



AMTRAK | Office of
Inspector General
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OIG STATUS REPORT:

OCTOBER 1 THROUGH DECEMBER 31, 2015



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OIG Status Report, October 1 through December 31, 2015

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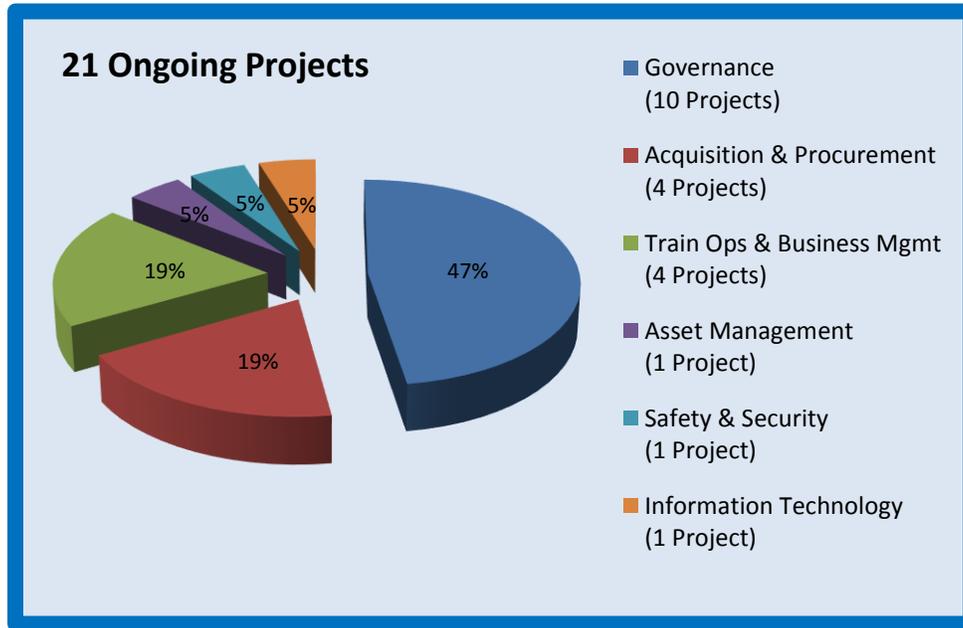
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ONGOING AUDIT PROJECTS

We had 21 ongoing audits addressing 6 focus areas of our Annual Audit Plan as of December 31, 2015.

Project Inventory by Category



Governance

Data Analytics – The objective of these audits is to assess the effectiveness of management controls in Amtrak’s (the company’s) business processes; identify opportunities to control risks and improve efficiency and effectiveness of business operations; and prevent, detect, and deter instances of fraud, waste, and abuse in the company. We have three data-analytics audits underway – (i) identifying fraud and abuse indicators in paid medical claims of agreement employees (Analysis Phase), (ii) identifying potential duplicate payments of medical claims of agreement employees (Analysis Phase), and (iii) determining whether medical healthcare claims are only paid for eligible agreement employees, and benefits are coordinated with Medicare or other medical coverage (Analysis Phase).

Accounting for Business Lines of Operation – The objective of this audit is to review the effectiveness and efficiency of the company’s financial systems and data supporting the accumulation and allocation of costs for the company’s business lines of operation. We

will also assess whether the company has implemented prior recommendations made by the Department of Transportation, Office of Inspector General, in its March 27, 2013 report to improve the effectiveness of the company's cost accounting system. Draft Report Phase

Accuracy of Host Railroad Performance Reporting Data – The objective of this audit is to review the reliability and accuracy of the company's reporting of host railroad on-time performance information. Analysis Phase

Capital and Operating Budget Best Practices - The objective of this audit will be to determine the extent to which the company is employing best practices in formulating annual budgets, including operating and capital budgets, that provide a sound basis for funding and investment decisions. Survey Phase

