson@amtrakoig.gov</a></p>

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