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FOOD AND BEVERAGE SERVICE:

Initiatives to Help Reduce Direct Operating Losses Can Be
Enhanced by Overall Plan


Report No. OIG-A-2012-020 | September 7, 2012





Memorandum

To: DJ Stadtler, Vice President, Operations

From: 
David R. Warren
Assistant Inspector General, Audits

Date: September 7, 2012

Subject: *Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan (OIG-A-2012-020)*

Amtrak operates more than 300 intercity trains each day on the Northeast Corridor, state-supported routes, and long-distance routes.¹ Most long-distance trains include a full-service dining car, which serves hot meals for breakfast, lunch, and dinner. Many state-supported and Northeast Corridor routes include a café car, which offers sandwiches, snacks, and beverages. Over the last six years Amtrak's food and beverage service has incurred a direct operating loss² of over \$526 million.³ Losses in food and beverage have been a long-standing issue, requiring federal subsidies to support food and beverage operations. Given the size of the losses and continued need for federal subsidies, we are reviewing Amtrak's management of its food and beverage service.

Specifically, our reporting objectives are to (1) determine whether opportunities exist to improve food and beverage program management, accountability and planning, and (2) follow up on actions taken in response to our June 2011 recommendations to reduce vulnerability to fraud, waste, and abuse. We are continuing to review food and beverage program issues with a focus on identifying and reviewing best practices used by other public- and private-sector entities that provide food and beverage services to

¹ The Northeast Corridor routes include the Acela and regional trains that operate predominantly between Washington, D.C., and Boston; there are 27 state-supported routes and 15 long-distance routes.

² Direct operating loss is revenue minus on-board labor, commissary, and other support costs. Amtrak also allocates indirect costs to food and beverage service such as fuel and maintenance to food service cars in calculating route profit and loss. However, indirect costs were not the subject of this audit.

³ All figures are reported in 2011 dollars.

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passengers, such as foreign passenger railroads, cruise lines, and airlines. For a discussion of our scope and methodology, see Appendix I.

SUMMARY OF RESULTS

We identified two areas where food and beverage program management could be improved — accountability for program results and program-wide planning. We believe these management weaknesses stem from a fragmented program management structure. Food and beverage activities are carried out by two departments — the Marketing and Product Development Department manages commissary and support operations, while the Transportation Department manages on-board service personnel — but their activities are not well-coordinated. For example, Marketing and Product Development estimated in January 2011 that between \$2.5 million and \$5.1 million could be saved yearly by reducing check-in/check-out times for some on-board food and beverage service personnel. However, these estimates were developed without input from the Transportation Department, which manages on-board labor. Further, the two departments share responsibility for food and beverage service, but neither has a goal to reduce direct operating losses.

On July 19, 2012, the Vice President, Operations, announced the establishment of a Chief of Customer Service position within the Transportation Department. The Vice President later stated that the Chief of Customer Service will have accountability for improving Amtrak's food and beverage service program. The Vice President added that Marketing and Product Development's food and beverage service activities will be transferred to Operations as of October 1, 2012. We are encouraged by these recent developments and believe that once these actions are fully implemented, Amtrak will have in place a more effective and efficient framework for managing food and beverage services.

Further, Amtrak has taken action or has plans to address two of the three recommendations contained in our June 2011 report. First, Amtrak has established a loss-prevention unit and has plans to develop an internal control action plan. Second, while Amtrak has not taken any action on our recommendation to establish a pilot cashless project, Amtrak's President and CEO indicated on August 6, 2012, that Amtrak will conduct a test of cashless sales. We support this planned action.

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We are recommending that Amtrak develop a five-year plan for reducing its direct operating losses. The plan should include specific initiatives and annual operating loss reduction goals while retaining needed services. Amtrak's Vice President, Operations, provided comments to a draft of this report on September 4, 2012, wherein he concurred with our recommendation (see Appendix III). The Vice President stated that Amtrak will develop a plan within six months of filling the Chief of Customer Service position and will provide the OIG an update at that time.

ACCOUNTABILITY FOR PROGRAM RESULTS

As noted, two departments share responsibility for food and beverage service, but neither is accountable for improving service and/or reducing direct operating losses—let alone eliminating them. Moreover, initiatives to improve cost-recovery are not well-coordinated.