Monitoring the Work of Amtrak's Independent Public Accountant (IPA) Conducting the FY 2014 Financial Statement Audit – The objective of this audit is to determine whether the IPA performed the audit of the company's Consolidated Financial Statements in accordance with generally accepted government auditing standards. Final Report Phase

Monitoring the Work of Amtrak's Independent Public Accountant (IPA) Conducting the FY 2014 A-133 Audit – The objective of this audit is to determine whether the IPA performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133. Draft Report Phase

Monitoring the Work of Amtrak's Independent Public Accountant (IPA) Conducting the FY 2015 Financial Statement Audit – The objective is to determine whether the IPA performed the audit of Amtrak's Consolidated Financial Statements in accordance with generally accepted government auditing standards. Survey Phase

Monitoring the Work of Amtrak's Independent Public Accountant (IPA) Conducting the FY 2015 A-133 Audit – The objective of this audit is to determine whether the IPA performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133. Survey Phase

Acquisition and Procurement

Assessing the Efficiency and Effectiveness of Management Processes for Overseeing the Siemens Locomotive Technical Support Contract – The objective of this audit is to review the adequacy of contract oversight and administration, focusing on cost, schedule, and performance issues. Draft Report Phase

Assessing the Efficiency and Effectiveness of Management Processes for Utilizing Master Service Agreements – The objective of this audit is to determine the efficiency and effectiveness of the use and management of master service agreements to procure such services as information technology support and management consulting services. Draft Report Phase

Assessing Contracts Funded by Amtrak's Americans with Disabilities Act (ADA) Program - Our objective is to assess the program's use of competitive market-driven contracts. The Fixing America's Surface Transportation (FAST) Act of 2016 (Pub. L. No. 114-94) requires us to perform this review. Survey Phase

Assessing the Effectiveness and Efficiency of Management Processes for Overseeing the General Electric Diesel Locomotive Service Contract - The objective of this audit is to review the adequacy of contract oversight and administration, focusing on cost, schedule, and performance. Analysis Phase

Train Operations & Business Management

Review of Long-Distance Car Manufacturing Contractual Performance – The objective of this audit is to assess the adequacy of the Mechanical department's project oversight and administration of contractual requirements for the long-distance rail car purchase focusing on the areas of cost, schedule, and performance issues. Final Report Phase

Review of the Operations Foundation Program – The objective of this audit is to review the program's cost estimate, implementation plan, progress, and oversight processes. Draft Report Phase

Positive Train Control Follow-up - The objective of this is to assess the company's progress addressing the challenges we noted in our June 19, 2015 interim report on Positive Train Control, OIG-A-2015-013. Final Report Phase

Review of Passenger Boarding Procedures - Our objectives are to evaluate the boarding procedures for passengers at Amtrak's 15 busiest stations and to compare the company's procedures to those used by commuter railroads, international intercity passenger rail operators, and fixed guideway transit systems. Section 11213 of the Fixing America's Surface Transportation (FAST) Act (Pub. L. No. 114-94) requires us to perform this review. Survey Phase

Asset Management

Review of the Management of Construction and Specialized Equipment – The objective of this audit is to assess the adequacy of the company’s management and oversight of its construction and specialized equipment and vehicles. Project Temporarily Suspended

Safety and Security

Video Surveillance Systems – The objective of this audit is to assess the company’s efforts to implement and utilize video surveillance systems. Draft Report Phase

Information Technology

Assessing the Adequacy of Security for Publicly Accessible Web Applications - The objective of this audit is to assess the adequacy of security for publicly accessible web applications. We are performing this review in coordination with some members of the Council of Inspectors General on Integrity and Efficiency who are performing similar reviews of their organizations. The results of the audit will be provided in a report to company management and summarized in a report consolidating results of all participating Offices of Inspector General. Survey Phase

OFFICE OF AUDITS REPORTS ISSUED

We issued 2 reports since October 1, 2015 addressing 2 focus areas in our Annual Audit Plan.

