



Inspector General  
Jeffrey E. Schanz

September 30, 2009

Ms. Lorraine A. Green  
Interim Inspector General  
Office of Inspector General  
National Passenger Railroad Corporation (Amtrak)  
10 G Street, NE, Suite 3W-300  
Washington, D.C. 20002-4285

Subject: System Review Report on the Amtrak's Office of Inspector General  
Audit Organization

Dear Ms. Greene:

Attached are the final System Review Report of the Amtrak's Office of Inspector General audit organization and the associated Letter of Comment. Your responses to the draft report and draft letter of comment are included as attachments to the respective reports with excerpts and our position incorporated into the relevant sections of each report.

We agree with your proposed corrective actions to the recommendations. We thank you and your staff for the assistance and cooperation provided during the review.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz", is written over a printed name and title.

Jeffrey E. Schanz  
Inspector General

Enclosure

*Handwritten:* 10/20/09



Inspector General  
Jeffrey E. Schanz

## System Review Report

September 30, 2009

Lorraine A. Green  
Interim Inspector General  
Office of Inspector General  
National Passenger Railroad Corporation  
10 G Street, NE  
Washington, D.C. 20002

Dear Ms. Green:

We have reviewed the system of quality control for the audit function of National Passenger Railroad Corporation's (Amtrak) Office of Inspector General (OIG) in effect for the year ended September 30, 2008. Amtrak OIG's system of quality control encompasses its organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. Amtrak OIG is responsible for designing a system of quality control and complying with it to provide Amtrak OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and Amtrak OIG's compliance with that system based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE)<sup>1</sup>. During our review, we interviewed Amtrak OIG personnel and obtained an understanding of the nature of the Amtrak OIG audit function, and the design of the Amtrak OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with the Amtrak OIG's system of quality control. The audits selected represented a reasonable cross-section of the Amtrak OIG's audit function. Prior to concluding the review, we met with Amtrak OIG management to discuss the results of our review. We

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<sup>1</sup> As part of the Inspector General Reform Act of 2008, the PCIE and ECIE were merged and became the Council of the Inspectors General on Integrity and Efficiency

believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the Amtrak OIG's audit function. In addition, we tested compliance with the Amtrak OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Amtrak OIG's policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Attachment 1 to this report identifies the offices of the Amtrak OIG that we visited and the audits that we reviewed.

In our opinion, except for the deficiencies described below, the system of quality control for the audit function of Amtrak OIG in effect for the year ended September 30, 2008 has been suitably designed and complied with to provide Amtrak OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. Amtrak OIG has received a peer review rating of *pass with deficiencies*.

We noted two deficiencies during our review. First, Amtrak's quality control system requirements need to be followed and all requirements of the quality control system need to be made mandatory for projects classified as limited scope audits. Second, Amtrak's system for monitoring continuing professional education did not ensure that all staff members obtained appropriate CPE credits to meet *Government Auditing Standards*.

1. Deficiency – Amtrak OIG needs to ensure that its quality control system is followed, particularly in regard to independent report referencing, and Amtrak needs to improve its quality control system for projects identified as "limited scope audits." Because some elements of the control system designed by Amtrak OIG to ensure compliance with *Government Auditing Standards* were not followed, three of the four audits reviewed contained deficiencies that were not identified and corrected before the reports were issued.

a. Amtrak's audit policy, Section II-14, "Audit Reports," requires an independent integrity review of reports. One report with deficiencies was not

independently reviewed, while the independent reviews of the two other reports with deficiencies were inadequate. Specifically, an analysis of the two reports indicated that the independent reviews were not identifying missing elements of findings and, in one case, did not identify that sufficient supporting evidence was not obtained. Also, the reports for the two audits were not fully cross-indexed, thus impeding the independent review process.

The issue of independent referencing and cross-indexing was previously reported in the Letter of Comment from Amtrak's last peer review, which stated that cross-referencing and independent review could be improved. In response to the recommendation that draft reports and substantive changes to final reports be cross-indexed to supporting workpapers and independently referenced prior to report issuance, Amtrak Audit issued a reminder to its staff to ensure that established procedures were to be followed.

