



## **GOVERNANCE:**

### **Quality Control Review of Amtrak's Single Audit for Fiscal Year 2014**



# Memorandum

**To:** Jeffrey R. Moreland  
Chairman, Audit and Finance Committee, Amtrak Board of Directors

Gerald Sokol, Jr.  
Executive Vice President and Chief Financial Officer

**From:** Tom Howard  
Inspector General

A handwritten signature in blue ink that reads "Tom Howard".

**Date:** May 18, 2016

**Subject:** *Governance: Quality Control Review of Amtrak's Single Audit for Fiscal Year 2014*  
(OIG-A-2016-007)

Amtrak (the company) contracted with the independent certified public accounting firm of Ernst & Young LLP to audit its consolidated financial statements as of September 30, 2014, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations and other matters. The contract also required Ernst & Young to perform a Single Audit of the company's federal grants for the year ended September 30, 2014, in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the company receives federal funding, it must obtain an audit performed in accordance with generally accepted government auditing standards. The objective of the Single Audit was to test internal control over compliance with major federal program requirements and determine whether the company complied with the laws, regulations, and provisions of contracts or grant agreements that may have a direct and material effect on its major federal programs.

Major federal programs are those with the largest grant fund expenditures determined using guidance in the OMB Circular A-133. The company's major federal programs are:

- Department of Transportation (DOT) National Railroad Passenger Corporation Grants, and
- DOT Railroad Safety Technology Grants.

As authorized by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards and OMB Circular A-133 requirements. The key aspects of Ernst & Young's report<sup>1</sup> are discussed below.

Ernst & Young issued a qualified compliance opinion on the DOT National Railroad Passenger Corporation Grants program, due to a material weakness<sup>2</sup> in internal control over compliance for Certified Payrolls. They also reported a significant deficiency<sup>3</sup> for Equipment and Real Property Management. Ernst & Young made two recommendations to correct the material weakness and significant deficiency. The company agreed with both recommendations and provided action plans to address them.

Ernst & Young issued an unmodified compliance opinion on the DOT Railroad Safety Technology Grants program. They also reported that the Schedule of Expenditures of Federal Awards was fairly stated in all material respects in relation to the company's financial statements as a whole.

We monitored Ernst & Young's audit activities by reviewing its reports, audit plans, detailed audit testing results, summary workpapers, audit quality controls, and auditor independence and qualifications forms. We also attended key meetings.

Our monitoring activities, as differentiated from an audit in accordance with generally accepted government auditing standards, were not intended to enable us to express an audit opinion. Therefore, we do not express an opinion on compliance for each major program, conclusions about the effectiveness of internal control over compliance, or whether the Schedule of Expenditures of Federal Awards is fairly stated. Ernst & Young is responsible for its report dated December 8, 2015, and the conclusions expressed in the report.

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<sup>1</sup> Ernst & Young report titled *Report of Independent Auditors on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, dated December 8, 2015.*

<sup>2</sup> A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

<sup>3</sup> A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We appreciate the courtesies and cooperation that representatives of the company and Ernst & Young extended to us during this review. If you have any questions, please contact me ([Tom.Howard@amtrakoig.gov](mailto:Tom.Howard@amtrakoig.gov)) or Stephen Lord, Assistant Inspector General, Audits, at ([Stephen.Lord@amtrakoig.gov](mailto:Stephen.Lord@amtrakoig.gov)) or 202-906-4600.

# OIG MISSION AND CONTACT INFORMATION

## Mission

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The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.

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