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PASSENGER RAIL INVESTMENT AND IMPROVEMENT ACT OF 2008:

Amtrak Has Made Good Progress, but Continued Commitment
Needed to Fully Address Provisions


Report No. OIG-A-2012-001 | October 26, 2011





Memorandum

To: Joseph Boardman, President and CEO

From: Ted Alves 

Date: October 26, 2011

Subject: *Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions* (Report No. OIG-A-2012-001)

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA)¹ reauthorized the National Railroad Passenger Corporation (Amtrak) and strengthened the U.S. passenger rail network by tasking Amtrak, the Department of Transportation, the Federal Railroad Administration, states, and others to improve operations and services. PRIIA authorized nearly \$10 billion for Fiscal Years (FY) 2009–2013 for Amtrak’s operating costs and capital investments, including actions to help Amtrak improve its financial management, operate more efficiently, and improve services on existing routes. The Act assigned 29 sections to Amtrak: most required Amtrak to act within a specified time frame, others suggested that Amtrak take or consider some action, and the rest required or suggested that Amtrak respond to actions taken by federal or state agencies.

Further, PRIIA called for oversight of Amtrak’s implementation of the Act’s provisions. Section 221, *Amtrak Management Accountability*, required the Department of Transportation’s Office of Inspector General (OIG) to complete, within 3 years, an overall assessment of the progress the Department of Transportation and Amtrak had made in implementing the Act’s provisions. Following discussions with the Department

¹ Public Law 110-432, October 16, 2008.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

of Transportation's OIG and congressional committees,² it was agreed that we would assess the progress made in implementing those provisions assigned to Amtrak. It was also agreed that the Transportation OIG would assess the progress made in implementing the provisions assigned to the Department of Transportation. This report provides the results of our review of the progress made in implementing PRIIA provisions assigned to Amtrak.³

Our audit objectives were to assess the progress that Amtrak has made in implementing Amtrak-assigned PRIIA provisions by comparing the provision's requirements and suggestions to the progress Amtrak has made to address them. We also evaluated the quality and effectiveness of Amtrak's actions to implement three selected sections: *Restructuring Long-Term Debt and Capital Leases* (Section 205); *Long-Distance Routes* (Section 210); and *Passenger Train Performance* (Section 213). We judgmentally selected these provisions on the basis of their potential to improve performance and generate savings to Amtrak and the federal government. For a detailed discussion of our audit scope and methodology, see Appendix I.

SUMMARY OF RESULTS

Amtrak has made good progress in addressing the 29 PRIIA provisions assigned to it. Amtrak has addressed nine requirements and nine suggestions. It also continues to work on responding to seven PRIIA sections. Amtrak has not responded to one suggestion—that it expand the use of special trains to reduce federal subsidies. Amtrak has not had to react to three sections because the events that are preconditions to it responding have not occurred.

While Amtrak has made good progress in addressing most PRIIA requirements and suggestions assigned to it, we identified five issues that represent opportunities for savings or improving the implementation of PRIIA provisions:

² Committee on Commerce, Science, and Transportation, United States Senate, and Committee on Transportation and Infrastructure, House of Representatives.

³ On September 14, 2011, the Amtrak Inspector General testified before the Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety, and Security; Committee on Commerce, Science, and Transportation; United States Senate, on the preliminary results of this audit. The testimony is available at our website: www.amtrakoig.gov.

*Amtrak Office of Inspector General***Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions**

Report No. OIG-A-2012-001, October 26, 2011

- **Restructuring More Amtrak Debt Could Generate Savings.** Section 205 authorized the Department of the Treasury, the Secretary of Transportation, and Amtrak to restructure outstanding Amtrak debt, if significant savings would accrue to Amtrak and the federal government. After working with the Secretary of Transportation and Amtrak, Treasury restructured 13 capital leases, saving \$152 million (\$91 million in present-value dollars). Opportunities for substantial savings still exist, but the authorization to restructure debt expired in October 2010. To illustrate, Amtrak estimated in May 2009 that another 39 leases with early buyout options had the potential to save an additional \$426 million (\$305 million in present-value dollars). New legislative authority and updated savings estimates would be needed to allow Amtrak and the Departments of the Treasury and Transportation to pursue these savings.
- **Implementing Long-Distance Improvement Plans Faces Challenges.** Section 210 required Amtrak to rank its 15 long-distance routes and develop performance improvement plans, starting with the five worst-performing routes. Amtrak issued plans for the first five routes and the second five routes in September 2010 and September 2011, respectively. The 2010 plans generally called for initiatives that would significantly improve ridership and several financial metrics, but at the cost of some increase to operating losses. While Amtrak has begun implementing improvements that are under its control, such as expanding seating, food-service options, and vacation packages, it has been unable to implement the major initiatives. One reason is that major initiatives, such as providing daily service instead of three-day-a-week service, require approval from the host railroad. The host railroads informed Amtrak that their approval is contingent upon its providing millions of dollars to improve their infrastructure. Other impediments are the need for additional federal subsidies at a time of severe budget constraints, and limited availability of passenger rail cars. The recently issued 2011 plans are less dependent upon initiatives that require the approval of host railroads and are projected to produce financial benefits.
- **Developing a Process to Support Using On-Time-Performance Remedies.** Section 213 authorizes Amtrak to request that the Surface Transportation Board investigate substandard on-time performance of intercity passenger trains, which the Act defines as less than 80 percent on-time for two consecutive quarters. Still, Amtrak continues to experience on-time-performance rates for many long-distance routes that fall below the PRIIA-defined standard. Amtrak has been collecting the data

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

necessary to determine if and when to request an investigation by the Board. However, Amtrak has not developed a structured process to make this determination.

- **Implementing Amtrak's New Financial System is Key to Completing Several Remaining Provisions** (Sections 203, 204, and 207). Section 203 required Amtrak to implement a modern financial accounting and reporting system by October 2011. Amtrak deployed its new system in June 2011; however, the system has encountered problems and is not yet fully stable or operational. Consequently, while Amtrak has prepared the annual five-year financial plans as required by Section 204, the plans have not fully met the section's financial reporting requirements. Also, Amtrak has not been able to meet Section 207 requirements that it maintain detailed data to measure the performance and service quality of intercity passenger trains, including cost recovery. According to a senior Finance Department official, when fully operational, the recently deployed system will help Amtrak meet these requirements. In September 2011, this senior official reported that it may require several more months to achieve a stable system.
- **Determining Whether Additional Special Trains Could Help Reduce Federal Subsidies.** Section 216 encouraged Amtrak to increase the operation of special trains to minimize the need for federal subsidies. However, Amtrak officials said that they did not consider this suggestion. They stated that Amtrak does not have the resources, such as the rolling stock and manpower, to dedicate to this type of service. Amtrak does, however, provide some special trains, but they generate a very small amount of revenue. Still, without adequate analysis to determine whether additional special trains could generate profits to help reduce federal subsidies, Amtrak may be missing an opportunity to generate additional profits.

In commenting on a draft of this report, Amtrak's Chief Financial Officer stated that the report provided useful information upon which Amtrak management can take action and agreed with the report's recommendations.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

GOOD PROGRESS MADE IN ADDRESSING MOST PROVISIONS; OTHERS IN PROCESS OF BEING MET

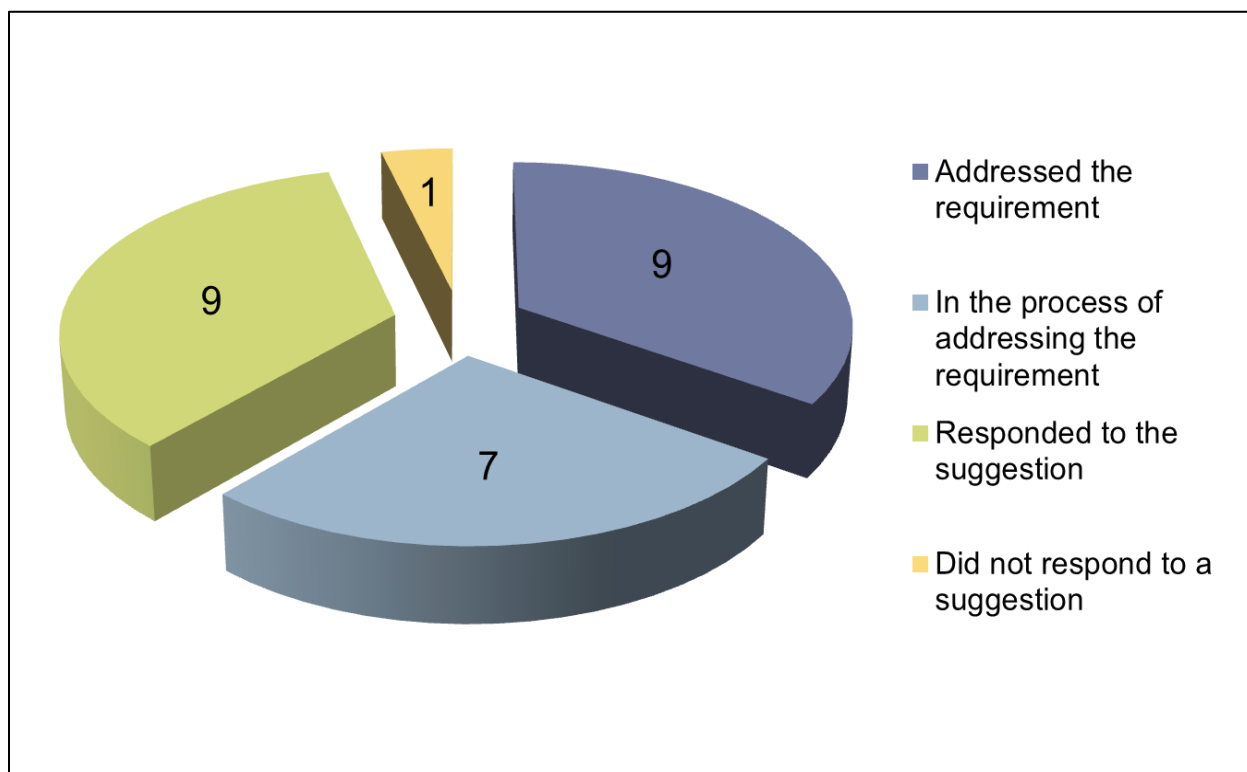
Amtrak has embraced PRIIA and has made good progress in meeting the Act's provisions—a significant accomplishment given the magnitude of the issues addressed in the Act. As shown in Figure 1, Amtrak

- has addressed or responded to 18 of the requirements and suggestions assigned to it. For example, Amtrak issued performance improvement plans for its five worst performing long-distance routes and, with the Departments of the Treasury and Transportation's assistance, restructured some of its capital leases, saving \$152 million.
- continues to work on responding to seven PRIIA sections. For example, it is negotiating with states to implement a standardized cost-sharing methodology for state-supported routes.
- has not responded to one PRIIA suggestion. Amtrak officials said that they did not consider the Act's suggestion to expand the use of special trains to reduce federal subsidies.
- has not had to react to three PRIIA sections because the events that are preconditions to it responding have not occurred. For example, no Amtrak-operated route has been eliminated under Section 215, *Employee Transition Assistance*, as the precondition for Amtrak to certify that it made a reasonable attempt to reassign affected employees has not occurred.

