



**OFFICE *of* INSPECTOR GENERAL**  
NATIONAL RAILROAD PASSENGER CORPORATION

# **ANNUAL AUDIT PLAN FOR 2017**

**OIG-AP-2017 | March 23, 2017**

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## INSPECTOR GENERAL'S MESSAGE

I am pleased to present our audit plan for calendar year 2017. This plan provides a road map for accomplishing our mission to conduct independent and objective audits to improve the economy, efficiency, and effectiveness of the programs and operations of Amtrak (the company), while also preventing and detecting fraud, waste, and abuse.

Throughout 2017, we plan to start up to 22 audits that will focus on high-risk and high-impact issues related to the company's strategic goals of financial excellence, safety and security, and customer focus. The scope of the audits will also address risks related to fraud, waste, and abuse. Our planned audits are organized around six focus areas:

- Acquisition and Procurement
- Asset Management
- Governance
- Information Technology
- Safety and Security
- Train Operations

As the year unfolds, we may adjust this plan to ensure that we direct available resources to the areas with the highest risk and impact. We welcome suggestions and comments about our planned future work. Please direct any suggestions or questions to me or Kevin Winters, Deputy Inspector General/Counsel, at 202-906-4600.

A handwritten signature in blue ink that reads "Tom Howard". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Tom Howard  
Inspector General

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## SUMMARY OF PLANNED AUDITS FOR 2017

We plan to start up to 22 audits this year. We selected these audits through discussions with the company's Board of Directors and senior management, Federal Railroad Administration officials, and by considering congressional legislation and reports, the results of our ongoing and prior audit work, and our assessment of the company's top management and performance challenges. We prioritized our planned work based on risks associated with the company's potential vulnerabilities to fraud, waste, and abuse; safety and security issues; and opportunities to help the company overcome challenges in reaching its strategic goals.

Table 1 lists our planned audits from highest to lowest priority, based on our risk and impact assessment.

***Table 1. Audits Planned for 2017***

Audit Title	Focus Area
1. Cyber Security Controls for Industrial Systems	Information Technology
2. Company Oversight of the Terminal Development Initiative	Asset Management
3. Mechanical Department Operating Efficiency	Train Operations
4. Email Retention Policy	Governance
5. Implementation of the Enterprise Risk Management Process	Governance
6. Background Check Process for Company Employees and Contractors	Safety & Security
7. Developing and Structuring Contracts to Mitigate Company Risks	Acquisition & Procurement
8. Gateway Governance Program	Asset Management
9. Capital Projects Quick Look	Acquisition & Procurement
10. Savings Opportunities in Agreement Employees' Healthcare Plan	Governance
11. Strategic Sourcing Contract Management	Acquisition & Procurement
12. Leading Practices for Ensuring Employee Safety	Safety & Security
13. Information Technology Disaster Recovery and Business Continuity	Information Technology
14. Real Estate Revenue Management	Asset Management

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<b>Audit Title</b>	<b>Focus Area</b>
15. Management Controls Over Company Utility Payments	Governance
16. FY 2017 Consolidated Financial Statement Monitoring	Governance
17. FY 2017 Single Audit (A-133) Monitoring	Governance
18. Measures of Customer Service Performance	Train Operations
19. Improper Payments of Healthcare Claims	Governance
20. Short-Term/Long-Term Incentives for FY 2017	Governance
21. Effectiveness of Efforts to Maximize Ticket Revenue	Train Operations
22. Tool Inventory Accountability and Controls	Governance

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## **ACQUISITION AND PROCUREMENT**

Effectively managing and overseeing its acquisition and procurement processes, which account for about \$2.6 billion in purchases of goods and services annually, remains a challenge for the company. We plan to start up to three audits in this area addressing how the company develops and structures its contracts, its key capital projects, and its use of strategic sourcing for goods and services.

1. **Developing and Structuring Contracts to Mitigate Company Risks.** We plan to assess how the company develops and structures its contracts to mitigate operational and financial risks. Our scope will include contracts that are managed by the Procurement department and other departments. Our objective would be to assess how the company's policies and practices compare with leading practices in the private and public sectors.
2. **Capital Projects Quick Look.** We plan to monitor and review the status of the company's key capital projects, which may include the Gateway Program or Terminal Development Initiative. Our objective would be to review each project's progress toward achieving its initial scope, cost, and schedule.
3. **Strategic Sourcing Contract Management.** We plan to assess whether the company is leveraging its purchasing volume to obtain the best possible prices or values for the goods and services it procures. Our scope would include contracts managed by the Procurement department and other departments. Our objective would be to assess how the company is negotiating contracts and ensuring that goods and services are acquired strategically compared to leading practices in the private and public sectors.

