

**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




Evaluation Report Issued By

**NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL
10 G STREET, N.E.
WASHINGTON, D.C. 20002**



Memorandum

To: Joseph H. Boardman
President and Chief Executive Officer

From: Ted Alves 

Date: June 23, 2011

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

The objectives of this report—based in part on work performed since 2003—are to provide Amtrak officials with (1) a summary of internal control weaknesses and gaps in food and beverage service, and (2) recommendations to address these weaknesses and gaps.

As you know, Amtrak operates more than 300 trains each day—most with food and beverage service—over more than 40 routes, carrying an average of 78,500 passengers. Amtrak’s lead service attendants (LSAs) provide these passengers with food and beverage service, such as meals, snacks, soda, juice, and alcoholic beverages. In fiscal year (FY) 2010, food and beverage service earned Amtrak \$131 million—\$98 million from sales and \$33 million from state revenue associated with food and beverage service—at a direct cost of \$192 million.¹ Amtrak also allocated another \$93 million in indirect costs—such as fuel, power, and maintenance costs—to food and beverage service in calculating route profit and loss.

Because food and beverage service can affect ticket sales and customer satisfaction,² we decided to provide Amtrak officials with a summary of the long-standing internal control weaknesses and gaps that continue to make on-board food and beverage revenues and inventories vulnerable to fraud, waste, and abuse. On May 5, 2011, we briefed Transportation Division officials on these results. The briefing is attached.

¹ Amtrak, *Food and Beverage Report, Year-to-Date, September 2010 (Final Audited)*, January 24, 2011.

² Sections 207 and 210 of the Passenger Rail Investment and Improvement Act of 2008 require Amtrak to develop and improve performance metrics for on-board service.

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SCOPE AND METHODOLOGY

To summarize internal control weaknesses and gaps in Amtrak food and beverage service, we relied on the results of our prior evaluations and investigations since 2003. To identify fraudulent transactions, we used spotters to test on-board food and beverage transactions, observed LSA actions and procedures, and reviewed available documentation. We also met with officials from the Transportation; Marketing and Product Development; and Finance departments to discuss Amtrak's actions to improve the economy, efficiency, and internal controls over food and beverage service. In developing a list of best practices, we included lessons learned from industry loss-prevention programs and cashless sales environments.

For Amtrak management's comments, see Appendix I.

RESULTS IN BRIEF

While Amtrak has taken some action to address internal control weaknesses that have led to and continue to make on-board food and beverage revenues and inventories vulnerable to fraud, waste, and abuse, such weaknesses and gaps remain. These control weaknesses and gaps allow certain LSAs to carry out schemes in which they falsify documents to conceal stolen cash or inventory. The fraudulent nature of these schemes makes it difficult to measure on-board losses. Still, restaurant-industry sources estimate that losses for a typical independent restaurant due to theft range from 4 percent to 7 percent of sales. On the basis of these estimates, \$4 million to \$7 million of Amtrak's on-board food and beverage sales could be at risk of theft. These losses also damage Amtrak's reputation as a steward of federal funds and as a provider of high-quality customer service.

Fraud, Waste, and Abuse Are Long-standing Problems

Between March 2003 and January 2010, we identified 903 theft, dishonesty, and policy/procedure violations by 306 LSAs, and issued 447 administrative referrals to Amtrak managers. The recurring schemes described in this report involve the falsification of documents to conceal missing food and beverage revenues and inventories. Specifically:

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- *Inflating first-class meal checks.* This scheme involves adding items to first-class passengers' meal checks—meals are provided free to first-class passengers—and selling these items to other passengers for cash.
- *Selling non-Amtrak items.* This scheme involves smuggling non-Amtrak items on board a train and selling them to passengers.
- *Shorting cash register sales.* This scheme involves selling items for their retail value and ringing up smaller amounts, with LSAs pocketing the difference.
- *Stealing inventory.* This scheme involves directly taking dining car food (rice, oil, eggs, and potatoes) and other items—complimentary beverages, paper products, and open wine bottles.
- *Providing items at no cost.* This scheme involves providing customers with complimentary items and providing free drink refills without authorization.