According to Marketing and Product Development's Chief of Food and Beverage Service, cost-recovery is the most important metric for measuring food and beverage results. However, no cost-recovery goal has been established for this metric in Amtrak's five-year financial plan. The Transportation Department likewise has no cost-reduction goal for food and beverage labor costs. Without a clear, program-wide goal—and an official accountable for achieving that goal—Amtrak decreases the likelihood that direct operating losses will be reduced while maintaining the quality of service. In commenting on a draft of this report, the Vice President, Operations noted that an Executive Committee member has had accountability and a specific goal for increasing overall cost-recovery for food and beverage services. However, this Executive Committee member had control over commissary and support operations, but not labor.

As shown in Table 1, the responsibilities for cost-recovery initiatives are divided among several departments, principally Marketing and Product Development and Transportation.

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**Table 1. Initiatives to Improve Direct
 Food and Beverage Cost-Recovery
 (dollars in millions)**

	Initiative/Implementation Responsibility ^a	Low Estimate	High Estimate
Revenue Increases	Increase revenue by increasing selling period on trains, improving sales data, and targeted pricing (T and MPD)	\$3.7	\$7.4
	Enhance revenue loss-avoidance (T)	0.6	1.4
	Subtotal, Revenue Increases	\$4.3	\$8.8
Cost Decreases	Decrease on-board labor costs by reducing check-in/check-out times (T)	2.5	5.1
	Decrease warehouse costs by eliminating manual data entry (MPD)	0.8	1.4
	Reduce staff and eliminate manual data entry at accounting center (F)	1.5	1.5
	Increase crew base productivity (T)	1.0	2.1
	Subtotal, Cost Decreases	\$5.8	\$10.1
Total Impact on Cost-Recovery		\$10.1	\$18.9

Source: Amtrak Food and Beverage briefing to Amtrak Board of Directors, January 20, 2011

^a **MPD** stands for Marketing and Product Development, **T** stands for Transportation, and **F** stands for Finance.

In discussing these initiatives with officials from these departments in March 2012, we learned that the initiatives were not well-coordinated. For example, as mentioned, Marketing and Product Development estimated in January 2011 that between \$2.5 million and \$5.1 million could be saved yearly by reducing check-in/check-out times for some on-board food and beverage service personnel. However, these estimates were developed without input from the Transportation Department, which manages on-board labor. Transportation officials stated that they had already begun implementing similar efforts. As a result, this raised questions as to whether these estimates were realistic, since some projected labor savings may have already been realized. In commenting on a draft of this report the Vice President, Operations acknowledged the estimates were independently developed, but believed the savings are within the projected range.

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On July 19, 2012, the Vice President, Operations, announced the establishment of a Chief of Customer Service position within Transportation. The Vice President explained that this position will help align the company's new business lines with Amtrak's September 30, 2011, strategic plan. He later stated that the Chief of Customer Service will have accountability (with multiple layers of cascading metrics within his or her organization) for improving Amtrak's food and beverage service program. He added that Marketing and Product Development's food and beverage service activities will be transferred to Operations as of October 1, 2012. We are encouraged by these recent developments and believe that once these actions are fully implemented, Amtrak will have in place a more effective and efficient framework for managing its food and beverage service.

PROGRAM-WIDE PLANNING

A key management best practice for helping reduce food and beverage service losses is a program-wide plan for improving cost-recovery while maintaining service levels. However, such a plan does not exist at this time. Moreover, the planned initiatives will only result in small efficiency gains because they are being applied to the existing business model. Specifically, the initiatives do not adequately address losses on long-distance routes or alternative business models for food and beverage service.

We believe a comprehensive plan to improve cost-recovery would include a focus on reducing costs in those areas in which losses are the greatest. As shown in Table 2, long-distance routes accounted for about \$74 million (87 percent) of FY 2011 food and beverage service losses.