In response to the current issues with independent referencing, Amtrak audit management has stated that it will be revising the Audit Policies to reinforce the requirement for independent referencing, with additional instructions for its smaller offices where the staff all work on the same audit. They expect the revisions to all audit policies to be completed by March 2010.

b. The control system for audits classified as limited scope audits was not properly designed. Amtrak did not mandate that audits classified as limited scope audits were subject to all controls established to ensure that all applicable *Government Auditing Standards* were met. Amtrak's Audit Manual, Section II-23, "Limited Scope Audits/Consulting Projects," states that substantial compliance with Generally Accepted Government Auditing Standards (GAGAS) can be achieved for limited scope audits. Section II-23 allows managers to designate exceptions to the control system when conducting limited scope audits, but requires that the exceptions to GAGAS be disclosed in the audit report. As a result, audits designated as limited scope may not have been subject to all aspects of Amtrak's quality control system. However, *Government Auditing Standards* do not provide for any reduction in compliance with standards when auditors represent to others that *Government Auditing Standards* were followed. *Government Auditing Standards* paragraph 1.11 requires that all applicable standards be followed when audits are represented as following *Government Auditing Standards*. Further, paragraph 1.12b of the standards discusses using a modified GAGAS statement when (1) an audit or attestation engagement is performed in accordance with GAGAS except for specific applicable requirements that were not followed, or (2) the auditor was unable to and did not perform the audit or attestation engagement in accordance with GAGAS because of the significance of the departure from the requirements. When using a modified GAGAS statement, the auditors are required to disclose in the report the requirements not followed, the reasons for not following the requirements, and how not following the requirements affected the audit.

Two of the four audits reviewed were designated as limited scope audits, while the two other audits were ambiguous about whether they were limited scope audits. However, all four audits were represented as following *Government Auditing Standards* with no exceptions to government standards noted in the reports. By being ambiguous as to whether the audits were limited scope, Amtrak runs an additional risk that some full scope audits may be incorrectly designated as limited scope in order to bypass the controls that ensure compliance with *Government Auditing Standards*.

As a result of the weaknesses in Amtrak's control system, deficiencies were noted in three of four audits reviewed. One of the audits reported two findings that did not have appropriate and sufficient supporting evidence, and two other audits reported findings that did not clearly include all elements of findings. In addition, one of the three reports also did not rebut management comments that disagreed with one finding, which leaves the impression that Amtrak OIG agrees with management's position. These deficiencies more likely would have been identified and corrected with complete cross-indexing and a more focused independent referencing.

The errors found for each report and the impact the errors had on the reliability of the reports are summarized at Attachment 2, which is an integral part of this report.

### Recommendations

The Deputy Inspector General – Audits should:

Recommendation 1: Enforce all requirements of Amtrak's quality control system for all GAGAS audits even if the report contains a modified GAGAS compliance statement.

Recommendation 2: Revise Amtrak's policy on limited scope audits to require that all aspects of the quality control system be mandatory for all audits that claim to have been conducted in accordance with *Government Auditing Standards* (GAGAS 1.11).

Recommendation 3: Ensure that a modified GAGAS compliance statement is included in the audit report if any applicable standard is not followed, including a disclosure of what applicable requirement was not followed, the reason for not following the requirement, and how not following the requirement could affect the audit (GAGAS 1.12 and 8.30).

## Amtrak OIG Response

Amtrak OIG generally agreed with the finding and recommendations. To ensure adherence to 2007 GAGAS a complete overhaul of the Audit Policy Manual is underway with complete revision scheduled for March 31, 2010. Mandatory training on the revised policies will also be undertaken. Changes to the policies would include steps for its smaller offices, such as Boston, to take for independent integrity reviews, eliminating the use of "Limited Scope Audits" because of the potential for misunderstanding the intent of that policy. The revised policies would provide guidance on performing non-audit work and services that better encompasses work such as the "Analysis of Overtime Wages," which was reported as a GAGAS audit but should have been non-GAGAS work. The complete text of Amtrak OIG's comments is at Attachment 3.

2. Deficiency – Continuing professional education (CPE) was not properly monitored to ensure that all staff members obtained appropriate CPE credits to meet *Government Auditing Standards*. As a result, one individual who did not satisfy the CPE requirements was allowed to continue to participate on audits for over 7 months before obtaining required CPE. This issue was previously reported in the Letter of Comment in Amtrak's last external peer review, which stated that four auditors did not achieve the minimum continuing professional education credits. In response to that report, audit management implemented procedures where audit supervisors and headquarters staff in Washington, D.C. would be kept informed of courses auditors have taken, headquarters would maintain the official record of all courses taken and would notify audit supervisors twice in the latter half of each year of the shortfalls that auditors needed to make up. These procedures, however, were either not working or not followed.