Amtrak Has Acted to Improve Economy, Efficiency, and Internal Controls

Amtrak officials have already improved or have actions underway to improve the economy, efficiency, and internal controls of on-board food and beverage service. For example, Amtrak has established a centralized system to help automate the collection of revenue shortages, restructured staffing for dining cars to reduce labor costs, introduced seat cart service for selected high-traffic routes to improve cost recovery, and introduced on-board electronic credit card technology to increase sales. Further, it is implementing a warehouse inventory management system to automate ordering, receiving, and inventory management, and to provide real-time data. Amtrak is also developing an on-board point-of-sale system that will automate processes, improve data timeliness and reliability, and enhance the LSA work environment by reducing paperwork and eliminating error-prone processes.

Internal Control Weaknesses and Gaps Remain

Despite the steps that Amtrak has taken to improve this problem, internal control weaknesses and gaps over on-board food and beverage service still exist. Compared with industry best practices, Amtrak still lacks

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- a loss-prevention unit with dedicated staff to manage loss; investigate cash and inventory losses; and provide a visible deterrent to fraud, waste, and abuse;
- a management-sponsored fraud-awareness program for on-board service employees;
- random, internal management searches of LSAs and other service employees to detect possible unauthorized items coming on board;
- random, internal management reviews of LSAs' inventories of deliveries, en route transfers, or end-of-trip stocks to minimize fraud, waste, and abuse;
- random, internal management searches of LSAs and other service employees when departing the train to detect possible stolen items; and
- cashless sales to remove the opportunity to steal cash.

Although Amtrak officials have proposed moving to on-board cashless sales, no firm plans exist at this time. Yet there are many benefits to cashless sales, among them reduced inventory and cash losses due to handling errors, theft, and fraud. Cashless sales have been proven to increase revenues through higher individual check amounts and more customer purchases. Such a system would also simplify the LSAs' work because there would be no need to carry or account for cash.

Most domestic airlines have implemented in-flight cashless sales. During tests of cashless flights, airlines reported, customers spent more when using charge cards. Airlines were also able to simplify in-flight procedures for their flight attendants so that they could focus more on customer service and safety. However, according to Transportation Department officials, on-board cashless sales may not be appropriate for some selected Amtrak routes and trains due to the unique nature of the rail passenger industry.

CONCLUSIONS

Despite actions taken or underway, further measures would clearly make a difference in improving internal control weaknesses and gaps over on-board food and beverage service. Planned improvements in warehouse inventory management and point-of-sale systems will not be sufficient to eliminate all vulnerabilities. As a result, on-board food and beverage services, revenues, and inventories will continue to be at risk of loss to

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fraud, waste, and abuse. Correcting these problems would increase revenues, improve customer service, and help reduce Amtrak's reliance on federal subsidies. Further, the damage to Amtrak's reputation and the morale of honest employees demands an end to the present culture of abuse. Customer service suffers when on-board employees can easily circumvent controls and implement schemes that allow them to steal.

RECOMMENDATIONS

We recommend that the President and Chief Executive Officer direct that actions be taken to:

1. Establish a pilot project of cashless food and beverage sales on selected routes and trains to determine the short- and long-term effects on operations loss prevention, revenues, costs, customer satisfaction, and the on-board work environment.
2. Provide resources needed to establish a loss-prevention unit with dedicated staff to manage loss prevention, investigate losses, and provide a visible deterrent to fraud, waste, and abuse.
3. Have the loss-prevention unit implement an internal control action plan to address weaknesses and gaps in the on-board food and beverage service. The plan should include goals, milestones, and procedures to establish
 - a fraud-awareness program for on-board food and beverage employees;
 - internal controls and processes to randomly search LSAs and other service employees to detect possible unauthorized items coming on board;
 - internal controls and processes to randomly review LSAs' inventories of deliveries, en route transfers, and end-of-trip stocks to minimize fraud, waste, and abuse; and
 - internal controls and processes to randomly search LSAs and other service employees when departing the train to detect possible stolen items.

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MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of this report, Amtrak management agreed with all of our recommendations. The cited actions are responsive to our recommendations and we will continue to follow up on implementation progress. Management also provided technical comments on certain aspects of the report. We considered those comments and incorporated them into this report where appropriate.