For a detailed discussion of Amtrak's progress in implementing each provision, see Appendix II.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
 Continued Commitment Needed to Fully Address Provisions**
 Report No. OIG-A-2012-001, October 26, 2011

**Figure 1. Amtrak's Progress in Implementing PRIIA Provisions
 (number of sections)**



Note: Amtrak has not had to react to three sections because the events that are preconditions to it responding have not occurred.

Source: OIG analysis of Amtrak's deliverables and responses and PRIIA's requirements and suggestions

FIVE AREAS PROVIDE OPPORTUNITIES FOR SAVINGS OR IMPROVING PRIIA IMPLEMENTATION

We identified five areas that represent opportunities for savings or improving Amtrak's implementation of PRIIA provisions. These include issues related to Amtrak's long-term debt and capital leases, long-distance routes, on-time-performance remedies, new financial system, and special trains; and are discussed below.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Restructuring More Amtrak Debt Could Generate Savings (Section 205)

Section 205, *Restructuring Long-Term Debt and Capital Leases*, authorized the Secretary of the Treasury—in consultation with Amtrak and the Secretary of Transportation—to enter into negotiations to restructure Amtrak’s long-term debt and capital leases. This authorization expired in October 2010. In restructuring the debt, the Secretary of the Treasury and Amtrak were to (1) take into consideration repayment costs, the term of any loan or loans, and market conditions; and (2) ensure that the restructuring results in significant savings to Amtrak and the federal government. Nevertheless, Section 205 does not specify how much of Amtrak’s long-term debt and capital leases should be restructured.

After working with Amtrak and the Department of Transportation, Treasury restructured 13 capital leases, saving \$152 million⁴ (\$91 million in present-value dollars)⁵ between FYs 2011 and 2013. Initially, Amtrak identified 52 capital leases with early buyout options that could save the federal government about \$578 million (\$396 million in present-value dollars) between FYs 2010 and 2019.⁶ Out of these leases, Treasury selected 13 leases for early buyout at a cost of \$420 million. The estimated savings from the early buyouts are shown in Table 1. According to Treasury officials, it selected leases (shown in *red italics* and shaded in Table 1) whose buyout options could be exercised between the date of the signed memorandum of understanding by the Departments of the Treasury and Transportation (October 15, 2010),⁷ and the end of PRIIA’s authorization period (September 30, 2013). We calculated the savings to Amtrak and the federal government to be about \$152 million. After the selection, Amtrak still had 39 capital leases that could result in savings of \$426 million (\$305 million in present-value dollars). However, \$638 million would be required to accomplish early buyout of these leases.

⁴ The \$152 million savings is about \$10 million less than that reported by the Departments of the Treasury and Transportation in their press release on October 15, 2010.

⁵ Present-value dollars are based on the early buyout option dates.

⁶ Amtrak provided the Department of the Treasury with data that split its capital leases by early buyout option dates. On April 30, 2009, Amtrak had 25 and 27 capital leases with early buyout options in FYs 2010–2014 and FYs 2015–2019, respectively.

⁷ *Memorandum of Understanding Between the Secretary of the Treasury and the Secretary of Transportation*, October 15, 2010, to set forth the terms and conditions for the exercise of certain early buyout options on select leases entered into by Amtrak.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

**Table 1. Amtrak Capital Leases with Early Buyout Options
in FYs 2010–2019, as of April 30, 2009
(dollars in millions)**

Fiscal year	Maturity value	Early buyout amounts	Estimated savings	Estimated savings (present value)^a
2010	\$ 59	\$ 37	\$ 21	\$ 15
2011 ^b	67	52	15	7
2012 ^b	189	125	64	42
2013 ^b	317	244	73	42
2014	322	209	114	69
2015	17	10	7	5
2016	88	48	40	35
2017	237	143	93	69
2018	278	154	124	91
2019	64	36	28	21
Total before selection (52 leases)	\$1,637	\$1,058	\$578	\$396
Selected to be paid off (13 leases)	\$ 572	\$ 420	\$152	\$ 91
Total after selection (39 leases)	\$1,064	\$ 638	\$426	\$305

^aPresent value is based on the early buyout options' dates.

^bIncludes the 13 leases selected by the Department of the Treasury for early buyout—two leases in FY 2011, five leases in FY 2012, and six leases in FY 2013.

Note: Figures do not total due to rounding.

Source: OIG analysis of Amtrak data

Senior Amtrak officials stated their belief that some of the leaseholders may be willing to terminate their remaining leases before the buyout option dates, at approximately the value of the leased property. These officials noted that some leaseholders have reevaluated their business models following the financial market turmoil of 2008 and 2009, with some deciding to move away from traditional leasing businesses; some are considering liquidating their leases. These officials also stated that there were other opportunities to negotiate early buyouts of Amtrak's long-term debt. For example, Amtrak has a 6.37-percent interest rate on a Pennsylvania Economic Development

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
Report No. OIG-A-2012-001, October 26, 2011

Financing Authority⁸ bond with a principal balance of more than \$102 million. Assuming a redemption date of November 1, 2011, Amtrak estimated that paying off the bond would save almost \$128 million (\$46 million in present-value dollars).

In order to take advantage of these savings opportunities, Congress would have to reauthorize the provision to give Treasury authority to invest in early buyouts to generate future savings.

Implementing Long-Distance Improvement Plans Faces Challenges (Section 210)

Section 210 required Amtrak to evaluate and rank each of its 15 long-distance routes according to their overall performance, arranged into three groups—those routes belonging to the worst-performing third, the middle-performing third, and the best-performing third. Amtrak must then develop and post on its website performance improvement plans for these routes. It was supposed to begin implementing those plans for the worst-performing routes in FY 2010, the middle-performing routes in FY 2011, and the best-performing routes in FY 2012. The section also required the Federal Railroad Administration to monitor Amtrak’s development and implementation of the performance-improvement plans. If the Administration concludes that Amtrak is not making reasonable progress in improving performance of these routes, it can withhold funds for operation of one or more routes.

Amtrak completed the ranking of all of its 15 long-distance routes based on their performance during FY 2008. It issued plans for the first five routes and the second five routes in September 2010 and September 2011, respectively. However, Amtrak has experienced difficulty in implementing key initiatives for four of the first five routes, because they require host railroad approval and additional federal operating subsidies or passenger rail cars. For example:

- Amtrak has not yet implemented the key initiative of the *Cardinal* plan.⁹ That initiative would increase the frequency of long-distance train service for the route

⁸ The purpose of the Pennsylvania Economic Development Financing Authority is to provide access to cost-effective capital for growing Pennsylvania businesses. The Authority finances business projects by issuing both tax-free and taxable bonds, selling them to investors and lending the proceeds to eligible businesses.

⁹ Amtrak, *PRIIA Section 210 FY 10 Performance Improvement Plan, Cardinal*, September 2010.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

from three round-trips per week between New York City and Chicago (via New Jersey, Pennsylvania, Maryland, Virginia, West Virginia, Ohio, Kentucky, and Indiana) to daily service. The host railroad responded that it will require massive capital improvements to increase capacity. If and when the host railroad approves the increase in service, Amtrak will still need (1) funding to pay for the host railroad's capital improvements, (2) a \$2.1-million increase in the annual federal operating subsidies to pay for the estimated increase in the operating loss, and (3) four additional passenger cars. This plan projects that annual ridership will increase by 96 percent and that the cost recovery—the degree to which each route covers its operating costs from ticket and on-board food sales—will increase by 8 percent. However, as stated, the annual operating loss is estimated to increase by \$2.1 million under the plan.

- Amtrak has likewise not yet implemented the key initiatives of the *Sunset Limited/Texas Eagle* plan.¹⁰ The plan includes adding new daily service from Los Angeles to Chicago by combining the Los Angeles to San Antonio portion of the *Sunset Limited* with the San Antonio to Chicago *Texas Eagle*, and adding new daily service from San Antonio to New Orleans with a cross-platform transfer of passengers at San Antonio. The host railroad responded that it will require \$750 million of infrastructure improvements to facilitate these services. Amtrak considers this amount to be unreasonable. If and when this issue is resolved, implementing the plan would still require an approximately \$3-million increase in annual federal operating subsidies to pay for the increased operating loss.

This plan is unique to the extent that the proposed changes make available some passenger cars, which will be reassigned to other long-distance routes. The financial benefits of this equipment reassignment are credited to this performance improvement plan. The plan projects that the total benefits to all affected routes includes a 10-percent increase in ridership and a 1-percent improvement in the routes' cost recovery. However, as stated, implementing the plan would result in an estimated additional annual net loss of \$3 million.

- Amtrak has also not yet implemented the key initiative of the *Capitol Limited* plan.¹¹ The initiative would establish through-service between Philadelphia/eastern

¹⁰ Amtrak, *PRIIA Section 210 FY 10 Performance Improvement Plan, Sunset Limited/Texas Eagle*, September 2010.

¹¹ Amtrak, *PRIIA Section 210 FY 10 Performance Improvement Plan, Capital Limited*, September 2010.