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**Table 2. Reported FY 2011 Food and Beverage Service
 Direct Operating Losses
 (dollars in millions)**

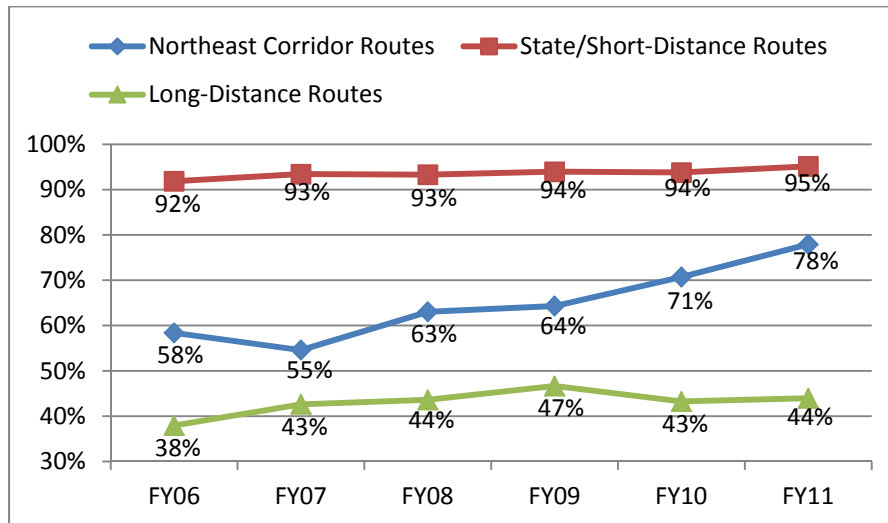
Routes	Revenue	Direct Costs			Loss	Percentage of total loss
		Labor	Commissary	Total		
Northeast Corridor	\$ 31.8	\$ 19.6	\$21.2	\$ 40.9	(\$9.0)	11
State-supported	31.7	19.4	13.9	33.3	(1.6)	2
Long-distance	57.9	78.0	53.9	131.9	(73.9)	87
Total	\$121.5	\$117.0	\$89.0	\$206.0	(\$84.6)	100

Source: Amtrak Finance Department, Food and Beverage Marketing Report for FY 2011

Note: Numbers do not all add due to rounding.

Further, between FYs 2006 and 2011, long-distance routes had the lowest cost-recovery rate for food and beverage service among all Amtrak routes. For example, in FY 2011, Amtrak's 15 long-distance routes collectively recovered only 44 cents of every dollar of food and beverage cost. (See Figure 1.)

Figure 1. Reported Cost-Recovery by Route, FYs 2006–2011



Source: OIG analysis of data from Amtrak and U.S. Bureau of Labor Statistics

NOTE: Amtrak operates 27 short-distance routes. On 18 of these routes, food and beverage service breaks even because of state subsidies, which Amtrak counts as revenue. On three routes, Amtrak does not provide food and beverage service. Thus, the

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operating losses come from the remaining six short-distance routes where Amtrak provides food and beverage service, but the states do not subsidize.

However, there is no integrated plan for improving cost-recovery, and none of Amtrak's current initiatives adequately address losses on long-distance routes.⁴

PROGRESS IN IMPLEMENTING RECOMMENDATIONS TO AVOID FRAUD, WASTE, AND ABUSE

In June 2011, we recommended that Amtrak (1) establish a pilot project of cashless food and beverage sales on selected routes; (2) provide the resources needed to establish a loss-prevention unit; and (3) have the loss-prevention unit implement an internal control plan to address weaknesses and gaps in on-board food and beverage service. Amtrak has taken action, or has plans to address two of our three recommendations.

First, Amtrak has established a loss-prevention unit and has hired four staff for the new unit. According to a Transportation Department official, Amtrak plans to provide the staff with four weeks of training in late FY 2012. Once the training has been completed, the team will start to develop an internal control action plan, which, according to an Amtrak Transportation Department official, should be completed by December, 2012. Amtrak has not taken any action on our recommendation to establish a pilot cashless project. However, on August 6, 2012, Amtrak's President and CEO indicated that a test of cashless sales will be conducted. Therefore, we are not making any recommendation on this issue.

RECOMMENDATION

To help reduce direct operating losses in Amtrak's food and beverage service, we recommend that once the Chief of Customer Service position is filled, the Vice President, Operations, direct that individual to develop a five-year plan for reducing direct operating losses. The plan should include specific initiatives and annual operating loss reduction goals, while retaining needed services.