We appreciate the courtesies and cooperation of Amtrak representatives during the preparation of this report. If you or your staff have any questions, please contact Eileen Magee, Supervisory Loss Prevention Coordinator, at 215-349-1856 (Eileen.Magee@amtrakoig.gov); Mark A. Little, Senior Director, Audits, at 202-906-4893 (Mark.Little@amtrakoig.gov); or David R. Warren, Assistant Inspector General, Audits, at 202-906-4742 (David.Warren@amtrakoig.gov).

cc: Richard Phelps, Vice President, Transportation
Emmett Fremaux, Vice President, Marketing and Product Development
William Herrmann, Managing Deputy General Counsel
Jessica Scritchfield, Senior Director, Internal Controls/Audit

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BRIEFING

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Office of Inspector General



**Food and Beverage Service:
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Control Weaknesses and Gaps**

E-11-03

May 5, 2011



Amtrak Office of Inspector General
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Background

[Office of Inspector General](#)

- Lead service attendants (LSAs) provide passengers with on-board food and beverage service (meals, snacks, sodas, juices, alcoholic beverages).
- Food and beverage service earned revenues of \$131 million in FY 2010 (\$98 million from sales and \$33 million from state revenue associated with food and beverage service) at a direct cost of \$192 million.
- Amtrak allocated another \$93 million in indirect costs—fuel, power, maintenance—to food and beverage service in FY 2010 in calculating route profit and loss.



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Objectives

Office of Inspector General

- To provide Amtrak officials with a summary of internal control weaknesses and gaps in food and beverage service
- To recommend actions to address these weaknesses and gaps



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Results in Brief

Office of Inspector General

- Internal control weaknesses and gaps exist that have led to and continue to make on-board food and beverage revenues and inventories vulnerable to fraud, waste, and abuse. Amtrak has addressed these weaknesses, but some remain.
- These control weaknesses and gaps allowed LSAs to falsify documents to conceal stolen cash or inventory.
- On the basis of restaurant-industry estimates, \$4 million to \$7 million of Amtrak's on-board food and beverage sales could be at risk to theft.
- Along with depriving Amtrak of earned revenue, these losses damage Amtrak's reputation as a steward of federal funds and as a provider of high-quality customer service.



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Summary of Recommendations

Office of Inspector General

We recommend that Amtrak

- (1) establish a pilot project of cashless food and beverage sales on selected routes and trains,
- (2) establish a loss prevention unit, and
- (3) implement a plan to address the control weaknesses and gaps.



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***Fraud, Waste, and Abuse Are
Longstanding Problems***

Office of Inspector General

Between March 2003 and January 2010, we identified 903 theft, dishonesty, and policy/procedure violations by 306 LSAs, and issued 447 administrative referrals to Amtrak managers.

Recurring fraud schemes included:

- Inflating first-class meal checks.*** Items were added to first-class passengers' meal checks—meals are provided free to first-class passengers—and these items were sold to other passengers for cash.
- Selling complimentary items.*** Complimentary items such as water, soda, and juice are provided free to business-class passengers. LSAs sold such items to coach passengers for cash and falsified inventory-control forms to indicate that they were provided free to business-class passengers.



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Fraud, Waste, and Abuse Are

Office of Inspector General

Longstanding Problems (cont'd.)

- Selling non-Amtrak items.*** Non-Amtrak items are smuggled onto trains and sold to passengers.
- Shorting cash register sales.*** Items are sold at their retail value and rung up as sales at smaller amounts. LSAs pocket the difference. We witnessed several instances in which LSAs covered the register window to block a customer's view.
- Stealing inventory.*** Dining car food—such as rice, oil, eggs, potatoes, and other items including complimentary beverages, paper products, and open wine bottles—are simply taken directly.
- Providing items at no cost.*** Customers are provided with complimentary items, including free drink refills, without authorization.



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***Fraud, Waste, and Abuse Are
Longstanding Problems*** (cont'd.)