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
Report No. OIG-A-2012-001, October 26, 2011

Pennsylvania and the Midwest by exchanging cars from the *Pennsylvanian* to and from the *Capitol Limited* at Pittsburgh. Having the capability to exchange cars at Pittsburgh requires modifications to station tracks at Pittsburgh, and the through-service would require six additional cars—three Viewliner sleepers, two Amfleet II coaches, and one Amfleet food service car. Even if the approval is obtained for modification of tracks, Amtrak will still need an estimated \$700,000 annual increase in federal operating subsidies to pay for the increased financial loss and the additional six cars to implement the new services.

- Amtrak has, however, made good progress in implementing the primary initiative of the *California Zephyr* plan.¹² That initiative would introduce a Customer Service Excellence Program. This program does not require host railroad approval, or additional federal operating subsidies or passenger rail cars. It is intended to improve customer satisfaction by achieving a major shift in the culture of onboard service delivery. According to Amtrak, 300 onboard service employees, station personnel, conductors, and assistant conductors involved with the *California Zephyr* route have been trained in this new customer-service program. The training is based on research that shows that customers report the highest level of satisfaction when served by employees who perform random acts of kindness, make an emotional connection, follow flawless processes, and pay attention to detail. Amtrak reported that this approach will be evaluated and, if successful, may be adopted for other routes.

The *California Zephyr* performance-improvement plan anticipates a positive impact on service levels but does not project any increases in ridership, revenues, or costs.

According to senior Amtrak officials, long-distance routes are traditionally operated at a loss. Historically, Amtrak often focused on cost reduction when it tried to improve its long-distance routes' financial performance. This sometimes resulted in degradation in service, which led to lower revenues and ridership, driving down overall financial performance. Because Amtrak's long-distance network operates almost entirely over host railroad-owned tracks, significant improvements in long-distance train performance are not achievable without changes that involve host railroads.

These senior Amtrak officials said that they developed the plans and their recommendations in the context of the performance-improvement areas outlined in

¹² Amtrak, *PRIIA Section 210 FY 10 Performance Improvement Plan, California Zephyr*, September 2010.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

PRIIA. According to these officials, improving financial performance is a critical component of the Section 210 process, but it is only one of the nine statutory criteria that Section 210 requires the plans to consider. Further, while the conversion of the *Sunset Limited* and *Cardinal* routes to daily service was projected to produce some increase in operating losses, projected gains in ridership and revenue on these two routes were much greater on a percentage basis. They believe that the increase in service would provide more convenient connections to these routes with other transportation hubs and centers, increasing overall ridership and revenues. This, in turn, would improve overall performance metrics, such as short-term avoidable operating cost recovery and long-term avoidable operating loss per passenger-mile, which were developed in response to Section 207, *Metrics and Standards*.

Amtrak issued its FY 2011 performance improvement plans for the middle-five long-distance routes on September 30, 2011.¹³ These plans are less dependent upon the approval of host railroads and are projected to produce a net financial benefit. According to a senior Amtrak official, Amtrak was cognizant of the need to align these plans with anticipated federal funding levels, particularly in the current fiscally constrained environment, and to propose performance improvements that have reasonable prospects for success. Only the *Crescent* plan would require Amtrak to obtain the approval of the host railroad and additional capital funding for the proposed switching changes at Atlanta that will enable Amtrak to add and remove passenger cars to and from the *Crescent*. Also, Amtrak is not proposing any changes in train frequency that require host railroads' approval, which were included in two of the FY 2010 plans. Overall, Amtrak estimates the implementation of the plans would improve the financial performance of the routes by 4.6 percent (\$8.2 million) annually and improve their cost recovery by 2.9 percent.

Developing a Process to Support Using On-Time-Performance Remedies (Section 213)

Section 213 authorizes the Surface Transportation Board to initiate an investigation if the on-time performance of an individual Amtrak route falls below 80 percent or other service-quality deficiencies persist for 2 consecutive quarters. It also enables Amtrak or other entities to file a complaint to the Board to investigate substandard on-time and

¹³ Amtrak, *PRIIA Section 210 FY 11 Performance Improvement Plan, Crescent, Lake Shore Limited, Silver Service*, September 2011. The *Silver Service* includes the *Palmetto*, *Silver Star*, and *Silver Meteor* routes.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

service-quality performance. The purpose of the investigation is to determine whether and to what extent delays or failure to achieve minimum standards are due to causes that could reasonably be addressed by the host railroad, Amtrak, or rail operator. The Board is also authorized to investigate whether delays or failures to achieve minimum standards are attributable to a host railroad's failure to provide preference—a statutory right that affords Amtrak preference over freight transportation in using a rail line, junction, or crossing.

If the Surface Transportation Board were to determine that delays or failures to achieve minimum standards are attributable to a rail carrier's failure to provide preference to Amtrak over freight transportation, the Board can award damages against the host rail carrier, including prescribing such relief to Amtrak as it determines to be reasonable and appropriate. In awarding damages and prescribing relief under this subsection, the Board is to consider such factors as

“(A) the extent to which Amtrak suffers financial loss as a result of host rail carrier delays or failure to achieve minimum standards; and (B) what reasonable measures would adequately deter future actions which may reasonably be expected to be likely to result in delays to Amtrak on the route involved.”

The damages that the Board could award to Amtrak are to be used for capital or operating expenditures on the routes over which delays or failures to achieve minimum standards were the result of the host railroad's failure to provide preference to Amtrak over freight transportation.

Table 2 compares end-point on-time performances¹⁴ of Amtrak short- and long-distance routes during the fourth quarter of FY 2010 and the first three quarters of FY 2011 to PRIIA on-time performance standards. On-time performance that met or exceeded the Act's standards for individual quarters is indicated in black and those that did not are indicated in red italics and shaded. There are eight short-distance routes and 11 long-distance routes that fail to meet PRIIA's on-time performance standard for two consecutive quarters. The reported causes of these delays include commuter and freight train interference, signal delay, mechanical failure, weather, and other factors.

¹⁴ End-point on-time performance indicates arrival at the scheduled endpoint station within tolerance of 10–30 minutes, depending on route length. A train is considered “late” if it arrives at its endpoint station more than 10 minutes after its scheduled arrival time for trips up to 250 miles, 15 minutes for trips between 251 and 350 miles, 20 minutes for trips between 351 and 450 miles, 25 minutes for trips between 451 and 550 miles, and 30 minutes for trips of 551 miles or more.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

**Table 2. Reported Amtrak End-Point On-Time Performance
Results Compared Against the PRIIA 80-Percent Standard
(fourth quarter of FY 2010 and first three quarters of FY 2011)**

Route	Fourth quarter FY 2010	First quarter FY 2011	Second quarter FY 2011	Third quarter FY 2011	Missed PRIIA 80- Percent Standard for Two Consecutive Quarters
Short-Distance Routes					
Capitol Corridor	96.7%	95.5%	95.4%	94.4%	No
<i>Carolinian</i>	53.3%	59.2%	75.6%	61.0%	Yes
<i>Cascades</i>	77.6%	77.0%	55.1%	71.3%	Yes
Downeaster	67.2%	84.8%	76.5%	81.8%	No
<i>Empire Corridor</i>	78.0%	80.1%	78.7%	79.4%	Yes
Heartland Flyer	66.8%	84.2%	91.5%	83.0%	No
Hiawatha	88.4%	86.2%	87.3%	91.8%	No
<i>Hoosier State</i>	71.2%	59.4%	65.7%	52.4%	Yes
<i>Illinois</i>	74.7%	65.7%	74.7%	67.9%	Yes
<i>Michigan</i>	47.0%	49.0%	39.8%	24.5%	Yes
Missouri	88.3%	91.6%	87.4%	89.8%	No
<i>Pacific Surfliner</i>	69.9%	77.8%	81.8%	81.0%	Yes
Pennsylvanian	87.5%	89.7%	92.8%	76.9%	No
<i>Piedmont</i>	86.3%	78.8%	79.6%	81.2%	Yes
San Joaquins	92.9%	91.4%	90.2%	88.5%	No
Vermont	88.6%	83.2%	71.1%	81.3%	No
Long-Distance Routes					
Auto Train	91.2%	90.2%	93.9%	87.9%	No
<i>California Zephyr</i>	33.2%	51.1%	52.5%	49.5%	Yes
<i>Capitol Limited</i>	59.8%	57.6%	57.8%	34.1%	Yes
<i>Cardinal</i>	31.6%	41.8%	52.6%	25.6%	Yes
City of New Orleans	85.9%	69.6%	86.1%	64.3%	No
<i>Coast Starlight</i>	87.5%	78.1%	65.0%	77.3%	Yes
<i>Crescent</i>	73.4%	76.6%	75.6%	65.4%	Yes
<i>Empire Builder</i>	74.2%	51.8%	33.8%	46.7%	Yes
<i>Lake Shore Limited</i>	65.8%	69.8%	55.2%	57.1%	Yes
<i>Palmetto</i>	69.0%	75.5%	91.7%	75.8%	Yes
<i>Silver Meteor</i>	71.2%	79.9%	85.4%	79.1%	Yes
<i>Silver Star</i>	75.4%	73.9%	66.1%	70.3%	Yes
Southwest Chief	67.9%	83.2%	77.8%	81.9%	No
Sunset Limited	84.8%	89.9%	83.1%	82.1%	No
<i>Texas Eagle</i>	69.6%	70.1%	77.2%	45.6%	Yes

Note: Amtrak routes typically include more than one host railroad.

Source: OIG analysis of the Federal Railroad Administration's performance and service quality quarterly reports and PRIIA standards for on-time performance

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Amtrak has not requested a Surface Transportation Board investigation of substandard on-time performance. According to Amtrak officials, they are in the process of developing information and supporting documentation that could be used to make such a request. However, they do not have a defined process for preparing the information and documents that would support a complaint or help determine whether to file a complaint. Also, they have not developed estimates of financial impact because Amtrak's new financial accounting and reporting system has encountered problems and is not yet fully stable or operational. Having an estimate of the financial impact is information that would be needed if and when Amtrak requests an investigation, since the Board will assess damages and relief based upon "the extent to which Amtrak suffers financial loss as a result of host rail carrier delays or failure to achieve minimum standards."

According to Amtrak officials, since they have never requested that the Board investigate substandard on-time performance, there is no precedent to follow. This creates some uncertainty about how to proceed. Officials also cited the potential risk that losing a case before the Board would adversely affect the cooperation of other host railroads in meeting PRIIA on-time performance standards on other Amtrak routes.