A review of CPE credits for 12 of the 37 Amtrak auditors noted that 2 auditors did not meet CPE requirements for the 2-year cycle ending December 31, 2007; two auditors were claiming credit for tax courses; and the records maintained in Washington, D.C. were incomplete. Of the two auditors who did not meet CPE requirements at the end of Amtrak's 2-year cycle ending December 31, 2007, one also did not earn the minimum 20 hours for calendar years 2007 and 2008. While one auditor earned sufficient make-up credits within 2 months of the end of the 2-year cycle, there was no evidence that the auditor requested or received a waiver to make up the deficiency within 2 months of the calendar year end. The other auditor did not make up the 2007 year-end shortage until August 2008. The auditor was also short of CPE credit for 2008, but had taken sufficient credit by the end of February 2009 to make up the shortage. As with the first auditor, there was no evidence of requests or approvals to make up the 2007 and 2008 shortages by the end of February in the following year. Because there were no approvals to allow year-end shortages to be made up within 2 months of the year end, Amtrak, in accordance with the Government Accountability Office guidance,

should not have allowed either auditor to participate in GAGAS audits until the shortages were cleared.

Government Accountability Office guidance allows supervisors to approve waivers through February of the following year. As a practical matter, the waivers probably would have been approved had they been requested. However, the absence of request and approval highlights the lack of supervisory oversight in Washington, D.C., where CPE monitoring was supposed to be conducted. Further, discussions with the two auditors showed that they were not carefully tracking their own CPE credits, and the supervisor was not tracking the CPE credits of his staff. The Deputy Inspector General - Audits, acknowledged that he was not monitoring the CPE progress of his staff, but was relying on an administrative assistant to maintain a CPE record for each auditor and report deficiencies to him. The administrative assistant currently responsible for tracking CPE credits was assigned to the task after the deficiencies identified above had occurred. Discussions with the administrative assistant also indicated uncertainty as to what CPE records to keep, what information should be reported and when it should be reported.

In addition, the system tracking CPE credits did not identify which courses satisfied GAGAS CPE requirements and which did not. Two auditors submitted certificates for state and Federal tax courses to Washington, D.C. for CPE credit. Guidance from the Government Accountability Office clearly states that tax courses are not creditable unless they're applicable to the subject matter of an audit. Since Amtrak does not audit taxes, we believe tax courses are not appropriate training for Amtrak auditors to receive CPE credit under Government Auditing Standards. The auditors taking these courses had sufficient other CPE credits during the period to meet *Government Auditing Standards* requirements for the 2-year cycle ending December 31, 2007. However, these auditors could end up with a deficiency for the 2-year period ending December 31, 2009, if they are inappropriately counting these tax courses as creditable CPE under *Government Auditing Standards*.

The review noted that the CPE records maintained in Washington, D.C. were incomplete. Certificates were not available for all courses Amtrak auditors claimed as taken. The Washington, D.C. records also did not agree with the training listed on a qualifications statement that each auditor prepares prior to participating in an audit. In addition, some of the certificates submitted were not clear as to the number of CPE hours claimed or the formula for converting non-hour credits into CPE hours.

A strong system to track CPE helps ensure that auditors are obtaining the required CPE credits and assists supervisors in identifying and providing appropriate training to staff.

Recommendation 4: The Deputy Inspector General - Audits should design and implement a system that accurately tracks required CPE credits. The system should at a minimum ensure that:

- auditors timely submit a copy of all training certificates to the administrative assistant in Washington, D.C. who is responsible for CPE recordkeeping.
- the administrative assistant responsible for CPE recordkeeping maintains a file of all certificates and a record for each auditor that lists the name of each course taken, the date it was taken, the name of the training provider, and the CPE hours credited on the certificate.
- extension requests and approvals for not obtaining sufficient CPE by the end of a calendar year and 2-year cycle are documented, with a copy maintained by the auditor, supervisor and administrative assistant responsible for CPE recordkeeping
- CPE hours used to make up shortages in a prior year are credited only to that prior year and not also credited in the year in which the CPE hours were taken.
- all courses taken for credit are allowable as defined by the Government Accountability Office.

#### Amtrak OIG Response

Amtrak OIG generally agreed with the finding and recommendation. While Amtrak OIG stated that it was substantially in compliance with continuing professional education requirements, the Deputy Inspector General – Audits has made revisions to the posting and tracking of CPE. The complete text of Amtrak OIG's comments is at Attachment 3.

#### LSC OIG Analysis of Responses

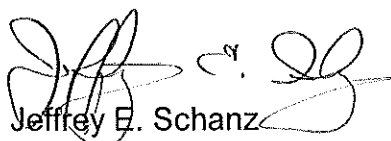
Amtrak OIG's planned actions as noted above are responsive to our review's observations and recommendations and, if properly implemented, should address all matters raised during this peer review. In response to the recommendation to improve compliance with CPE requirements, Amtrak OIG reemphasized the GAGAS requirements to obtain 80 hours of CPE over 2 years. While the written response does not specifically address the process of requesting and approving extensions to the timeframe for obtaining CPE credits, management officials did state that the new policies will include such requirements. We are encouraged that the Amtrak OIG has completed or intends to complete all actions on our recommendations by March 31, 2010.