Asset Management

OIG-MAR-2016-0014

October 16, 2015, Asset Management: Observations on Vehicle Fleet Management

The company has a fleet of about 2,500 vehicles to support its operations. These vehicles range from standard sedans, sport utility vehicles, and pickup trucks to railroad-specific vehicles, such as vehicles fitted with steel wheels for use on railroad tracks. The fleet of leased and owned vehicles is dispersed company-wide to provide a variety of construction, maintenance, security, and general transportation services. In fiscal year (FY) 2014, the company spent about \$3.1 million to acquire vehicles and about \$25 million to operate the fleet. The company's departments—principally Operations and Police—and the Automotive division—in Procurement and Logistics of the Finance department—share responsibility for managing the vehicle fleet program.

In the past few years, the company has experienced recurring weaknesses in vehicle fleet management. These weaknesses have been discussed in our reports, company monthly vehicle management exception reports, and an internal management review. These reports and recent data trends on the use and management of the vehicle fleet raise questions about the adequacy of vehicle fleet management controls in certain areas. For example:

- **The fleet has grown while some vehicles appear underutilized.** From April 2008 through June 2015, the size of the fleet increased by 28 percent. At the same time, 153 vehicles appear to be underutilized as evidenced by fuel purchase records.
- **Take-home vehicles have increased.** Since 2012, the number of vehicles employees take home has increased by about 20 percent.
- **Some vehicle inspections are not being done as required.** Some critical safety and regulatory inspections of vehicles and drivers are past due.
- **Some vehicle costs appear high.** The company has entered into commercial leases for some vehicles that appear to be available for lease from the General Services Administration (GSA) at a lower cost. For example, the company leased nine stake trucks from a commercial vendor at a monthly cost of \$3,215 per

vehicle; GSA had what appeared to be identical trucks available at a monthly cost of \$314.

- **Lease decisions are not always based on cost-benefit analysis.** The company does not require that a cost-benefit analysis be performed as part of the decision-making process on whether to lease or purchase a new vehicle. In some cases, constrained capital budgets sometimes result in the company using operating funds to lease a vehicle even though purchasing it would be more cost-effective in the long run.

Our work also shows inattention to previously identified control weaknesses and potential vulnerabilities to fraud, waste, and abuse. For example:

- **Lack of action on internal reviews.** The company has taken little action in response to management and control weaknesses identified by internal management reports. For example, the company did not respond to a 2013 Finance department review that identified significant control weaknesses in the company's processes for vehicle requisitioning, fleet utilization, fuel card oversight, and leasing.
- **Fuel tank overfills raise questions.** In April and May 2015, Engineering employees purchased significantly more fuel than the capacity of their vehicle's fuel tank (overfills) on 23 separate occasions. In addition, in February 2015, we reported on nine cases of employees fraudulently using fuel cards for non-fuel purchases or buying fuel for non-company vehicles from July 2008 through February 2015.
- **Outdated policies and procedures.** The company's vehicle fleet management policies and procedures are out of date, inaccurate, and have not been rigorously enforced, as evidenced by our February 2015 report.
- **Personal driving records are not being checked.** The company does not have a policy to check the driving records of employees operating non-commercial vehicles, which represent about 80 percent of the company's fleet.

Recognizing some of the recent trends and recurring management control weaknesses, Procurement and Logistics is evaluating centralizing all vehicle fleet management functions within its organization to improve program controls and oversight.

The observations presented in this report can help to inform the ongoing evaluation. We are recommending that, as you consider alternatives for improving vehicle fleet management, you evaluate the need to address the potential management control weaknesses identified in this report.

Governance

OIG-A-2016-002

December 16, 2015, Alignment with Best Practices Could Improve Project Management Office Implementation

In fiscal year (FY) 2015, the company spent nearly \$1.3 billion for capital projects intended to improve infrastructure and equipment. In July 2014 we reported that the company's management controls for capital projects were weak from project inception through completion. We recommended that management develop company-wide policies and procedures for project management and to flow them down to the department level. Management agreed and noted it was in the process of developing a Project Management Office (PMO) to better manage capital projects.