Amtrak's poor on-time performance affects customer service, ridership, revenues, and expenses. In 2008, the Department of Transportation OIG reported that an 85-percent on-time performance rate for Amtrak's long-distance and state-corridor trains during FY 2006 would have reduced Amtrak's operating loss by 30 percent (\$136.6 million).¹⁵ The report predicted that Amtrak's revenues would increase by \$111.4 million as more travelers chose to take the train if they became more confident that it would arrive on time. Its expenses would be reduced by \$39.3 million, mostly due to less required overtime as a result of fewer late trains, and lower fuel costs as a result of less time spent idling the trains and less frequent acceleration and deceleration. The improved on-time performance would also require an increase in net performance payments paid to the host railroads of \$14.1 million.¹⁶

Similarly, in an earlier report, we estimated that a 75-percent on-time performance by long-distance trains in FY 2005 would have reduced Amtrak's operating loss by almost

¹⁵ *Effects of Amtrak's Poor On-Time Performance* (Department of Transportation OIG Audit Report, CR-2008-047, March 28, 2008).

¹⁶ Under operating agreements with host railroads, Amtrak pays them incentives for facilitating the on-time performance of its trains.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

\$40 million.¹⁷ Although the scope and parameters in the reports were different, they both concluded that the on-time performance of Amtrak trains is a driving factor in its financial performance. On the basis of these reports, we are confident that improvements in on-time performance have a direct effect on increasing Amtrak's operating revenues and decreasing operating costs, which in return reduces the need for federal subsidies.

Implementing Amtrak's New Financial System Is Key to Completing Three Provisions (Sections 203, 204, and 207)

While Amtrak has deployed a new financial accounting and reporting system, this system cannot yet provide the detailed financial data mandated by PRIIA, although it is expected to be able to do so in the future.

- ***Establishment of Improved Financial Accounting System (Section 203)***. This section required Amtrak to implement a modern financial accounting and reporting system and report annually on the allocation of all revenues and costs to each route, line of business, and major activity.¹⁸ Amtrak officials stated that due to the inadequacies of the previous financial reporting system and the fact that the new system, being implemented under the Strategic Asset Management (SAM) program, is not yet stable or fully operational, its annual reports, while containing more data than in the past, do not yet include some of the required financial data. According to a senior Finance Department official, Amtrak should be able to include all of the required data in future reports, once the program is fully operational. In September 2011, this senior official reported that it may require several more months to achieve a stable system.

We issued two audit reports this year assessing the challenges Amtrak faced during the SAM program's development and implementation.¹⁹ In January 2011, we reported that the design of automated controls to mitigate the risks of improper use

¹⁷ *Impact of Poor Long Distance Train OTP* (Amtrak OIG Evaluation Report E-06-05, September 29, 2006).

¹⁸ Amtrak implemented its new financial management system under the Strategic Asset Management program's first segment (Release 1a) in June 2011.

¹⁹ *Strategic Asset Management Program Controls Design Is Generally Sound, But Improvements Can Be Made* (Amtrak OIG Audit Report 105-2010, January 14, 2011) and *Strategic Asset Management Program: Further Actions Should Be Taken To Reduce Business Disruption Risk* (Amtrak OIG Audit Report 001-2011, June 2, 2011).

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
Report No. OIG-A-2012-001, October 26, 2011

of financial resources was generally sound. However, gaps existed in the design of the controls that did not fully mitigate the risks of improper financial transactions and business operations. These gaps put Amtrak at risk of not fully realizing the program's full potential benefits. In particular, a lack of adequate controls can lead to inaccurate financial reporting, vulnerability to fraud, and inefficient business operations. In June 2011, we reported on several gaps in the program's testing and contingency plans.

Amtrak agreed with our recommendations in our January report and has taken or is in the process of taking action to address them. While management agreed to strengthen controls and add a few tests in response to our June report, they decided to deploy the system on schedule and correct the problems as they arose rather than delay deployment to complete the testing.

- ***Development of Five-Year Financial Plan (Section 204)***. This section required Amtrak to issue an annual budget and business plan, along with a five-year financial plan. It has issued the required annual budgets, business plans, and five-year financial plans. These plans provide Congress with most—although not all—of the information required by PRIIA, and significantly more information than was provided before PRIIA. But the five-year plans do not address (1) prior fiscal year and projected labor productivity statistics on a route; (2) projected capital and operating requirements, and ridership and revenue for any new passenger service operations or service expansions; or (3) the ability to efficiently recruit, retain, and manage Amtrak's workforce.

According to a senior Finance Department official, route-based productivity reports are not available because Amtrak does not currently collect a count of employees working on each route; therefore, employee count projections per route would be highly speculative. With respect to service operations and expansions, the official said that Amtrak had not planned any new passenger service operations or service expansions. He said that the ridership and revenue projections for increased services enabled by future fleet acquisitions will be included in future financial reports. The senior official said that Amtrak should be able to include all PRIIA-required financial data in future five-year financial plans, once SAM is fully operational.

- ***Metrics and Standards (Section 207)***. This section required Amtrak and the Federal Railroad Administration, in consultation with the Surface Transportation Board, host railroads, states, Amtrak's labor organizations, and rail passenger associations,

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
Report No. OIG-A-2012-001, October 26, 2011

to develop metrics and minimum standards for measuring the performance and service quality of intercity passenger train service, including cost recovery. It also required Amtrak to provide the Federal Railroad Administration with reasonable access to the data necessary to publish quarterly reports on the performance and service quality of intercity passenger train operations.

Amtrak and the Federal Railroad Administration published draft metrics and standards for public comment in March 2009; the final metrics and standards became effective in May 2010. However, Amtrak has not been able to provide the Administration with data for some of the financial metrics, such as the percentage of short-term avoidable operating costs covered by passenger-related revenues and the long-term avoidable operating loss per passenger-mile, because it lacks the detailed information that should be available once SAM is fully operational.

Determining Whether Additional Special Trains Could Help Reduce Federal Subsidies (Section 216)

Amtrak has not responded to the PRIIA provision suggesting that it use more special trains. Section 216, *Special Passenger Trains*, encouraged Amtrak to increase the operation of special trains funded by or in partnership with private-sector operators through competitive contracting to minimize the need for federal subsidies. The Act does not define what should be considered as a special passenger train.²⁰

Although Amtrak does operate special trains, senior Marketing and Product Development Department officials said they did not consider the suggestion and have not increased the number of such trains. These officials stated that Amtrak does not often operate special trains because it does not have the resources, such as the rolling stock and manpower, dedicated for this type of service. Consequently, special trains have traditionally generated only a small portion of Amtrak's revenues—\$2.2 million in FY 2010.²¹ Still, without adequate analysis to determine whether additional special trains could generate profits that, in turn, could help reduce the amount of federal subsidies needed, Amtrak may be missing an opportunity under PRIIA to generate additional profits.

²⁰ Amtrak has defined a special train as one that does not appear on a timetable because it is operated on an as-needed basis based on a contractual agreement between Amtrak and the party requesting the service. An example is a passenger train added for a sporting event, such as the Super Bowl.

²¹ *Monthly Performance Report for September 2010*, Amtrak, January 21, 2011.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

According to a senior Amtrak official on September 30, 2011, responsibility for special trains has recently been transferred from Amtrak's Marketing and Product Development Department to the Transportation Department, and an inter-departmental Special Operations committee has been formed to comprehensively assess Amtrak's special train operations. Amtrak is also in active discussions with two private entities that wish Amtrak to operate regularly scheduled charter trains using equipment provided by the charter companies:

- *Greenbrier Express*, which plans to operate a weekly train from Washington, D.C., to the Greenbrier resort in White Sulphur Springs, West Virginia.
- *Las Vegas Railway Express*, which proposes to operate a five-times-per-week train from Los Angeles to Las Vegas.

CONCLUSIONS

Amtrak has embraced PRIIA and has made significant strides in meeting the Act's provisions. This is a significant accomplishment, given the magnitude of the issues addressed under PRIIA. While most of the provisions have been met or are in the process of being met, opportunities remain, consistent with PRIIA, to increase revenues, minimize federal subsidies, and improve performance. Placing greater emphasis on reducing more of Amtrak's debt, specifically long-term leases with early buyout options, is one such key opportunity. New legislative authority and updated savings estimates would be needed to allow Amtrak and the Departments of the Treasury and Transportation to pursue these savings. Achieving such savings would reduce the amount of federal appropriations needed to pay off this debt.

In addition, Amtrak's initial set of performance improvement plans for its long-distance routes are too focused on initiatives that are out of its control, or depend on significant investment of federal subsidies during a time of austere budgets. Essentially, Amtrak is not in a position to control many of the key improvement initiatives it has proposed. Focusing future improvement plans on initiatives Amtrak can control would enhance the likelihood that improvements can be achieved. Amtrak's most recent plans do have this focus.

Further, Amtrak does not have a specific process for submitting requests to the Surface Transportation Board to investigate substandard rates of on-time performance. Such a

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

process is a prerequisite to determining if and when to request an investigation, and would enhance the likelihood of success if Amtrak pursued this option.

Finally, Amtrak has not analyzed the costs or the benefits that could be realized by operating more special trains. Currently, special trains account for a very small portion of Amtrak's revenues. Without adequate analysis to determine whether additional special trains could generate profits to help reduce federal subsidies, Amtrak may be missing an opportunity to generate additional profit by operating more special trains, which could reduce the need for federal subsidies.

RECOMMENDATIONS

To address the opportunities to increase revenues, minimize federal subsidies, and improve performance during Amtrak's continuing implementation of PRIIA, we recommend that the President and Chief Executive Officer direct the

- Chief Financial Officer to update information on the potential savings that could be achieved and upfront investment needed to exercise early buyout options in the remaining long-term debt and capital leases, and provide that information to the Congress.
- Vice President of Marketing and Product Development to develop future performance improvement plans that focus on potential changes that are less dependent upon host railroad approval or increased federal subsidies.
- General Counsel to develop a specific process to help determine if and when Amtrak should request that the Surface Transportation Board investigate substandard on-time performance caused by host railroads.
- Vice President of Transportation to determine whether additional special trains could yield profits to help reduce federal subsidies.