Attachment 3 to this report includes Amtrak OIG's full response to the above deficiencies. The "...attached correspondence..." referenced in Amtrak OIG's comments was not provided with the comments and thus are not included with the attachment.



As is customary, we have issued a letter dated September 30, 2009, that sets forth findings related to the design of and compliance with Amtrak OIG's system of quality control that were not considered to be of sufficient significance to affect our opinion expressed in this report. Amtrak OIG's response to that letter is included as an attachment to the letter.

Sincerely,



Jeffrey E. Schanz  
Inspector General

Enclosure

**SCOPE AND METHODOLOGY**

We tested compliance with the Amtrak OIG's system of quality control to the extent we considered appropriate. These tests included a review of 4 of 27 audit reports issued during the period October 1, 2007, through September 30, 2008, and semiannual reporting for the period April 1, 2006, through September 30, 2008. We also reviewed the internal quality control reviews performed by Amtrak OIG.

Our review was conducted at the Amtrak OIG's Office of Audit in Washington, D.C.

**Reviewed Audits Performed by Amtrak OIG**

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
301-2007	5-22-08	Amtrak Leasing Practices
302-2008	9-30-08	Boston Station Audit
403-2008	5-28-08	Fuel Supply – Gas City Contract
105-2007	1-09-07	Analysis of Overtime Wage

**RESULTS of REVIEWS**

**a. Findings Lack Appropriate and Sufficient Evidence and Do Not Include All Elements of a Finding.**

Report No. 301-2007, Leasing Practices Audit (June 11, 2008)

Of the four findings in the report, two did not have appropriate and sufficient evidence. In addition, these two findings and another finding did not have all elements of a finding.

- Finding 4 stated in its entirety that "A review of a sample of leases and discussions with Real Estate personnel indicated that Amtrak lease contracts do not mandate security background screenings for tenants and their employees." The only supporting document referenced was an email response from Amtrak management which states in part, "Thanks for including us in your thinking on finalizing recommendations." There was no cross-indexing to documents that identify criteria related to requiring background checks. There was no cross-indexing to the sample of leases that do not have a background screening requirement. The only documented reference was to the email from management. This finding was solely about a potentially adverse condition and was missing criteria, cause and effect.
- Finding 3 stated that the auditors wanted to determine if the current practice of including utility expenses in the square foot price of leased space protected Amtrak against extra-ordinary utility increases. The finding noted that typical Amtrak leases contain a general escalation clause rather than a specific utility escalation clause. The finding then proceeded to mention an interview with a senior manager who indicated that a utilities escalation clause could become part of future leases. However, there was no analysis of whether the current lease provisions do or do not provide adequate protection against extra-ordinary increases. This finding also was only about a potentially adverse condition and was missing criteria, cause and effect.

The initial draft was significantly rewritten and did not include finding 3. The initial draft also was the only version of the report that was cross-indexed and then only partially. Amtrak's Audit Manual, Section II-9, "Workpapers," states that complete and accurate cross-indexing<sup>2</sup> in the workpaper file is an essential component of completing the work of the audit, and as a minimum, revisions to draft reports should be indexed to the supporting workpapers. However, the policy allows supervisors to exempt limited scope audits

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<sup>2</sup> Amtrak's policy uses the word "referencing" where we use "cross-indexing" to mean the same thing and to differentiate from the use of "independent referencing."

workpapers and reports from complete cross-indexing and independent referencing.

We also noted that the draft report sent to management, which typically solicits management's formal comments, already included management's comments. While management subsequently returned the draft with their edits, there was no cross-indexing to supporting documentation that shows all comments identified as management's are in fact management's. Based on the edits, though, management did not object to what was written as their position.

- Finding 2 discussed that Amtrak leases do not always include floor plans detailing the space leased and cites the one instance found where the lessee was occupying more space than the lease authorized. The report properly stated that lessees should not occupy more space than the lease allows, but it did not discuss how the lessee ended up occupying more square footage than the lease allowed. The report recommended providing station managers with detailed floor plans, but that only partially addresses the problem of lessees occupying unauthorized space. Reviews of build-out plans and taking measurements during and after build-out are other preventive measures that would complement detailed drawings to ensure lease requirements are followed. Regardless, even these additional measures may not fully address the cause of the problem because the report did not discuss why the lessee had more space than authorized.

