



OFFICE *of* INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

ANNUAL AUDIT PLAN FOR 2018

OIG-AP-2018 | February 2, 2018

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INSPECTOR GENERAL'S MESSAGE

I am pleased to present our audit plan for calendar year 2018. 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. We strive to provide broad and balanced coverage of the company's programs and operations that have historically been areas of interest to our internal and external stakeholders.

Throughout 2018, we plan to start up to 12 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:

- Asset Management
- Governance
- Human Capital
- Information Technology
- Safety and Security
- Train Operations and Business Management

As the year unfolds, we may adjust this plan to ensure that we direct available resources to the areas with the highest risks and impacts. We welcome suggestions and comments about our planned 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 2018

We plan to start up to 12 audits this year. Each year, our ability to initiate new audits is contingent upon the number of ongoing audits and their complexity – which impacts when they will be completed. At this time, we have 17 audits in various stages of completion, which generally represents the workload that we can undertake given the current staffing level in our Office of Audits.

The process we used to select and prioritize proposed audits was disciplined and risk based. We considered the results of our ongoing and prior audit work, our assessment of the company's top management and performance challenges,¹ congressional interests, and the company's own assessment of its risks. After discussions within the OIG, we used this information to inform discussions with the company's Board of Directors and senior executives as well as Federal Railroad Administration officials about proposed audits that could help the company achieve its strategic objectives and further our statutory responsibilities. Those responsibilities include conducting independent and objective audits to improve the economy, efficiency, and effectiveness of the company's programs and operations and preventing and detecting fraud, waste, and abuse.

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

¹ *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017-2018* (OIG-SP-2017-009) March 20, 2017.

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Table 1. Audits Planned for 2018

Audit Title	Focus Area
1. Recovery of State Supported and Commuter Contract Costs	Train Operations and Business Management
2. Recovery of Costs from Ancillary Services Contracts	Train Operations and Business Management
3. Assessment of Physical Security at Key Facilities	Safety and Security
4. Identifying Causes for Employee Sprains and Strains	Safety and Security
5. Controls over Medical Claims Payments to Health Care Companies (for example, hospitals and labs)	Human Capital
6. Management of Maintenance-of-Way Equipment	Asset Management
7. Management of the Road Vehicle Fleet	Asset Management
8. Efforts to Use Customer Service Information to Improve Train Operations	Train Operations and Business Management
9. Management of the Centralized Electrification and Traffic Control System Program	Governance
10. Opportunities to Reduce Losses on Long Distance Trains	Train Operations and Business Management
11. Security of Mobile Devices and Data	Information Technology
12. Monitoring of the FY 2018 Consolidated Financial Statement Audit*	Governance

*This audit is required by the Inspectors General Act of 1978, as amended.

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ASSET MANAGEMENT

The company's equipment and infrastructure are valued at about \$14.1 billion,² but sustaining these assets to support safe and reliable operations and leveraging them to generate revenue continues to pose significant challenges. We plan to initiate two audits in this area assessing the management and oversight of the company's maintenance-of-way equipment and its road vehicle fleet.

1. **Management of Maintenance-of-Way Equipment.** Our prior work indicates that the company likely has weaknesses in its controls over the equipment used by maintenance-of-way workers to make track repairs. Our scope would include reviewing the company's equipment inventories for fiscal years (FY) 2016 and 2017, and its processes for managing the use of this equipment. Our objective would be to assess the effectiveness of company's controls to prevent and detect fraud, waste, and abuse, and promote the efficient use of this equipment to identify opportunities, if any, for cost savings.
2. **Management of the Road Vehicle Fleet.** Our prior work identified significant weaknesses in the company's management of its fleet of about 2,500 road vehicles. The company has since committed to improving its management of the vehicle fleet. Our scope would include reviewing the company's progress toward improving the processes for managing the use of this equipment since our last reports and congressional testimony. Our objective would be to assess the effectiveness of the company's controls to prevent and detect fraud, waste, and abuse, and promote the efficient use of the vehicles to identify opportunities, if any, for cost savings.

² 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 initiate two audits in this area assessing the management of the centralized electrification and traffic control system program and the results of the company's financial audits.

1. **Management of the Centralized Electrification and Traffic Control System Program.** We plan to review the company's efforts to modernize its Centralized Electrification and Traffic Control (CETC) system for the busy Northeast Corridor. Our scope would include reviewing the \$80 million dollar contract to replace and modernize the CETC system. Our objective would be to assess the status of the CETC modernization program and determine whether the company's original cost, schedule, scope, and performance estimates were accurate, and to identify opportunities, if any, for cost savings.
2. **Monitoring of the FY 2018 Consolidated Financial Statement Audit.** This is an audit of the work of the independent public accountant (IPA) performing the audit of Amtrak's FY 2018 Consolidated Financial Statements. Our objective would be to determine whether the IPA performed the audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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HUMAN CAPITAL

One of the company's goals is to acquire, develop, and retain talent to achieve its mission and financial goals. However, the company faces significant challenges effectively controlling the costs of managing its workforce, particularly health care costs. We plan to initiate one audit in this area assessing the controls over medical claims payments to health care companies.