MATTER FOR CONGRESSIONAL CONSIDERATION

Given the significant potential to generate savings for Amtrak and the federal government, the Congress may wish to consider reauthorizing the authority to exercise early buyout options in Amtrak's long-term debt agreements and capital leases.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

MANAGEMENT COMMENTS AND OIG RESPONSE

In commenting on a draft of this report, Amtrak's Chief Financial Officer stated that the report provided useful information upon which it can take action and agreed with the report's recommendations. In separate technical comments, Amtrak noted that our draft recommendation related to the on-time performance issue called for a specific process and criteria to be developed for determining if and when to request an investigation. It stated that there was no need for Amtrak to establish "criteria" for substandard on-time performance because the criteria already existed in the metrics set forth in Section 207 and Amtrak's statutory right to preference—a statutory right that affords Amtrak preference over freight transportation in using a rail line, junction, or crossing. We agreed with this point, and our final recommendation addresses the need to develop a process for determining when to request an investigation.

We believe the actions Amtrak has taken and plans to take will meet the intent of our recommendations. For each recommendation, Amtrak's Chief Financial Officer provided a description of and time frames for planned actions. He stated that Amtrak had already provided updated information on the early buyout options for its leases to congressional committees' staffs and the Congressional Budget Office. We believe that Amtrak may still need to update the information in the future.

Amtrak's letter commenting on the draft report is reprinted as Appendix III. Amtrak also provided technical comments, which we have incorporated as appropriate.

Thank you for your cooperation during the course of this audit. If you have any questions, please contact me at 202.906.4600 (Ted.Alves@amtrakoig.gov) or David R. Warren, Assistant Inspector General, Audits, at 202.906.4742 (David.Warren@amtrakoig.gov).

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

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Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Appendix I

SCOPE AND METHODOLOGY

This report provides the results of an Amtrak OIG review to assess the progress Amtrak management has made implementing PRIIA provisions by (1) determining the status of Amtrak actions to implement individual provisions, and (2) evaluating the quality and effectiveness of Amtrak's actions for selected important provisions. We performed our work from March through October 2011.

To determine the status of Amtrak actions to implement individual provisions, we (1) compared Amtrak's deliverables and responses with the Act's requirements, deadlines, and suggestions; and (2) discussed our observations with responsible officials across most departments within Amtrak, including Finance, Operations, Transportation, Engineering, Policy and Development, Marketing and Product Management, General Counsel, and Government Affairs and Corporate Communications. During these discussions, we (1) validated those instances in which Amtrak had not fully addressed PRIIA requirements or suggestions, (2) identified the reasons why Amtrak missed a deadline or only partially addressed a requirement, and (3) resolved any uncertainties and outstanding questions. Periodically, we shared our observations on Amtrak's progress with the Vice President of Policy and Development, the Vice President of Marketing and Product Development, the Chief Financial Officer, and other senior officials, to keep them informed of our observations and obtain their feedback.

To evaluate the quality and effectiveness of Amtrak's actions for selected important provisions, we evaluated Amtrak's actions to implement three selected sections: *Restructuring Long-Term Debt and Capital Leases* (Section 205); *Long-Distance Routes* (Section 210); and *Passenger Train Performance* (Section 213). We judgmentally selected these provisions on the basis that further savings or greater service improvements could be achieved. We also relied on the Government Accountability Office and the Department of Transportation OIG reports and testimony, our prior work, and best practices used in the passenger rail, freight rail, and other related industries to assist us in determining which PRIIA sections to select for more detailed quality and effectiveness review. We eliminated from our evaluation those provisions that specifically required a report from the Department of Transportation OIG or the Federal Railroad Administration.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

For Section 205, *Restructuring Long-Term Debt and Capital Leases*, our methodology included reviewing Amtrak documents to assess the type of data and support Amtrak provided to the Department of the Treasury. We focused our analysis of the documents on information provided with regard to leases with early buyout options because the Department of the Treasury selected this type of lease for reducing Amtrak's debt and because Amtrak reported that these leases are designed to give it a financially attractive opportunity for termination, as opposed to other debt transactions. We analyzed the lease data Amtrak provided to the Department of the Treasury for those eligible for buyout during FYs 2010–2014 and FYs 2015–2019. From these data, we identified a universe of 52 leases and determined for each lease the (1) maturity value—the amount that would be paid if the lease went to maturity, (2) buyout amount—the amount that would be needed to pay off the lease early, and (3) the savings from paying off the lease early—the difference between maturity value and buyout amount.

We also compared the results of our analysis with the data reported by Treasury on October 15, 2010, for the 13 leases it identified for early buyout. In addition, we evaluated Amtrak's present-value savings calculations made pursuant to the Treasury's methodology. We also solicited responses from Amtrak's Chief Financial Officer and Vice President of Policy and Development and their staffs regarding the (1) basis for selecting the specific 13 leases to buy out, (2) methodology used to calculate estimated savings, and (3) reason why no other long-term debt (for example, bonds and/or mortgages) were selected for restructuring. We also spoke with Department of the Treasury officials to discuss their methodology for selecting the capital leases for buyout.

For Section 210, *Long-Distance Routes*, our methodology included reviewing the first-five performance-improvement plans and supporting documentation, including briefings to Amtrak's Board of Directors on the status of the plans' implementation. We also interviewed officials from the Departments of Transportation, Marketing and Product Development, and Policy and Development, to identify the process used to develop the performance-improvement plans, and progress and challenges in their implementation. We identified and assessed Amtrak's challenges negotiating agreements with the host railroads to increase the frequency of train service, qualifying additional train and engine crews, and obtaining the additional equipment proposed in the plans. This information helped us assess the reasons why Amtrak posted the first-five performance improvement plans at the end of FY 2010 and the likelihood that Amtrak would implement its proposed performance improvements. We also reviewed Amtrak's

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

second-five performance-improvement plans issued on September 30, 2011, to determine if their recommendations for improvement focused on initiatives that were out of Amtrak's control or depended on additional federal subsidies or equipment.

For Section 213, *Passenger Train Performance*, our methodology included reviewing Amtrak's on-time performance statistics by host railroad, route, location, and train service—long-distance, short-distance, Northeast Corridor, and the Acela Express—and data on the causes of substandard on-time performance, to identify those routes that routinely do not meet PRIIA's standards. We considered prior audit work and identified two audit reports that concluded that operating Amtrak trains on time produces significant financial and operating benefits to Amtrak.²³ We also interviewed the Assistant Vice President of Host Railroads and reviewed documents to assess Amtrak's efforts to provide support to and influence host railroads to improve the on-time performance of its trains. We also interviewed officials from the Host Railroads Department and General Counsel to gain an understanding of their approaches to collecting and analyzing data that Amtrak will need if it decides to request that the Surface Transportation Board investigate substandard on-time performance.

Our work was performed in accordance with generally accepted government auditing standards. These 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.

Internal Controls

In conducting this audit, we reviewed Amtrak's internal controls related to the implementation of PRIIA by comparing its deliverables and responses with the Act's requirements, deadlines, and suggestions. Specifically, we identified and assessed internal or management controls including (1) Amtrak's procedures for monitoring and tracking its compliance with PRIIA requirements and suggestions, and (2) Amtrak's efforts to keep congressional committees informed of its progress in addressing PRIIA requirements and suggestions.

²³ See *Effects of Amtrak's Poor On-Time Performance* (DOT OIG, CR-2008-047, March 28, 2008) and *Impact of Poor Long Distance Train OTP* (Amtrak OIG Evaluation Report No. E-06-05, September 29, 2006).

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Computer-Processed Data

Several of Amtrak's deliverables and responses to PRIIA's requirements are based on computer-processed budget, expenditure, and performance data. We did not validate the budget and financial data, but relied on the general and application review of financial systems performance that is a part of the financial statement audit performed by Amtrak's external auditors. We did not validate the performance data, but relied on our prior audits of on-time performance invoices, where we found performance data were generally accurate and reliable when compared with source documents and found sufficient assurance that we could rely on the computer-processed data to accomplish our audit objectives.

Prior Coverage

We reviewed the following audit reports and used information from those reports in conducting our analysis of issues.

Americans with Disabilities Act: Leadership Needed to Help Ensure That Stations Served by Amtrak Are Compliant (Amtrak OIG Audit Report No. 109-210, September 29, 2011).

Acela Car Purchase Draft Request for Proposal: Additional Requirements and Pre-Award Audit Clause Needed to Help Assess Proposed Cost and Price (Amtrak OIG Audit Report No. 009-2011, September 21, 2011).

Progress and Opportunities in Amtrak's Implementation of the Passenger Rail Investment and Improvement Act of 2008. Statement of Ted Alves, Inspector General, National Railroad Passenger Corporation, before the Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety, and Security, Committee on Commerce, Science, and Transportation, United States Senate, September 14, 2011.

Human Capital Management: Lack of Priority Has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices (Amtrak OIG Evaluation Report No. E-11-04, July 8, 2011).

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

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

American Recovery and Reinvestment Act: Infrastructure Improvements Achieved but Less than Planned (Amtrak OIG Audit Report No. 908-2010, June 22, 2011).

American Recovery and Reinvestment Act: Fewer Security Improvements than Anticipated Will Be Made and Majority of Projects Are Not Complete (Amtrak OIG Audit Report No. 914-2010, June 16, 2011).

Strategic Asset Management Program: Further Actions Should Be Taken to Reduce Business Disruption Risk (Amtrak OIG Audit Report No. 001-2011, June 2, 2011).

On-Time Performance Incentives: Inaccurate Invoices Were Paid Due to Long-standing Weaknesses in Amtrak's Invoice-Review Process (Amtrak OIG Audit Report No. 403-2010, April 21, 2011).

Evaluation of Amtrak's FY 2010 Fleet Strategy: A Commendable High-Level Plan that Needs Deeper Analysis and Planning Integration (Amtrak OIG Evaluation Report No. E-11-2, March 31, 2011).

Strategic Asset Management Program Controls Design Is Generally Sound, But Improvements Can Be Made (Amtrak OIG Audit Report No. 105-2010, January 14, 2011).

Amtrak's Strategic Planning (Amtrak OIG Evaluation Report No. E-10-01, August 17, 2010).