The following two reports had findings that did not clearly identify all elements of a finding, particularly cause. The primary concern is that recommendations for corrective action should be directed at addressing the cause of the reported problem. The *Government Auditing Standards* paragraph 8.28 states in part, "Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems and clearly state the actions recommended." Further, Amtrak's Audit Manual, Section II-11, Finding Sheets, states that failure to identify causes is extremely critical and may result in recommendations that are unlikely to prevent future occurrences.

#### Report No. 302-2008, Boston Station Audit (September 30, 2008)

Of the six findings, three did not have all elements of a finding.

- Finding 1 did not have cause or effect. The finding discussed manually issuing out-of-sequence tickets, missing tickets and poor record keeping, but it did not discuss the cause or adverse effect of these conditions. This finding may be a compliance issue which might mitigate the need to elaborate on the effect of not following a policy, but the cause of not following the policy is important especially when recommending effective corrective action, such as

recognizing that a policy is ineffective and needs reconsideration to address changed circumstances.

- Finding 3 also did not have cause or effect. The finding was about spending station funds for inappropriate purposes, but does not discuss the cause of inappropriate spending. The recommendation was to spend only on approved items. Without knowing the cause, the recommendation may not cure the issue, and there may have been a need to also recommend recovery of inappropriately spent funds or sanction those engaging in inappropriate spending.
- Finding 5 did not discuss why die stamps were not recorded on cancelled tickets. Again, the recommendation that die stamps be used may not properly resolve the cause.

It should also be noted that the above findings did not identify the magnitude of the problems. For example, the findings did not identify the number of tickets issued out of sequence, the amount of inappropriate spending, and how many die stamps were not recorded. This information is helpful in establishing materiality. These findings may be compliance issues where any non-compliance could be considered a reportable issue to be corrected. Even so, identifying the magnitude of the adverse conditions can be important information to those who need to implement corrective actions. *Government Auditing Standards*, paragraph 8.16, states the auditors should place findings in perspective. It also states that auditors should relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other appropriate measures.

#### Report No. 105-2007, Analysis of Overtime Wages (January 8, 2008)

This report was more of a statistical compilation of overtime usage than an analysis designed to help management identify instances of fraud, waste and abuse as the purpose the audit report was described. There were nine points discussed in the report and basically they describe how many employees made over \$100,000 in regular and overtime wages, what job description were involved in most of the overtime, the locales where the overtime was earned, and other similar statistical information. There were no clearly stated deficiencies related to the statistics presented other than it's a lot of overtime and that the statistics are similar to an earlier audit report. As to cause, the report recommended that management determine the root cause and report back to the Office of Inspector General with an action plan to address the problem. Also, there were no management comments included in the report.

Amtrak audit management stated that reviews similar to this one are occasionally undertaken as an advisory management assignment and are not intended to be an audit. They then stated that this audit should not have been presented as an

audit complying with GAGAS, but as a non-audit assignment where the issues were meant to be presented as observations not as findings. Further, they stated that their policy revisions would include guidance on communicating and reporting on observations in non-audit assignments.

**b. No Rebuttal to Management's Comments That Disagreed With a Finding**

Finding 6 of the Boston Station audit report (302-2008) did not rebut management's comments which disagreed with the audit finding on the issue of excess assigned working funds. *Government Auditing Standards* paragraph 8.36 states in part, "If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence." By not rebutting management's refusal to reduce assigned working funds, readers likely would assume that the OIG was accepting Amtrak management's position. If that was truly the case then this finding probably should not have been included in the final report.

**c. Designation As Limited Scope Audit May Allow Shortcuts To Proper Audit Oversight**

The audit policy on Limited Scope audits allows shortcuts to proper audit oversight. The Leasing Practices audit and the Boston Station audit were ambiguous as to whether they come under the Limited Scope Audit designation. Neither were quick response audits, taking over 17 months and 3 months, respectively, to complete. The audit policy suggests that limited scope audits take little time to complete such as 3 to 5 days. The initial audit program of the Leasing Practices audit stated that it's the successor to another audit which was cancelled in favor of expanding the scope of the audit to encompass a review of Amtrak's leasing practices. The Boston Station audit appeared to be a routine audit based on a standardized audit program. Neither audit was requested by Amtrak management which is a primary reason for conducting limited scope audits, although Audit Managers as an exception may elect to conduct a limited scope audits. Neither of these audits was identified in the audit assignment memoranda as limited scope. However, internal review documents prepared at the end of each audit indicated that each was a limited scope audit. An exception's memorandum in Leasing Practices audit cited limited scope as one of the justifications for not following Amtrak standards. The Workpaper Review Checklist for the Boston Station Audit cited limited scope as a reason for not following Amtrak standards. We believe the limited scope designation may be used to reduce the cross-indexing and independent referencing required of normal audits.