⁴ For a list of long-distances routes and their FY 2011 food and beverage direct operating losses, see Appendix II.

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MANAGEMENT COMMENTS AND OIG ANALYSIS

Amtrak's Vice President, Operations provided comments to a draft of this report on September 4, 2012, wherein he concurred with our recommendation (see Appendix III). The Vice President stated that Amtrak will develop a plan within six months of filling the Chief of Customer Service position and will provide the OIG an update at that time. The Vice President also provided some technical comments that we considered and addressed as appropriate.

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Appendix I
SCOPE AND METHODOLOGY

This report provides the results of an Amtrak Office of Inspector General (OIG) review of the food and beverage service. We conducted this audit work from February through August 2012, in Washington, D.C. and Wilmington, Delaware.

To determine whether opportunities exist to improve food and beverage program management, accountability and planning, we obtained and analyzed information on Amtrak's ongoing initiatives to improve food and beverage service cost-recovery through FY 2015. We interviewed knowledgeable officials from the Finance, Marketing and Product Development, Government Affairs and Corporate Communications, and Transportation Departments regarding actions Amtrak has taken to improve food and beverage service cost-recovery and to obtain information on the implementation schedule, as well as assumptions underlying the estimated impact on food and beverage costs and revenues. We also toured Amtrak's commissary warehouse operation in Washington, D.C. Finally, we analyzed the impact the planned initiatives would have on labor and long-distance routes. Certain data in this report has been redacted due to its confidential nature.

To follow up on actions taken in response to our June 2011 recommendations to reduce vulnerability to fraud, waste and abuse, we obtained and analyzed information on Amtrak's efforts to implement our recommendations. We also interviewed knowledgeable officials from the Marketing and Product Development, and Transportation Departments regarding actions Amtrak has taken.

Our future food and beverage work will focus on identifying ways to help mitigate the food and beverage service direct operating losses while at the same time continuing to provide high-quality service. We will focus on identifying and reviewing best practices used by other public- and private-sector entities that provide food and beverage services to passengers, such as foreign passenger railroads, cruise lines, and airlines.

We performed this 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

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provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Our audit reviewed Amtrak's management controls to account for costs and revenues associated with the food and beverage service. According to Amtrak officials, some train-level costs and revenues are manually recorded by on-board service personnel, who complete various forms that are fed into Amtrak's accounting system. However, Amtrak is in the process of automating its point-of-sale system, which officials believe will alleviate the weaknesses with manual data entry.

Computer-Processed Data

We relied on data from Amtrak's Finance Department, which provided food and beverage costs and revenues broken down by Northeast Corridor, state-supported routes, and long-distance routes. For FYs 2006 through 2010, the data came from Amtrak's Financial Information System; for FY 2011, the data came from Amtrak's SAP Enterprise Resource Planning system. To verify the accuracy of these data, we compared two versions of Amtrak's FY 2010 data—one generated from the Financial Information System and one from the SAP Enterprise Resource Planning system—and noted some minor differences between the figures. We also obtained Amtrak's audited financial statements for FYs 2006 through 2011 and compared them with data provided by Amtrak Finance officials. This comparison identified some minor procedural limitations with the data. However, since the data differences and limitations we identified were not material, we concluded that the data were sufficiently reliable to be used in meeting our audit objectives.

Prior OIG Products

We reviewed the following prior products to identify information relevant to this audit.

Food and Beverage Service: Opportunities Exist to Build on Program Improvement Initiatives (OIG-T-2012-015, August 2, 2012) [Congressional Testimony]

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*Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to
Control Weaknesses and Gaps (Report No. E-11-03, June 23, 2011)*

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Appendix II
FY 2011, FOOD AND BEVERAGE
DIRECT OPERATING LOSSES
BY LONG-DISTANCE ROUTE
(dollars in thousands)

Route	Revenue	Direct Costs		Total Direct Costs	Loss
		On-Board Labor	Commissary		
Auto Train					
California Zephyr					
Southwest Chief					
Coast Starlight					
Empire Builder					
Sunset Limited					
Crescent					
Texas Eagle					
Silver Star					
Silver Meteor					
Capitol Limited					
Lake Shore Limited					
City of New Orleans					
Cardinal					
Palmetto					
Total	\$57,948	\$78,006	\$53,864	\$131,870	(-\$73,922)

Source: Amtrak Food and Beverage Summary Report for the Year to Date (YTD) Period Ending September 30, 2011

Note: Numbers do not all add due to rounding.