1. **Controls over Medical Claims Payments to Health Care Companies.** Our prior work has identified weaknesses in the company's process for monitoring medical claims and detecting potential fraud committed by individual health care providers, for example, physicians. The scope of this review would focus on health care claims submitted by hospitals, laboratories, and providers of home health care services for claims submitted in FY 2016 and 2017 on behalf of agreement employees and their dependents. Our objective would be to identify the extent to which the company's controls mitigate the risk of fraud in claims for medical services made by health care companies, and identify opportunities, if any, for cost savings.

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INFORMATION TECHNOLOGY

When managed effectively, information technology systems can help the company attain its goals of achieving financial excellence through operating efficiencies, improving customer experience, and enhancing the safety and security of its operations. We plan to initiate one audit in this area assessing the security of the company's mobile devices, applications, and related data.

1. **Security of Mobile Devices and Data.** We plan to assess the company's efforts to protect the security of its mobile devices, applications, and data to address any vulnerabilities and security gaps that put the company at risk. We will use guidance from the National Institute of Standards and Technology as the basis for our assessment. Our objective would be to assess the effectiveness of the company's general and application controls used to secure mobile applications and related data.

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SAFETY AND SECURITY

Ensuring the safety and security of Amtrak's passengers, employees, and infrastructure remains an ongoing challenge. Employee injuries, for example, exceed industry norms. We plan to initiate two audits in this area assessing the physical security at key company facilities and the controls for preventing employee injuries.

1. **Assessment of Physical Security at Key Facilities.** We plan to assess physical security at the company's key facilities, including stations and rail yards. Our scope would focus on the policies, procedures, and technologies used to limit access of passengers and other unauthorized personnel to company facilities, including company actions to mitigate weaknesses identified in prior security risk assessments. Our objective would be to assess the company's efforts to improve the physical security of its facilities and assets.
2. **Identifying Causes for Employee Sprains and Strains.** The company has a much higher incidence of employee sprains and strains than other railroads, and the number of these injuries continues to increase. Our scope would include sprains and strains injury data and employee medical claims data for FY 2016 and 2017. Our objective would be to identify the reasons for the increase in sprains and strains, and assess the effectiveness of company's controls for preventing these types of injuries, reducing costs associated with these injuries, and deterring any fraudulent reporting of these injuries.

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TRAIN OPERATIONS AND BUSINESS MANAGEMENT

Ensuring sustainable cost-reduction strategies, maintaining a high level of customer satisfaction, and maximizing opportunities to generate ticket revenue remain ongoing challenges. We plan to initiate four audits in this area examining the recovery of costs from State, commuter, and ancillary service contracts, the company's use of customer service data, and the company's efforts to reduce losses on long-distance routes.

- 1. Recovery of State Supported and Commuter Contract Costs.** We plan to assess the company's efforts to recover eligible costs from states and commuter rail operators, which accounted for about \$140 million on the company's year-end accounts receivable balance for fiscal year 2017. Our scope would include eligible costs reimbursable under the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) sections 209 and 212 for FY 2016 and 2017. Our objective would be to determine whether the company is identifying, billing, and recovering eligible costs from states and commuters under PRIIA, and identify the impact of any lost revenue to the company.
- 2. Recovery of Costs from Ancillary Services Contracts.** In FY 2017, the company estimated that it would generate about \$375 million in ancillary business activities, such as providing maintenance support to commuter railroads. We plan to assess the company's process for maximizing its return on the support services it provides to commuter railroads. Our scope would include identifying any profits or losses from select contractual and reimbursable services provided in FY 2016 and 2017. Our objective would be to assess the extent to which the company is recovering the full costs of providing contractual and reimbursable services, and identifying opportunities, if any, to make these services more cost-effective.
- 3. Efforts to Use Customer Service Information to Improve Train Operations.** We plan to assess the company's use of customer service feedback and related information to measure and improve its performance. Our scope would include identifying how the company monitors customer feedback, analyzing factors that may prevent the company from realizing its goal of excellent customer service, and determining whether the company follows leading practices for customer service. Our objective would be to assess the effectiveness of the company's process for collecting, analyzing, and using customer service information to improve performance.

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4. **Opportunities to Reduce Losses on Long Distance Trains.** We plan to identify opportunities, if any, to improve the financial performance of selected aspects of the company's 15 long-distance train routes. Our scope would include assessing the financial impact of the company's cost reduction strategies, including modifying or eliminating some portion of the long distance services. Our objective would be to assess the company's efforts to identify and assess options for reducing the net operating loss on long distance trains.

OIG MISSION AND CONTACT INFORMATION

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 Reports and Testimony

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www.amtrakoig.gov/hotline

or

800-468-5469

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