The auditors cited another reason for not conducting independent referencing. They stated that they do not conduct independent referencing because they all work on the same audits so there was no one in their office who was

independent. While it is true that this office cannot and should not conduct independent reviews of its work, their argument does not recognize that all Amtrak audits are recorded into an electronic audit data management system and audit documentation can be made available to anyone approved to access the data. As an example, auditors in Los Angeles can review the workpapers of audits done by the Boston office.

**AMTRAK OIG COMMENTS**





September 4, 2009

Legal Services Corporation  
Office of Inspector General  
Attn: Jeffrey E. Schanz, Inspector General  
3333 K Street, NW  
3<sup>rd</sup> Floor  
Washington, DC 20007

Subject: Response to Report on External Quality Control Review of the National  
Passenger Railroad Corporation Inspector General Audit Organization

Dear Mr. Schanz:

Below is our written response to the official draft peer review report dated September 13, 2009.

**Peer Review Report**

Thank you for the opportunity to respond to the official draft of the peer review report. Also, thanks again for doing the review, which had not been scheduled. Overall, the report gives us a "*pass with deficiencies*" and provides findings and recommendations that will enable us to improve our audit process quality control system. Overall, we are aware of the need to update our "Audit Procedures Manual" (APM) and started to update it in November 2008 and anticipate a completion date of March 31, 2010. Furthermore, our plan is to provide the revised APM to all the audit staff and provide training on the revised manual to ensure all audits are performed in compliance with the 2007 Generally Accepted Government auditing Standards (GAGAS) and that all the policies and procedures governing our audits are understood and adhered with. The following are specific comments for the findings and recommendations:

**Finding and Recommendations 1**

*Amtrak OIG needs to ensure its quality control system is followed, particularly in regard to independent report referencing, and Amtrak needs to improve its quality control system for projects identifies as "limited scope audits". The report stated that three of the four audits reviewed contained deficiencies that were not identified and corrected before the reports were issued. The report recommended that the Deputy Inspector General – Audit (1) enforce all requirements of Amtrak's quality control system for all*

*GAGAS audits even if the report contains a modified GAGAS compliance statement, (2) revise Amtrak's policy on limited scope audits to require that all aspects of the its quality control system be mandatory for all audits that claim to have been conducted in accordance with GAGAS, and (3) ensure that a modified GAGAS compliance statement be included in the audit report if any applicable standard is not followed, including a disclosure of what applicable requirement was not followed, the reason for not following the requirement, and how not following the requirement could affect the audit.*

We generally agree with the finding and the three recommendations. To enhance the independent integrity review process of audit reports we plan to revise the APM to reinforce the requirement and add additional internal controls to ensure GAGAS standards were adhered with. The revised APM will also include guidance on steps to take for independent integrity reviews for our smaller audit offices (Boston has a staff of three) where the entire staff may work on the audit and report, which was the case with two of the audits selected for review (301-2007 "Amtrak Leasing Practices" and 302-2008 "Boston Station Audit").

The use of "limited scope audits" will be eliminated in the revised APM. We were aware of the potential for misunderstanding and use of "limited scope audits" (Section II-23, "limited Scope Audits/Consulting Projects") prior to the peer review and planned to remove the term from our revised APM. Our use of "limited scope audits" was intended to be used to cover all types of audit reports that may not have been in performed in full compliance with GAGAS. Specifically, certain reviews were undertaken as an advisory assignment and were not intended to be an audit, which was the case with the report "Analysis of Overtime Wages" 105-2007, selected for the review. We agree that this report should not have been represented as a GAGAS audit, but rather as a non-audit assignment. The revised APM will address and provide guidance on the performance of non-audit work and reporting. In addition, the statement that reports findings that did not include all the elements (condition, criteria, cause and effect) of a finding was due to the intent to disclose the situation and present our observation rather than a finding. Guidance on communication and/or reporting on observations will also be addressed in the revised APM.

As previously stated, when the APM is revised and updated in 2010 we plan to distribute it to all staff and conduct mandatory training to ensure all Amtrak's audit staff understand the guidance on report adequacy, indexing, and independent referencing.

The Deputy Inspector General – Audits has tasked Alan Klein, Senior Director, Audits, Washington DC, to be responsible for updating our APM. It will include improvements for independent integrity reviews with requisite internal controls and eliminating the use

of audit performed as "limited scope" audits, as well as a complete overhaul of the APM to ensure it is aligned with the 2007 GAGAS. Our implementation date for the revised APM is March 31, 2010, however the revising of the manual is currently in progress and as sections are completed they will implemented.