Opportunities and Challenges Facing Amtrak in FY 2011 and Beyond. Statement of Ted Alves, Inspector General, National Railroad Passenger Corporation, before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies; Committee on Appropriations, United States Senate, April 29, 2010.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
 Continued Commitment Needed to Fully Address Provisions**
 Report No. OIG-A-2012-001, October 26, 2011

Appendix II

AMTRAK HAS MADE GOOD PROGRESS IN ADDRESSING PRIIA

This appendix discusses the actions Amtrak has taken to address PRIIA's requirements and suggestions assigned to it. It also discusses the status of the Amtrak continuing actions to address the requirements in seven sections and that Amtrak has not responded to one suggestion. Also, Amtrak has not had to react to three sections because the events that are preconditions to it responding have not occurred.

Amtrak Has Addressed Nine Requirements

The requirements specified in the nine PRIIA sections that Amtrak has addressed range from such diverse topics as requiring it to report travel expenses for Board of Directors members to producing technical specifications for the next generation of train equipment. The actions Amtrak took are summarized in Table 3. As discussed, we selected Section 210, *Long-Distance Routes*, from this group for detailed review and identified opportunities to improve its implementation. This section has requirements deadlines that are to be met over a series of years. The opportunities we identified relate to future-year requirements and implementation issues. Also Section 306, *Rail Cooperative Research Program*, required Amtrak to respond to a triggering event—the Secretary of Transportation's establishment of a rail cooperative research program—and to be a member of the advisory board for the program.

Table 3. Nine PRIIA Requirements Addressed by Amtrak

PRIIA Section	Title	Requirement	Action
202	<i>Amtrak Board of Directors</i>	PRIIA revised the composition of Amtrak's Board of Directors to establish a nine-member board. Not later than 60 days after the end of each fiscal year, the Board must report all travel and reimbursable business travel expenses for each board member to specific congressional committees.	Amtrak reported all travel and reimbursable business travel expenses for each Board member to specific congressional committees.

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
210 ^a	<i>Long-Distance Routes</i>	<p>Amtrak is required to annually evaluate and rank each of its long-distance routes according to their overall performance by the top-performing third of such routes, the second-best-performing third, and the worst-performing third.</p> <p>It must then develop and post on its website performance-improvement plans for its long-distance passenger routes and begin implementing those plans for the worst-performing routes in FY 2010, the second-best-performing routes in FY 2011, and the best-performing routes in FY 2012. The plans must address nine categories of information, such as on-time performance, the feasibility of restructuring service into connected corridor service, performance-related equipment changes and capital improvements, onboard amenities and service, and financial performance.</p> <p>The Federal Railroad Administration is required to monitor Amtrak's implementation of these plans and can withhold funding from Amtrak if it is not making reasonable progress.</p>	<p>Amtrak completed the ranking of all of its 15 long-distance routes based on their performance during FY 2008. It also issued plans for the first five routes and the second five routes in September 2010 and September 2011, respectively.</p> <p>Amtrak has also implemented some of the 2010 and 2011 plans' initiatives, such as expanding seating and food-servicing capacities and adding certain vacation packages.</p>
222	<i>Onboard Service Improvements</i>	<p>Within 1 year after the performance metrics and standards are established under section 207, Amtrak must develop and implement a plan to improve on-board service pursuant to the metrics and standards.</p> <p>Amtrak must provide a report to specific congressional committees on the improvements in the plan and the timeline for implementing such improvements. The Act did not specify an issue date for the report.</p>	<p>The final metrics and standards became effective on May 12, 2010. Amtrak issued its <i>Amtrak On-Board Service Improvement Plan</i> on July 15, 2011. According to the plan, Amtrak implemented some improvements, such as its market research on customer service, cleanliness, and food and beverage service. Other improvements, such as e-ticketing, food menu improvements, and point-of-sale technology, have been started and are ongoing.</p>

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
 Report No. OIG-A-2012-001, October 26, 2011

PRIA Section	Title	Requirement	Action
224	<i>Passenger Rail Service Studies</i>	Within 1 year after PRIIA's enactment (October 16, 2009), Amtrak must conduct studies of six prior and current routes to determine whether to reinstate passenger rail service or a station stop, to expand service, or to reduce ticket prices.	In October 2009, Amtrak issued studies of six prior and current routes to determine whether to reinstate passenger rail service or a station stop, to expand service, or to reduce ticket prices.
226	<i>Plan for Restoration of Service</i>	Within 9 months of PRIIA's enactment (July 16, 2009), Amtrak must transmit to specific congressional committees a plan for restoring passenger rail service between New Orleans and Sanford, Florida. The plan must include an estimated timeline for restoring service, the associated costs, and any proposals for necessary legislation. Amtrak must consult with representatives from selected states, railroad carriers, rail passengers, rail labor, and other entities as appropriate.	On July 16, 2009, Amtrak issued the required plan for restoring passenger rail service between New Orleans and Sanford, Florida.
304	<i>Tunnel Project</i>	Not later than September 30, 2013, the Federal Railroad Administration, working with Amtrak, the Surface Transportation Board, the city of Baltimore, and rail operators, must select and approve a new rail tunnel alignment in Baltimore. The new alignment should permit an increase in train speed and service reliability, and ensure completion of the related environmental review process.	Amtrak selected and obtained initial approval from the stakeholders on a new rail tunnel alignment in Baltimore. In April 2011, the Federal Railroad Administration and the state of Maryland executed a grant agreement to obligate \$60 million for the completion of the preliminary engineering and environmental reviews for the tunnel project.
305	<i>Next-Generation Corridor Equipment Pool</i>	Within 180 days after PRIIA's enactment (April 13, 2009), Amtrak must establish a Next-Generation Corridor Equipment Pool Committee, comprising representatives of Amtrak, the Federal Railroad Administration, host freight railroads, passenger railroad equipment manufacturers, interested states, and other passenger rail operators. The committee is to design, develop	Amtrak established a Next-Generation Corridor Equipment Pool Committee and produced the technical specifications for the next-generation train equipment, including the approved specifications for bi-level cars.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
		specifications for, and procure standardized next-generation corridor equipment.	
306^b	<i>Rail Cooperative Research Program</i>	The Secretary of Transportation must establish and carry out a rail cooperative research program. Amtrak representatives are required to be members of the advisory board for the program.	Amtrak nominated two executives to serve on the advisory board, called the Rail Oversight Committee.
406	<i>Cross-Border Passenger Rail Service</i>	Not later than 1 year after PRIIA's enactment (October 16, 2009), Amtrak, in consultation with the Secretary of Transportation, the Secretary of Homeland Security, the Washington State Department of Transportation, and relevant owners, must develop a strategic plan to facilitate expanded passenger rail service across the international border between the United States and Canada during the 2010 Olympic Games.	Amtrak issued the required plan in October 2009. According to Amtrak, the additional service during the 2010 Winter Olympics in Vancouver, and a second Washington State-supported train between Seattle and Vancouver was continued after the Olympics.

^aSelected by OIG for detailed review.

^bSection required Amtrak to respond to a triggering event by the Secretary of Transportation.

Source: OIG analysis of Amtrak data

Amtrak Is in the Process of Addressing Seven Requirements

The requirements specified in the seven PRIIA sections that Amtrak is in the process of addressing range from such diverse topics as requiring it to implement a modern financial accounting and reporting system to implementing a nationwide standardized methodology for sharing operating and capital costs of intercity rail passenger service with affected states. The progress of Amtrak's actions in addressing these provisions is summarized in Table 4.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Table 4. Seven PRIIA Sections Being Addressed by Amtrak

PRIIA Section	Title	Requirement	Action
203	<i>Establishment of Improved Financial Accounting System</i>	<p>Amtrak must implement a modern financial accounting and reporting system within 3 years of PRIIA's enactment (October 16, 2011).</p> <p>Not later than 90 days after the end of each fiscal year through FY 2013, Amtrak must issue a comprehensive report that allocates all of its revenues and costs to each of its routes, each of its lines of business, and each major activity within each route and line of business activity.</p>	<p>The new financial accounting and reporting system being implemented under the Strategic Asset Management (SAM) program is not yet stable or fully operational.</p> <p>Amtrak implemented its new financial management system under the SAM program's first segment (Release 1a) in June 2011. SAM is a company-wide, multi-year effort whose goal is to improve key operational, financial, supply, and human resources processes by replacing or enhancing many inefficient manual and automated systems with new systems and business processes.</p> <p>Amtrak's reports do not include the costs of each route, each line of business, and each activity within each route and line of business activity. Finance Department officials stated that due to the inadequacies of the previous financial reporting system and the fact that its new system, being implemented under the SAM program, has not been fully implemented or stabilized, Amtrak's annual reports do not yet include these costs.</p> <p>According to a senior Finance Department official, Amtrak should be able to include all of the required data in future reports, once the program is fully operational. In September 2011, this senior official reported that it may require several more months to achieve a stable system.</p>

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
204	<i>Development of Five-Year Financial Plan</i>	<p>Amtrak must submit an annual budget and business plan and a five-year financial plan for the fiscal year to which the budget and business plan relate and the subsequent 4 years to the Secretary of Transportation and the Department of Transportation's OIG, no later than (1) the first day of each fiscal year beginning after PRIIA's enactment, or (2) the date that is 60 days after the date of enactment of an appropriations act for the fiscal year, if later.</p> <p>The five-year financial plan must, at minimum, address 16 categories of information, including projected revenues and expenditures, projected ridership, estimates of long-term and short-term debt, labor productivity statistics, and anticipated security needs.</p>	<p>Amtrak has issued the required annual budgets, business plans, and five-year financial plans. These plans provide Congress with significantly more information than was provided before PRIIA.</p> <p>However, Amtrak's two five-year financial plans address most but not all of the 16 categories of information required by this section. For example, the five-year plans do not address (1) prior fiscal year and projected labor productivity statistics on a route; (2) projected capital and operating requirements, and ridership and revenue for any new passenger service operations or service expansions; or (3) ability to efficiently recruit, retain, and manage its workforce.</p> <p>A senior Finance Department official said that, since route basis reports are not available because Amtrak does not directly collect an employee count for each route, employee count projections per route would be highly speculative. The senior official stated that the SAM program should be able to generate these financial data.</p> <p>With respect to service operations and expansions, a senior Finance Department official said that no new services had been planned. He said that the ridership and revenue projections for increased services enabled by recent fleet acquisitions will be included in future financial documents.</p>
207	<i>Metrics and Standards</i>	Within 180 days after PRIIA's enactment (April 13, 2009), Amtrak	Amtrak and the Federal Railroad Administration