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## **ASSET MANAGEMENT**

The company's equipment and infrastructure are valued at about \$14.1 billion,<sup>1</sup> but sustaining these assets to support safe and reliable operations and leveraging them to generate revenue continues to pose significant challenges. We plan to start up to three audits in this area addressing the management and oversight of the Terminal Development Initiative, the governance structure for the Gateway Program, and the management of real estate assets.

1. **Company Oversight of the Terminal Development Initiative.** We plan to assess the effectiveness of the company's management and oversight of the Terminal Development Initiative. Our scope would include key company components involved in managing and overseeing this initiative throughout its projects' lifecycles. Our objective would be to assess the adequacy of the company's management and oversight of this key strategic initiative compared to leading practices in the private and public sectors.
2. **Gateway Governance Program.** We plan to assess the company's efforts to establish an effective governance structure for the Gateway Program. Our scope would include the company's planning and coordination activities with public-sector partners to facilitate the development of the Gateway Program Development Corporation (Corporation). Our objectives would be to (1) describe the company's role in the establishment of the Corporation and (2) assess how the company is ensuring the effectiveness of the Corporation's governance structure compared to leading practices in the private and public sectors.
3. **Real Estate Revenue Management.** We plan to assess the company's process for managing its real estate assets. Our scope would include how the company tracks and provides accountability for its real estate assets and how it is leveraging its real estate assets to generate revenue. Our objectives would be to assess (1) the company's portfolio of real estate assets and how they are managed and used, (2) any opportunities for cost savings and greater revenue generation from those assets, and (3) how the company's real estate processes for revenue generation compare with leading practices in the private and public private sectors.

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<sup>1</sup> The company's assets include about 623 miles of track, mostly in the Northeast Corridor; 18 tunnels and 1,414 bridges; about 1,450 passenger railcars, 310 locomotives, and 20 Acela trainsets in revenue service; more than 2,500 road vehicles, and other real property assets.

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## **GOVERNANCE**

The company continues to face challenges in establishing and sustaining effective companywide governance processes to ensure that its programs and operations are managed effectively and efficiently. We plan to start up to nine audits in this area addressing email retention, the Enterprise Risk Management (ERM) process, agreement employees' healthcare plan, controls over utility payments, and management of the tool inventory. We also plan to continue work reviewing the company's financial audits, assessing its top management and performance challenges, and validating its incentive award payments.

1. **Email Retention Policy.** We plan to evaluate the company's email retention policy and practices. Our scope would include calendar years 2015 and 2016. Our objective would be to assess how the company's email retention policy and practices compare with leading practices in the private and public sectors.
2. **Implementation of the Enterprise Risk Management Process.** We plan to assess the implementation of the company's ERM process. Our scope would include the management controls framework within this process. Our objectives would be to determine (1) the extent to which the company has implemented ERM and (2) how effectively the company has implemented its management controls framework.
3. **Savings Opportunities in Agreement Employees' Healthcare Plan.** We plan to compare the company's healthcare plan for agreement employees with leading practices in the private and public sectors. Our objective would be to identify any savings opportunities available by modifying the current plan without reducing benefits.
4. **Management Controls Over Company Utility Payments.** We plan to assess the company's controls over its utility payments. From fiscal years 2014 to 2016, the company spent about \$395 million for utility payments and fees to a management company hired to process these payments and assist with utility procurement. Our scope would include reviewing processes for paying invoices for electricity, natural gas, water, sewer, and trash at stations and other facilities. Our objective would be to assess how the company is controlling its utility consumption and ensuring proper payments on utility accounts compared to leading practices in the private and public sectors.

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5. **FY 2017 Consolidated Financial Statement Monitoring.** The company engages an independent public accounting firm to annually audit its consolidated financial statements. Our objective would be to ensure that this audit is performed in accordance with generally accepted government auditing standards.
6. **FY 2017 Single Audit (A-133) Monitoring.** The company engages an independent public accounting firm to annually audit its federal grant agreements. Our objective would be to ensure that this audit is performed in accordance with generally accepted government auditing standards.
7. **Improper Payments of Healthcare Claims.** We plan to analyze payments made for healthcare claims. We would focus on billings from high-risk medical service providers, including practitioners, specialties, facilities, and equipment providers. Our objective would be to determine whether the company made improper payments to these medical service providers.
8. **Short-Term/Long-Term Incentives for FY 2017.** We plan to assess the company's compliance with the requirements of its Short-Term Incentive (STI) and Long Term Incentive (LTI) Plans. Our objectives would be to assess the accuracy of (1) the financial and customer service data the company uses to determine whether its STI and LTI goals are achieved and (2) the STI and LTI payments made to employees.
9. **Tool Inventory Accountability and Controls.** We plan to assess the company's accountability and controls over the company's tool inventory, which is valued at about \$1.6 million. Our scope would include reviewing inventory records and tool purchases for FY 2016 and the company's policies, procedures, and practices for purchasing and maintaining the tools in its inventory. Our objective would be to assess the adequacy of controls to ensure that tools are accounted for and safeguarded.