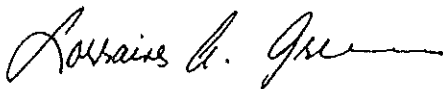
Finding and Recommendations 2

*Continuing Education was not properly monitored to ensure that all staff members obtained appropriate CPE credits to meet Government Auditing Standards. As a result one individual who did not satisfy the CPE requirements was allowed to continue to participate on audit over 7 months before obtaining the required CPE. The report recommends that the Deputy Inspector General – Audit design and implement a system that tracks required CPE credits. The system should at a minimum ensure that: auditors timely submit a copy of all training certificates to the administrative assistant in Washington, D.C. who is responsible for CPE recordkeeping; the administrative assistant responsible for CPE recordkeeping maintains a file of all certificates and a record for each auditor that lists the name of each course taken, the date it was taken, the name of the training provider, and the CPE hours credited on the certificate; extension requests and approvals for not obtaining sufficient CPE by the end of a calendar year and 2-year cycle are documented with a copy maintained by the auditor, supervisor and administrative assistant responsible for CPE recordkeeping; CPE hours used to make up shortages in a prior year are credited only to that prior year and not also credited in the year in which the CPE hours were taken; and all courses taken for credit are allowable as defined by the Government Accountability Office.*

We generally agree with the finding and recommendation, however, it should be noted that we were substantially in compliance with the CPE guidance. Nonetheless, during the peer review when the issue of non compliance with our CPE guidance was brought to our attention, the Deputy Inspector General- Audits took immediate action and revised the guidance to strengthen the internal controls and ensure there is no deviation from the guidance.

The Deputy Inspector General – Audits Washington DC, is responsible for ensuring all audit staff are in compliance with the CPE requirements (see attached for correspondence to the Amtrak audit staff). The Deputy Inspector General- Audits made revisions to the posting and tracking of CPE and we consider this recommendation implemented.

Sincerely,



Lorraine A. Green  
Interim Inspector General



Inspector General  
Jeffrey E. Schanz

September 30, 2009

Ms. Lorraine A. Green  
Interim Inspector General  
Office of Inspector General  
National Passenger Railroad Corporation  
10 G Street, NE  
Washington, D.C. 20002

Dear Ms. Green:

We have reviewed the system of quality control for the audit function of Amtrak OIG in effect for the year ended September 30, 2008, and have issued our report thereon dated September 30, 2009, in which the Amtrak OIG received a rating of pass with deficiencies. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

**Finding 1. Peer Reviews Need to be Scheduled Timely, Provided to Appropriate Oversight Bodies and Made Publicly Available**

The Deputy Inspector General - Audits did not realize until November 2008 that an external peer review of the Office of Audit had not been scheduled and was significantly overdue by several months. The peer review should have been scheduled so that a report would have been issued by December 31, 2007. *Government Auditing Standards* and peer review guidance<sup>3</sup> require an external peer review be obtained every 3 years and a report issued within 9 months of that date. In Amtrak's case, a peer review should have been scheduled for the 3-year period ending March 31, 2007 with a report issued by December 31, 2007. In his February 24, 2009 request for an extension of its peer review cycle from March 31, 2007 to September 30, 2008, Amtrak's former Inspector General noted that Amtrak had been inadvertently left off the schedule of reviews and that Amtrak did not catch the exclusion. On March 30, 2009, the Council of the

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<sup>3</sup> The Council of the Inspectors General on Integrity and Efficiency administers the external peer review program under GAGAS for Federal Offices and publishes the Guide for Conducting External Peer Reviews of Audit Organizations of Offices of Inspector General. The guide elaborates on the *Government Auditing Standards'* external peer review timing requirements.

Inspectors General on Integrity and Efficiency with concurrence from the Government Accountability Office approved a one-time-only adjustment to Amtrak's peer review cycle.

As for communicating its peer review results, Amtrak's DIGA stated that they have not communicated the overall results and the availability of those past reviews to appropriate oversight bodies, nor made them publicly available. *Government Auditing Standards* and peer review guidance<sup>4</sup> require internal audit organizations to communicate the overall results and the availability of the external peer review to appropriate oversight bodies and to make the report publicly available.