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
		<p>and the Federal Railroad Administration, in consultation with the Surface Transportation Board, host railroads, states, Amtrak's labor organizations, and rail passenger associations, must develop metrics and minimum standards for measuring the performance and service quality of intercity passenger train service. The metrics and standards must include cost-recovery, on-time performance, ridership per train mile, onboard and station services, and the connectivity of routes. Amtrak must provide reasonable access to the Federal Railroad Administration in order to enable it to carry out its duty under this section, which includes collecting the necessary data and publishing a quarterly report on the performance and service quality of intercity passenger train operations</p>	<p>published the proposed draft metrics and standards for public comment on March 13, 2009. The final metrics and standards became effective on May 12, 2010.</p> <p>Amtrak Transportation Department and General Counsel officials said that throughout the process they worked closely with Federal Railroad Administration officials in an effort to meet the statutory 180-day deadline. Amtrak officials also met with host railroads and other entities, such as labor organizations and rail associations, to obtain and incorporate their input into the metrics and standards. Amtrak provided its proposed final metrics and standards to the Federal Railroad Administration on April 13, 2009—which was PRIIA's deadline for the metrics and standards to be issued.</p> <p>However, Amtrak has not been able to provide the Federal Railroad Administration with data for some of the financial metrics, such as the percentage of short-term avoidable operating costs covered by passenger-related revenues and the long-term avoidable operating loss per passenger-mile, because it lacks the detailed information. According to a senior Finance Department official, Amtrak should be able to provide the missing metrics once the SAM program is fully operational.</p>
209	<i>State-Supported Routes</i>	<p>Within two years after PRIIA's enactment (October 16, 2010), Amtrak, in consultation with the Department of Transportation, relevant state governors, and the District of Columbia Mayor, must</p>	<p>Amtrak is working to negotiate with affected states to establish a cost-sharing methodology that fairly allocates operating and capital costs of intercity rail</p>

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
		<p>develop and implement a nationwide standardized methodology for establishing and allocating operating and capital costs of intercity rail passenger service with affected states.</p> <p>The methodology must (1) ensure, within 5 years after PRIIA's enactment (October 16, 2013), equal treatment in the provision of like services of all states and groups of states, including the District of Columbia; and (2) allocate to each route the costs incurred only for that route and a proportionate share of costs incurred for the common benefit of more than one route.</p> <p>If Amtrak and the states, including the District of Columbia, do not voluntarily adopt the methodology developed, the Surface Transportation Board is authorized to determine the appropriate methodology to be used.</p>	<p>passenger service.</p> <p>Before the negotiations with the relevant states could start, Amtrak and the Department of Transportation's Volpe National Transportation Systems Center had to resolve several complex issues. For example, certain Amtrak capital costs and general and administrative costs could not be easily apportioned to individual trains or routes. Amtrak also had several ancillary businesses, such as commuter rail services and real estate ventures, whose costs also needed to be allocated.</p> <p>Amtrak officials stated that negotiating cost-sharing agreements has been difficult—especially during economic conditions in which resources are scarce. However, Amtrak has made progress toward reaching a negotiated agreement. According to Amtrak, the Company and the state working group reached an agreement on a standardized methodology in May 2011.</p> <p>Further, an Amtrak briefing states that it issued a final draft package to all state partners in August 2011 for their approval.</p>
211	<i>Northeast Corridor State-of-Good-Repair Plan</i>	<p>Within 6 months of PRIIA's enactment (April 16, 2009), Amtrak, in consultation with the Secretary of Transportation, the District of Columbia, and the states that make up the Northeast Corridor, must prepare a capital spending plan for projects required to return the Northeast Corridor main line to a state of good repair by the end of FY 2018. The spending plan must be consistent with the funding levels authorized by PRIIA. Also, Amtrak</p>	<p>Amtrak issued the required spending plan in April 2009. However, it established an end date for returning the Northeast Corridor main line to a state of good repair that was later than the one specified by PRIIA. Amtrak officials concluded that this task could not be accomplished by the end of FY 2018 without adversely affecting the level of service. They decided, instead, that the</p>

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
		must update the plan at least annually.	task could be accomplished by 2022 without an adverse effect on service. Amtrak used the 2022 date in preparing the required plan, which it is now implementing. As required, Amtrak updated the plan in May 2010.
212	<i>Northeast Corridor Infrastructure and Operations Improvements</i>	<p>Within 1 year after PRIIA's enactment (October 16, 2009), Amtrak must submit a report detailing the infrastructure and equipment improvements necessary to provide regular high-speed service between the District of Columbia and New York City, and between New York City and Boston. The report must include an estimated time frame for achieving the trip times prescribed by PRIIA, an analysis of any significant obstacles, a detailed description and cost estimate of the specific infrastructure and equipment improvements, and an initial assessment of the infrastructure and equipment improvements, including an order-of-magnitude cost estimate of such improvements.</p> <p>Not later than July 1, 2009, Amtrak and the Rhode Island Department of Transportation shall enter into an agreement governing access fees and other costs or charges related to the operation of the South County commuter rail service on the Northeast Corridor between Providence and Wickford Junction, Rhode Island.</p>	<p>In October 2009, Amtrak issued an interim assessment of improving Northeast Corridor trip times, but also recognized that further refinements were likely, due to ongoing actions to improve operations. Amtrak reported that it would update and expand upon the interim assessment with (1) completion of the ongoing cooperative activity, (2) consultation with the Northeast Corridor Infrastructure and Operations Advisory Commission, and (3) federally-required environmental analysis.</p> <p>According to a senior Policy and Development Department official, Amtrak plans to update its information on improving Northeast Corridor trip times in a report later this year.</p> <p>Amtrak is also represented on the Northeast Corridor Infrastructure and Operations Advisory Commission, which was established by this section to promote mutual cooperation and planning.</p> <p>Amtrak and the Rhode Island Department of Transportation executed an access agreement for the operation of South County commuter rail service in August 2008, and the service commenced operation in December 2010.</p>
219	<i>Study of</i>	Amtrak, in consultation with station	Amtrak reported to Congress

Amtrak Office of Inspector General

Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions

Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
	<p><i>Americans with Disabilities Act- Compliance Requirements at Existing Intercity Rail Stations</i></p>	<p>owners and other railroads, must evaluate the improvements necessary to make the stations it serves accessible to and usable by individuals with disabilities, in compliance with the Americans with Disabilities Act of 1990, as amended. The evaluation shall include a detailed plan and schedule for bringing all applicable stations into compliance by the Act's 2010 statutory deadline. Amtrak must issue the evaluation by February 1, 2009, along with recommendations for funding the necessary improvements.</p>	<p>on its progress to comply with the Act in February 2009, and updated it in October 2010 and August 2011.</p> <p>However, Amtrak used a later deadline than the one specified by PRIIA because, according to the 2010 report, achieving compliance at all Amtrak-served stations is a complex and resource-intensive challenge that could not be done by the 2010 statutory deadline. Amtrak reported it had sole responsibility for 149 of the 482 stations that must be made compliant. As a result, it can more readily address compliance for these 149 stations. Amtrak faces challenges in achieving compliance with the remaining 333 stations because it needs the cooperation and financial support of other entities, which in many cases has been difficult to obtain.</p> <p>In the 2011 update, Amtrak reported that it will work to achieve the Act's compliance, at all stations for which it has responsibility, by the end of FY 2015. It also noted that progress has been slower than anticipated because of the challenges associated with management of a program of this size and complexity. Further, Amtrak expects that coordination with and cooperation from other entities (who own the stations or land) will continue to be a major challenge. It cited a case in which Amtrak sued a railroad company to gain access to perform compliance work. The patchwork nature of station ownership is part of this</p>

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
			challenge. Amtrak pledged in the 2011 update to report quarterly on the progress it is making.

Source: OIG analysis of Amtrak data

Amtrak Has Responded To Nine Suggestions

The suggestions contained in nine PRIIA sections, which Amtrak has also responded to, range from making agreements to restructure its capital leases to obtaining services from the General Services Administration. The actions Amtrak took to address these nine suggestions are summarized in Table 5. As discussed, we selected Sections 205 and 213 for detailed review. For Section 205, *Restructuring Long-Term Debt and Capital Leases*, we identified opportunities for savings by the restructuring of additional capital leases. For Section 213, *Passenger Train Performance*, we identified opportunities to improve its implementation.

Table 5. Nine PRIIA Suggestions Addressed by Amtrak

PRIIA Section	Title	Requirement	Action
205 ^a	<i>Restructuring Long-Term Debt and Capital Leases</i>	The Secretary of the Treasury, in consultation with the Secretary of Transportation and Amtrak, may make agreements to restructure Amtrak's indebtedness. This authorization expires 2 years after PRIIA enactment (October 16, 2010). Amtrak may not incur more debt after PRIIA enactment without the Secretary of Transportation's approval.	On October 15, 2010, Amtrak and the Secretaries of the Treasury and Transportation signed an agreement to exercise early buyout options on 13 leases over the next 3 fiscal years, saving Amtrak and the federal government \$152 million over time. Amtrak has not incurred additional debt without prior approval from the Secretary of Transportation.
206	<i>Establishment of Grant Process</i>	The Secretary of Transportation has primary responsibility for the establishment of procedures for grant requests. Amtrak is responsible for submitting grant requests consistent with the grant process to the Secretary of Transportation.	Amtrak complied with the Department of Transportation's newly-established grant application process.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
213 ^a	<i>Passenger Train Performance</i>	<p>The Surface Transportation Board may initiate an investigation if the on-time performance of any intercity passenger train averages less than 80 percent for any two consecutive calendar quarters, or if the service quality of intercity passenger train operations, for which the minimum standards are established under Section 207, fails to meet those standards for two consecutive calendar quarters.</p> <p>The Surface Transportation Board is also required to initiate an investigation upon the filing of a complaint by Amtrak, an intercity passenger rail operator, a host railroad, or an entity for which Amtrak operates intercity passenger rail service.</p> <p>The purpose of the investigation is to determine whether and to what extent delays or failure to achieve minimum standards are due to causes that could reasonably be addressed by the host railroad. The Surface Transportation Board is also authorized to investigate whether delays or failures to achieve minimum standards are attributable to a host railroad's failure to provide preference, a statutory right that affords Amtrak preference over freight transportation in using a rail line, junction, or crossing.</p> <p>The Surface Transportation Board can award damages if it finds that Amtrak's preference rights have been violated.</p>	<p>Amtrak is collecting and monitoring on-time-performance data for analytical purposes that could be used if it decides to request that the Surface Transportation Board investigate delays by a host railroad for substandard on-time performance.</p> <p>Amtrak's Transportation Department has hired and plans to hire additional employees to help track on-time-performance data, identify trends in poor performance, and work with host railroads to improve on-time performance rates.</p>
218	<i>General Amtrak Provisions</i>	Amtrak may obtain services from the General Services Administration.	In May 2011, Amtrak awarded U.S. Bank a contract to provide purchasing and travel card services to Amtrak under the General Services Administration's SmartPay program. Through this program, Amtrak will avoid administrative