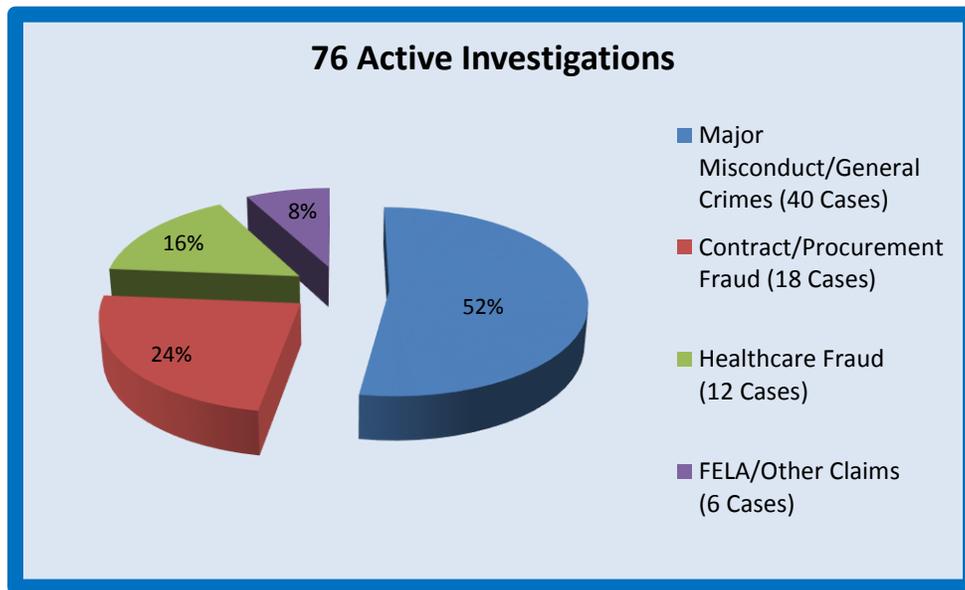
Since our July 2014 report on capital project management, the company has made limited progress in establishing a company-wide PMO and significant opportunities still exist to improve the company's project management practices and procedures by implementing the following best practices: determining appropriate structure, developing clear governance rules, providing sufficient authority with independence from project owner, ensuring roles mature over time, Integrating the office within the organization, staffing the office with skilled, experienced, and well-trained personnel, developing and maintaining project management methodologies, proactively reviewing and reporting on project and portfolio performance.

The company recently hired an individual, who is scheduled to arrive in January 2016, to establish a company-wide PMO. In the interim some departments are implementing or improving their own department-level PMOs. These efforts create the risk of duplication and waste if the departments' policies are inconsistent with those eventually developed by the company-wide PMO. For example, the Information Technology PMO is working with a contractor to develop and implement updated project management methodologies. The Engineering Department has also established a PMO. In contrast, the Mechanical department is waiting for a company-wide PMO before taking action. Until the company-wide PMO and policies and procedures are developed and implemented, the company will continue to face a high-risk environment for the effective stewardship over capital project resources.

We recommend that the Executive Vice President and Chief Operations Officer (1) incorporate best practices into the company-wide PMO policies and procedures, and (2) ensure department-level PMO initiatives are consistent with company-wide initiatives, to avoid waste while company-wide PMO policies are being developed. The Executive Vice President concurred with our recommendations and his proposed actions meet the intent of our recommendations.

ONGOING INVESTIGATIVE WORK

As of December 31, 2015, we had 76 active investigations focusing on significant allegations of suspected fraud, waste, and misconduct in the following areas.