Office of Inspector General

- The fraudulent nature of these schemes makes it difficult to measure on-board losses.
- Restaurant-industry sources estimate that losses for a typical independent restaurant due to theft range from 4 percent to 7 percent of sales.
- On the basis of these estimates, \$4 million to \$7 million of Amtrak's on-board food and beverage sales could be at risk to theft.



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Amtrak's Actions to Improve

Office of Inspector General

Economy, Efficiency, and Internal Controls

- Established a centralized system to help automate the collection of revenue shortages.
- Introduced on-board electronic credit card technology to increase sales.
- Implementing a warehouse inventory management system to automate ordering, receiving, and inventory management, and to provide real-time data.
- Working to develop a point-of-sale system that will automate processes, improve data timeliness and reliability, and enhance the on-board work environment by reducing paperwork and eliminating error-prone processes.



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***Internal Control Weaknesses and
Gaps Remain***

Office of Inspector General

Compared with industry best practices, Amtrak still lacks:

- A loss prevention unit with dedicated staff to manage loss prevention, investigate cash and inventory losses, and provide a visible deterrent to fraud, waste, and abuse.
- A fraud-awareness program for on-board service employees.
- Random, internal management searches of LSAs and other service employees to detect possible unauthorized items when coming on board.
- Random, internal management reviews of LSAs' inventories of deliveries, en route transfers, or end-of-trip stocks to minimize fraud, waste, and abuse.
- Random, internal management searches of LSAs and other service employees to detect possible stolen items when departing the train.



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***Internal Control Weaknesses and
Gaps Remain*** (cont'd.)

Office of Inspector General

- Cashless sales remove the opportunity to steal. Although proposals have been made to move to cashless sales, no firm plans exist. The benefits of cashless sales include:
 - Reduced inventory and cash losses due to handing errors, theft, and fraud.
 - Increased revenues through higher individual check amounts and more customer purchases.
 - Simplified LSA work through no need to carry or account for cash.

Airlines, most of which have switched to cashless transactions only, reported that customers spend more when using charge cards; further, airlines were able to simplify inflight procedures for their flight attendants. According to Transportation Division officials, on-board cashless sales may not be appropriate for some selected Amtrak routes and trains due to the unique nature of the rail passenger industry.



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Conclusions

Office of Inspector General

- While some actions have been taken or are underway, on-board food and beverage services, revenues, and inventories will continue to be at risk of loss to fraud, waste, and abuse until further measures are taken to address remaining internal control weaknesses and gaps. Warehouse inventory management and point-of-sale systems alone will not eliminate all vulnerabilities.
- Correcting these weaknesses and gaps should increase revenues, improve customer service, and help to reduce Amtrak's reliance on federal subsidies.
- The existing fraud, waste, and abuse damage Amtrak's reputation and employee morale, and promote a culture of abuse.
- Customer service suffers when on-board employees circumvent controls and implement schemes to steal.



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Recommendations

Office of Inspector General

In order to reduce the problem of losses due to control issues with on-board food and beverage service, we recommend that the President and Chief Executive Officer direct that actions be taken to:

- (1) Establish a pilot project of cashless food and beverage sales on selected routes and trains to determine the short- and long-term effects on operations loss prevention, revenues, costs, customer satisfaction, and the on-board work environment.
- (2) Provide resources needed to establish a loss prevention unit with dedicated staff to manage loss prevention, investigate losses, and provide a visible deterrent to fraud, waste, and abuse.



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Recommendations (cont'd.)

Office of Inspector General

(3) Have the prevention unit implement an internal control action plan to address weaknesses and gaps in the on-board food and beverage service. The plan should include goals, milestones, and procedures to establish:

- A fraud-awareness program for on-board food and beverage service employees.
- Internal controls and processes to randomly search LSAs and other service employees to detect possible unauthorized items coming on board.
- Internal controls and processes to randomly review LSAs' inventories of deliveries, en route transfers, and end-of-trip stocks to minimize fraud, waste, and abuse.



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Recommendations (cont'd.)

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- Internal controls and processes to randomly search LSAs and other service employees to detect possible stolen items when departing the train.