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
			processing costs compared with previous, paper-based procurement processes. According to a senior Amtrak official, Amtrak continues to work with the General Services Administration to use its vehicle and travel programs.
223	<i>Incentive Pay</i>	The Board of Directors is encouraged to develop an incentive pay program for Amtrak management employees.	Amtrak approved merit pay, geographic pay, and spot award programs for its employees, and proposed an incentive pay program to the Board of Directors.
301^b	<i>Capital Assistance for Intercity Passenger Rail Service</i>	Amtrak may enter into a cooperative agreement with one or more states to participate in the Secretary of Transportation's grants to implement one or more ranked capital projects in states' rail plans.	Although Amtrak did not enter into cooperative agreements with states, it provided advice and assistance to states in their efforts to obtain capital assistance and grants for intercity passenger rail service.
302^b	<i>Congestion Grants</i>	Amtrak, in cooperation with states, may participate in the Secretary of Transportation's grants to states to finance the capital costs of facilities, infrastructure, and equipment needed to reduce congestion or facilitate ridership growth.	Although Amtrak did not participate, it provided advice and assistance to states in their efforts to obtain congestion grants.
402	<i>Routing Efficiency Discussions with Amtrak</i>	Amtrak, commuter rail entities, regional state public transportation authorities, and freight railroads are encouraged to engage in discussions on routing and timing of trains to improve performance.	Amtrak met with host freight railroads and commuter rail entities to develop feasible train schedules to satisfy all users' requirements.

Amtrak Office of Inspector General
Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions
 Report No. OIG-A-2012-001, October 26, 2011

PRIIA Section	Title	Requirement	Action
501 ^b	<i>High-Speed Rail Corridor Program</i>	The Secretary of Transportation is authorized to establish and implement a high-speed-rail-corridor development program. Eligible applicants include a state (or the District of Columbia), a group of states, an interstate compact, a public agency established by one or more states, or Amtrak. Eligible corridors include the high-speed-rail corridors designated by the Secretary of Transportation. These funds are to be used for acquiring, constructing, or improving rail structures and equipment.	On March 14, 2011, the Secretary of Transportation designated the Northeast Corridor a high-speed rail corridor. Subsequently, Amtrak applied for nearly \$1.3 billion in infrastructure-improvement grants to bring next-generation, high-speed rail to the Northeast Corridor. The Department of Transportation awarded Amtrak nearly \$450 million to upgrade support systems and tracks between stops in Pennsylvania and New Jersey.

^aSelected by OIG for detailed review

^bAccording to Amtrak, it supported over 200 applications by 25 states for Sections 301, 302, and 501. The assistance included the development of ridership and revenue projections; operating plans and operating cost estimates; engineering, station, and equipment design support and reviews; and safety plans. The successful applications for which Amtrak provided assistance will result in the initiation or expansion of service on a number of routes, and will produce major improvements in existing services.

Source: OIG analysis of Amtrak data

Three Provisions Where the Triggering Events that Are Prerequisites to Amtrak Responding Have Not Occurred

Amtrak has not had to react to three sections because the events that are preconditions to it responding have not occurred. Specifically:

- Because the Federal Railroad Administration has not recommended any methodologies to determine which intercity passenger routes and services to provide under Section 208, *Methodologies for Amtrak Route and Service Planning Decisions*, the precondition for Amtrak to respond has not occurred.
- Because no Amtrak-operated route has been eliminated under Section 215, *Employee Transition Assistance*, the precondition for Amtrak to certify that it made a reasonable attempt to reassign affected employees has not occurred.
- Because no state has selected an entity other than Amtrak to operate an intercity passenger train route under Section 217, *Access to Amtrak Equipment and Services*, the

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

precondition for it to develop an access agreement to its equipment and services has not occurred.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
 Continued Commitment Needed to Fully Address Provisions**
 Report No. OIG-A-2012-001, October 26, 2011


Appendix III

COMMENTS FROM AMTRAK'S CHIEF FINANCIAL OFFICER

NATIONAL RAILROAD PASSENGER CORPORATION
 60 Massachusetts Avenue, NE, Washington, DC 20002

Memo



<p>Date October 21, 2011</p> <p>To Ted Alves, Inspector General</p>	<p style="text-align: center;"></p> <p>From DJ Stadtler, Chief Financial Officer</p> <p>Subject Draft OIG Report No. 004-2011, PRIIA of 2008</p> <p>cc Eleanor Acheson, Vice President, General Counsel Stephen Gardner, Vice President, Policy and Development Jeffery Geary, Vice President, Operations Emmett Fremaux, Vice President, Marketing and Product Management Joseph McHugh, Vice President, Government Affairs William Herrmann, Managing Deputy General Counsel Jessica Scritchfield, Sr. Director, Internal Controls / Audit</p>
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This letter is in response to Office of Inspector General ("OIG") draft report number 004-2011 "Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions", dated October 14, 2011.

The OIG draft reports provide useful information upon which Amtrak management can take action. Management's responses to each of the recommendations is detailed below:

Recommendation:

Chief Financial Officer to update information on the potential savings that could be achieved and upfront investment needed to exercise early buyout options in the remaining long-term debt and capital leases, and provide that information to the Congress.

Management Response:

Management agrees with this recommendation. Amtrak has updated the information on early buyout options and provided it to the Senate Appropriations Committee staff, the Senate Commerce Committee staff, and the Congressional Budget Office on September 21, 2011. Additionally, Amtrak Management (including the CFO, VP for Government Affairs, and VP for Policy and Development) met with Congressional Staff and Treasury Staff on October 4, 2011

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Draft OIG Report No. 004-2011, PRIIA of 2008

October 21, 2011

Page 2

to walk through the information and discuss strategies to obtain additional authority to receive funding from Treasury to exercise these options.

Recommendation:

Vice President of Marketing and Product Development to develop future performance-improvement plans that focus on potential changes that are less dependent upon host railroad approval or increased federal subsidies.

Management Response:

Management agrees with the recommendation. Section 210 of PRIIA requires Amtrak to develop and begin implementing performance improvement plans (PIPs) for its 15 long distance routes over a three-year period. In accord with Section 210, Amtrak completed and began implementing PIPs for the first five routes in FY2010; recently published and began implementing PIPs for the next five routes in FY2011; and will produce and begin implementing PIPs for the five remaining routes in FY2012. As indicated in the draft report's conclusion (p. 20), Amtrak followed this approach in preparing the 2011 PIPs. Full implementation of the 2011 initiatives is projected to produce significant benefits, including an \$8.2 million annual reduction in operating losses. Additionally, only one of 2011 initiatives – restoration of Atlanta switching on the Crescent route – would have any material impact on a host railroad, or require any additional Amtrak capital funding. Therefore, while the PIP very clearly evaluates a wide variety of initiatives including those with host railroad impact and / or increased federal subsidies, it does focus on those that have a positive impact on Amtrak's net operating costs. It is management's intent to follow a similar approach in the preparation of the 2012 PIPs, as well as in the development of any future performance improvement plans. Therefore, the Section 210 PIP that will be published in September 2012 will adhere to the recommendation above.

Recommendation:

General Counsel to develop a specific process and criteria to help determine if and when Amtrak should request that the Surface Transportation Board (STB) investigate substandard on-time performance caused by host railroads.

Management Response:

Management agrees with the recommendation to establish a process to support using on-time performance remedies available under Section 213. The General Counsel will establish a process that includes the responsible Department heads to evaluate potential Section 213 claims in light of the Section 207 metrics and Amtrak's preference rights. The General Counsel's office will also contact representatives at the STB to discuss their process for evaluating when the STB will initiate an independent investigation as provided in PRIIA. These actions will occur by January 31, 2012.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Draft OIG Report No. 004-2011, PRIIA of 2008
October 21, 2011
Page 3

Recommendation:

Vice President of Transportation to determine whether additional special trains could yield profits to help reduce federal subsidies.

Management Response:

Management agrees with this recommendation. As noted in the OIG's report, responsibility for special trains has recently been transferred from Amtrak's Marketing and Product Development Department to the Transportation Department, and an inter departmental Special Operations committee has been formed to comprehensively assess Amtrak's special train operations. The Special Operations committee will review and analyze the various components required to market and operate additional special trains to determine the feasibility of Amtrak expanding its existing special train operations to yield profits to help reduce federal subsidies. The Chief of Business Operations and Technology will provide the results of these actions and next steps by January 31, 2012.

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Appendix IV

ABBREVIATIONS

FY	fiscal year
OIG	Office of Inspector General
PRIA	Passenger Rail Investment and Improvement Act of 2008
SAM	Strategic Asset Management

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
Continued Commitment Needed to Fully Address Provisions**
Report No. OIG-A-2012-001, October 26, 2011

Appendix V

OIG TEAM MEMBERS

David R. Warren, Assistant Inspector General, Audits

Mark A. Little, Senior Director

Al Murray, Auditor-in-Charge

Courtney Catanzarite, Auditor

Dottie James, Consultant

Jim Simpson, Consultant

Roy Judy, Consultant

Michael P. Fruitman, Principal Communications Officer

Amtrak Office of Inspector General
**Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but
 Continued Commitment Needed to Fully Address Provisions**
 Report No. OIG-A-2012-001, October 26, 2011

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; and • review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.
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Obtaining Copies of OIG Reports and Testimony	Available at our website: www.amtrakoig.gov .
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