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## **INFORMATION TECHNOLOGY**

Information technology systems can help the company attain its strategic goals of achieving financial excellence through operating efficiencies, improving customer experience, and enhancing the safety and security of its operations. We plan to start up to two audits in this area addressing the security of the company's industrial control systems and the company's information technology disaster recovery and business continuity plans.

1. **Cyber Security Controls for Industrial Systems.** We plan to assess the company's efforts to protect the security of its industrial control systems. Our objective would be to assess how the existing management and technical controls provide reasonable assurance that the company's industrial control systems are secure and resilient compared to leading practices in the private and public sectors.
2. **Information Technology Disaster Recovery and Business Continuity.** We plan to assess the company's information technology disaster recovery and business continuity plans. Our scope would include hardware and other IT infrastructure at primary and back-up data centers, as well as contractor-managed data and voice networks. Our objective would be to assess the company's IT resiliency, disaster recovery, and business continuity capabilities, as well as its overall disaster-readiness.

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## **SAFETY AND SECURITY**

Ensuring the safety and security of Amtrak's passengers, employees, and infrastructure remains an ongoing challenge. One of the company's three strategic goals is to set the transportation industry standard for safety and security; however, in the past two years, the company has had two major accidents that resulted in fatalities, and employee injuries remain far above industry norms. We plan to start up to two audits in this area addressing the company's policies and procedures for background checks and its efforts to improve employee safety.

1. **Background Check Process for Company Employees and Contractors.** We plan to assess the company's policies and procedures for ensuring that background checks are completed for company employees and contractors, including checking the U.S. terrorist watch list. Our objective would be to assess the effectiveness of these policies and procedures.
2. **Leading Practices for Ensuring Employee Safety.** We plan to assess the company's efforts to improve employee safety. The company continues to experience a high number of employee injuries compared to other railroads. Our scope would include the company's safety practices in calendar years 2016 and 2017, its practice of using peer-to-peer observations to reduce injuries, and training of agreement and non-agreement employees. Our objective would be to assess the effectiveness of the company's employee supervision and training in reducing injuries and compare them to leading practices in the private and public sectors.

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## **TRAIN OPERATIONS**

The company's goal of turning an operating profit remains an elusive and ongoing challenge. One of the company's major challenges in this area is identifying and implementing sustainable cost-reduction strategies. Another is ensuring a high level of customer satisfaction and maximizing opportunities to generate ticket revenue. We plan to start up to three audits in this area addressing the Mechanical department's operating efficiency, the company's use of customer service data, and the company's efforts to maximize ticket revenue.

1. **Mechanical Department Operating Efficiency.** We plan to assess the efficiency of the Mechanical department's efforts to overhaul locomotives. Our scope would include the Mechanical department's strategy, processes, and performance metrics for overhauling locomotives. Our objective would be to assess how the Mechanical department's operating efficiency compares with that of other rail operators and leading practices in the private and public sectors to identify opportunities for improvement.
2. **Measures of Customer Service Performance.** We plan to assess the company's use of customer service data to measure and improve its performance. Our objective would be to assess the effectiveness of the company's practices for collecting, analyzing, using, and reporting customer service data to improve performance compared to leading practices in the private and public sectors.
3. **Effectiveness of Efforts to Maximize Ticket Revenue.** We plan to assess the company's practices for maximizing ticket revenue. Our scope would include the company's efforts to improve its advertising, customer service programs, ticket pricing, demand forecasting, and use of customer service data. Our objective would be to determine the effectiveness of the company's efforts to maximize passenger ticket revenue.

# 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.

## Obtaining Copies of Reports and Testimony

Available at our website [www.amtrakoig.gov](http://www.amtrakoig.gov)

## Reporting Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline

[www.amtrakoig.gov/hotline](http://www.amtrakoig.gov/hotline)

or

800-468-5469

## Contact Information

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