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Appendix I

COMMENTS FROM AMTRAK'S PRESIDENT AND CEO

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002
tel (202) 906-3960, fax (202) 906-2850

Memo



Date June 16, 2011
To Ted Alves
Inspector General

From Joseph H. Boardman
Department President and CEO
Subject Draft Report E-11-03: Food and
Beverage Service: Further Actions
Needed to Address Revenue Losses
Due to Control Weaknesses and
Gaps
cc Richard Phelps
Emmett Fremaux
William Herrmann
DJ Stadler
Jessica Scritchfield
Lois Cuning
Jeff Snowden

Message This memo is in response to Office of Inspector General ("OIG") report number E-11-03 "Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps," dated May 11, 2011.

Management agrees with the recommendations within this report.

Recommendation 1:

"Establish a pilot project of cashless food and beverage sales on selected routes and trains to determine the short and long-term effects on operations loss prevention, revenues, costs, customer satisfaction, and on-board work environment."

Management Response:

Management agrees that implementing a pilot project of cashless food and beverage sales on selected routes and trains may be beneficial. Discussions on implementing a cashless system on selected routes have and are continuing to take place. The action plan for a pilot cashless environment is not possible until sometime after implementation of the integrated POS on-board system which is currently scheduled for late 2012, pending approved capital funding.

Management will continue discussions on implementing a cashless environment onboard our trains. Lois Cuning in the Transportation Department will work with the Marketing and Product Development Department and will be responsible for development and execution of a pilot project by June 30, 2013.

We will provide an update on the progress of this recommendation and funding for the POS system to the OIG by January 1, 2012.

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Recommendation 2:

“Provide resources needed to establish a loss prevention unit with dedicated staff to manage loss prevention, investigate losses, and provide a visible deterrent to fraud, waste, and abuse.

Management Response:

Management agrees with the OIG recommendation that a dedicated staff would be beneficial in identifying, managing and recovering losses.

Members of various management teams have held discussions around the creation of a Loss Prevention Unit. Identifying the staffing needs, organizational structure, and resources needed are continuing. Lois Cuning in the Transportation Department will develop a draft staffing plan and business case analysis for review/approval by the Vice President Transportation and the Chief Financial Officer for implementation in FY2012. Management will provide an update to the OIG by September 30, 2011.

Recommendation 3:

“Have the loss prevention unit implement an internal control action plan to address weaknesses and gaps in the on-board food and beverage service. The plan should include goals, milestones, and procedures to establish:

- **A fraud-awareness program for on-board food and beverage employees.**
- **Internal controls and processes to randomly search LSAs and other service employees to detect possible unauthorized items coming on board.**
- **Internal controls and processes to randomly review LSAs’ inventories of deliveries, en route transfers, and end-of trip stocks to minimize fraud, waste, and abuse.**

Management Response:

A fraud-awareness program for on-board food and beverage employees:

Management agrees with the OIG to develop a fraud awareness program for on-board food and beverage employees. Lois Cuning in the Transportation Department will begin development and implementation of a fraud-awareness program. We will have a draft process developed by December 31, 2011, that will assume creation of the Loss Prevention Unit.

Internal controls and processes to randomly search LSAs and other service employees to detect possible unauthorized items coming on board:

Management agrees with the OIG regarding random searches. The Transportation Department will work with the labor organizations and the operating department

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management to develop a policy in conjunction with the Safe-2-Safer philosophies. Jeff Snowden in the Transportation Department will be responsible to draft the policy and process by the September 30, 2011.

Internal controls and processes to randomly review LSAs' inventories of deliveries, en route transfers, and end-of trip stocks to minimize fraud, waste, and abuse.

Management agrees with the OIG to improve the internal controls and processes. A review of the internal processes will be done and Lois Cuning of the Transportation Department will be responsible for the development and oversight of this recommendation by March 31, 2012, at which time management will provide an update to the OIG.

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Appendix II

ABBREVIATIONS

LSA	Lead Service Attendant
OIG	Office of Inspector General

Amtrak Office of Inspector General
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Appendix III

OIG TEAM MEMBERS

David R. Warren	Assistant Inspector General, Audits
Eileen Magee	Supervisory Loss Prevention Coordinator
Ed Vogel, Jr.	Chief, Inspections and Evaluations
John Grimes	Chief Inspector
Mark A. Little	Senior Director, Audits

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