NOTEWORTHY CRIMINAL, CIVIL, AND ADMINISTRATIVE ACTIONS

Fraud and Forgery – On October 22, 2015, Korey K. Sloan, an Amtrak employee pled guilty in the Circuit Court of Cook County, Illinois, to Wire Fraud and Forgery, and was sentenced to 24 months incarceration in federal prison. Sloan is serving the 24 month sentence in concurrence with a 42 month federal sentence for tax evasion. Our investigation revealed that Sloan began his employment with Amtrak in June 2007, and was approved for a medical leave of absence on December 9, 2008, due to a non-work related illness. Between December 2008 and October 2012, Sloan submitted numerous medical forms to Amtrak and the U.S. Department of Labor reflecting forged signatures of his personal physician. On or about October 26, 2012, Sloan submitted a form with a forged physician’s signature certifying that he was qualified to return to work. This would have had the effect of reinstating company payments for his medical coverage. Additionally, the investigation found that Sloan, and his wife, Christie Caldwell, obtained U.S. Department of Housing and Urban Development (HUD) Section 8 housing benefits through making false representations to HUD. On August 5, 2015, Caldwell pled guilty to Wire Fraud and was sentenced to a 24 month period of probation. We investigated this case with assistance of the HUD OIG.

Larceny – On December 4, 2015, Louis A. Giangola, pled guilty in Connecticut Superior Court, Meridan, Connecticut to one count of Larceny, First Degree, and one count of Failure to Appear, and was sentenced to 5 years suspended, with 5 years of probation for each count, to run concurrently. Giangola was ordered to also pay \$28,000 in restitution to Amtrak. Our investigation revealed that Giangola purchased an Amtrak facility in North Haven, Connecticut on August 15, 1997, but failed to change the electrical service into his name and continued using the electricity that was being paid for by Amtrak since that time. The investigation further confirmed that Giangola not only used the power at the former Amtrak facility to run a business, but also had connected the power to another outbuilding on the property to run a separate business. The five year statute of limitations restricted the loss amount to the period from 2009 to 2014, which totaled \$28,860.

Staged Car Collision In Train Accident – In April 2015, the United States Attorney for the District of South Carolina announced the indictment and arrest of James Duvall Love and Deon Dovell Roberts, for conspiracy to commit mail and wire fraud, causing a train wreck, and unlawful interference with a train operator. The indictment and arrest resulted from an investigation that determined in the early morning hours of September 6, 2013, the two men parked a car in the path of an oncoming Amtrak train, got out of the car prior to the collision, and then returned to the car after the collision, feigning injury, all for the purposes of submitting bogus claims for personal injuries and other losses. We investigated this case with the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco and Firearms, the Allendale County Sheriff's Department and the Fairfax Police Department. On June 17, 2015, Love pled guilty to count 1 of the indictment and on November 2, 2015, Roberts pled guilty to the same charge. In pleading guilty, both individuals accepted responsibility for causing the train accident. Sentencing for Love and Roberts is pending.

Time & Attendance Fraud – In September 2014, we received information that an Amtrak employee was leaving work 2 to 2.5 hours early every day while being paid for an entire 10-hour shift. It was also reported that the employee was not completing the commercial vehicle logs for their hours of service as required for this employment position. Our investigation determined that the Amtrak employee did fail to maintain proper vehicle logs, and also falsely claimed 33 hours of work not performed, resulting in over \$900.00 of unwarranted pay. The employee was dismissed from the company.

Fraud Awareness Training

Since October 1, 2015, we presented 23 fraud awareness and outreach briefings to 176 Amtrak management and union employees.

Fraud Waste and Abuse Hotline

Since October 1, 2015, we processed 74 hotline matters.

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission

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 OIG Reports and Testimony

Available at our website: www.amtrakoig.gov.

To Report Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):

Web: www.amtrakoig.gov/hotline

Phone: 800-468-5469

Tom Howard Inspector General

Mail: Amtrak OIG

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Washington D.C., 20002

Phone: 202-906-4600

Email: Tom.howard@amtrakoig.gov