Recommendation: The Deputy Inspector General - Audits should (a) ensure that peer reviews of its audit activities are scheduled in accordance with *Government Auditing Standards* and peer review guidance; and (b) communicate the overall results and the availability of the external peer review to appropriate oversight bodies; and (c) make the report publicly available

#### Amtrak OIG Response

Amtrak OIG concurred with the recommendation, but believes that extenuating circumstances led to its delay in obtaining a timely peer review. Amtrak OIG indicated that Amtrak OIG and CIGIE (formally PCIE/ECIE) should mutually share the responsibility for the delay in Amtrak obtaining a peer review, citing the combination of not being scheduled for a review and the retirement of its Senior Director who was responsible for ensuring a timely review as keys to the delay in obtaining a review. Amtrak OIG goes on to state that the replacement Senior Director subsequently realized the delay had occurred which led to the scheduling of the peer review

#### **Finding 2. Update Policies and Procedures**

Amtrak policies and procedures were significantly out-of-date and do not fully incorporate the latest *Government Auditing Standards*. Also, the Office of Audit's current use of automated workpapers was not incorporated in its policies and procedures.

- The four audit reports reviewed included the statement about following Generally Accepted Government Auditing Standards (GAGAS) from the 2003 edition of *Government Auditing Standards*, when they should have cited from the 2007 edition. The Deputy Assistant Inspector General - Audits subsequently issued a memorandum directing the audit staff to incorporate the current GAGAS statement in future reports.

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<sup>4</sup> The Guide for Conducting External Peer Reviews of Audit Organizations of Offices of Inspector General elaborates on the *Government Auditing Standards*' external peer review reporting requirements.

- Many of Amtrak's policies and procedures were issued in the 1990s and referenced *Government Auditing Standards* from that period.
- Amtrak's Policies and Procedures do not include attestation agreements.
- Amtrak's policies and procedures emphasize paper processes, yet the auditors have been using automated workpapers since late in 2006.

The DIGA agreed that revisions and updates were needed and noted that some revisions have already been tasked to specific auditors.

Recommendation: The Deputy Inspector General - Audits should ensure that revisions to the audit manual are completed timely, and reflect current *Government Auditing Standards* and Amtrak's use of automated workpapers.

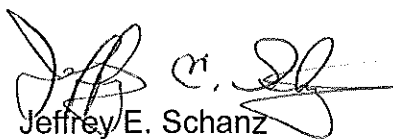
#### Amtrak OIG Response

Amtrak OIG concurred with the recommendation and stated, "As mentioned at the onset of the peer review, we were in the process of revising the APM prior to the peer review. Assignments have been made in connection with this effort to revise the APM and it is scheduled to be completed no later than March 2010."

#### LSC OIG Analysis of Responses

Amtrak OIG's actions taken and planned are responsive to our findings and recommendations and should address all matters raised. In regard to the timeliness of the peer review, Amtrak OIG is ultimately responsible for ensuring that it receives a peer review within the allowable timeframe (*Government Auditing Standards*, paragraph 3.56). CIGIE helps manage the peer review process throughout the IG community by providing a schedule for all IGs to follow. However, this service does not relieve an organization of the responsibility to obtain a peer review within the timeframe prescribed by standards. The complete text of Amtrak OIG's comments is at Attachment 1.

Sincerely,



Jeffrey E. Schanz  
Inspector General

Enclosure

**AMTRAK OIG RESPONSE  
to the  
LETTER OF COMMENT**

**Letter of Comment**

*Finding 1. Peer reviews need to be scheduled timely, provided to appropriate oversight bodies, and made publicly available. The report recommended that the Deputy Inspector General for Audit should (a) ensure that the next peer review of its audit activities is scheduled in accordance with Government Auditing Standards and peer review guidance; (b) communicate the overall results and the availability of the external peer review to appropriate oversight bodies; and (c) make the report publicly available.*

The failure to have our peer review done timely was a mutual PCIE/ECIE and Amtrak OIG oversight. The PCIE/ECIE didn't include us on their schedule and we didn't detect the oversight. Also, the Senior Director - Audits Washington DC whose responsibility was to monitor this requirement retired early in 2008 and his replacement didn't arrive until late June 2008. The Senior Director – Audits Washington, DC did detect the oversight and action was taken immediately to correct the oversight. Nonetheless we concur with the recommendation.

*Finding 2. Amtrak policies and procedures were significantly out-of-date and do not fully incorporate the latest Government Auditing Standards. Also, the Office of Audit's current use of automated workpapers was not incorporated in its policies and procedures.*

The report recommended that the *Deputy Inspector General - Audits ensure that revisions to the audit manual are completed timely, and reflect current Government Auditing Standard and Amtrak's use of automated workpapers.*

As mentioned at the onset of the peer review, we were in the process of revising the APM prior to the peer review. Assignments have been made in connection with this effort to revise the APM and it is scheduled to be completed no later than March, 2010.

Sincerely,



Lorraine A. Green  
Interim Inspector General