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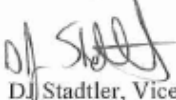
Appendix III
COMMENTS FROM AMTRAK'S VICE PRESIDENT, OPERATIONS

NATIONAL RAILROAD PASSENGER CORPORATION
 40 Massachusetts Avenue, N.E. 20002

Memo



Date September 4, 2012

From  DJ Stadtler, Vice President, Operations

To David Warren, Assistant Inspector
 General, Audits

Department Operations

Subject Food and Beverage Service

cc Gordon Hutchinson, Acting Chief
 Financial Officer
 Emmett Fremaux, Vice President,
 Marketing and Product Development
 William Herrmann, Managing Deputy
 General Counsel
 Jessica Scritchfield, Senior Director,
 Internal Controls / Audit

This letter is in response to Office of Inspector General ("OIG") draft audit report number 004-2012, "Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan," issued on August 15, 2012.

The OIG audit report provides useful information on which Amtrak management can take action. Management remains committed to making valuable improvements to the food and beverage service. On August 6, 2012, a revised action plan was provided to the OIG detailing an updated status as it relates to the recommendations in OIG Report E-11-03, "Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps," dated June 23, 2011. To summarize, the Revenue Protection Unit (the "Unit") was established in fiscal year 2012 and is now fully staffed. By October 31, 2012, the Unit will produce a draft fraud-awareness plan and develop internal controls and processes.

There are two items within the draft report where Management would like to provide further clarification::

1. Page 2, end of first paragraph of Summary of Results: "Further, the two departments share responsibility for food and beverage service, but neither has a goal to reduce direct operating loss."

While two departments currently share responsibility for providing food and beverage services, for each of the past six years, an Executive Committee member has had accountability and a specific goal for increasing overall cost recovery for Amtrak's food and beverage services. The published cost recovery goal includes expenses associated with Commissary Provisions and Management and OBS Labor & Support, elements of both departments. In each of the past six years the corporation has met the cost recovery goal established. Amtrak's cost recovery has improved from 49% in fiscal year 2006 to 59% in fiscal year 2011 and is targeted to reach 70% in fiscal year 2015.

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2. Page 4, end of paragraph: "As a result, this raised questions as to whether these estimates were realistic, since some projected labor savings may have already been realized".

The referenced section of Table 1 attributes the \$2.5 to \$5.1M savings to "Decrease on-board labor costs by reducing check-in/check-out times". The labor savings that have recently been realized through actions taken by Transportation department staff are attributable to reduced check-in/check-out times. While it may be true that the estimates were developed without input directly from the Transportation Department, they were developed by a management team that has years of experience in the Transportation Department and in train operations in general. They were developed as high level estimates; hence the ranges that were included, and more importantly the savings that are currently being realized are clearly within the specified range.

Below is management's response to the recommendation within the recent draft audit report.

Recommendation:

To help reduce direct operating losses in Amtrak's food and beverage service, we recommend that once the Chief of Customer Service position is filled, the Vice President, Operations, direct that individual to develop a five-year plan for reducing direct operating losses. The plan should include specific initiatives and annual operating loss reduction goals, while retaining needed services.

Management Response:

Management agrees with this recommendation. Once the Chief of Customer Service position is filled, the Vice President, Operations will direct that individual to develop a five-year plan for reducing direct operating losses. This plan will be developed within six months of filling the position and an update will be provided to the OIG at that time.

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Appendix IV
OIG TEAM MEMBERS

David R. Warren, Assistant Inspector General, Audits

Michael Kennedy, Senior Director

J.J. Marzullo, Auditor-in-Charge

George Atuobi, Senior Auditor

Kira Rao, Auditor

Michael P. Fruitman, Principal Communications Officer

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OIG MISSION AND CONTACT INFORMATION

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