NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

APRIL 1, 2007 – SEPTEMBER 30, 2007

Semiannual Report to Congress

AMTRAK®

Cover Photo: Amtrak California Zephyr

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REPORT NO. 36

APRIL 1, 2007 – SEPTEMBER 30, 2007

AMTRAK

NATIONAL RAILROAD PASSENGER CORPORATION
Office of the Inspector General, 10 G Street, NE, 3W-300, Washington, DC 20002-4285

October 31, 2007

Honorable Donna McLean
Chairperson
Amtrak Board of Directors

Dear Ms. Chairperson:

On behalf of the Amtrak Office of Inspector General, I am pleased to present this Semiannual Report to Congress. Our Report highlights significant audits, evaluations, and investigations for the six-month period ending September 30, 2007. During the reporting period, we issued 12 audit reports with questioned costs of $207,435.

We performed audits of Amtrak's compliance with the Payment Card Industry (PCI) Data Security Standards (DSS), and of Locomotive Fuel Charges Processed Through eTrax, identifying $105,000 in duplicate or erroneous fuel charges. We also reviewed Amtrak's FY 2006 Capital Project Budgeting, Submissions, and Approval Processes.

Our investigators and special agents opened 58 new cases in the past six months and closed 71 cases; 276 investigations remain active as of September 30. We made 10 criminal referrals to federal prosecutors, obtained three criminal convictions/pleas, two declinations, and we have four cases pending prosecutorial review. Our more significant casework included revenue protection and referring embezzlement cases to Amtrak management for disciplinary action.

The OIG Inspections and Evaluations has sponsored and is helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams are reviewing current processes and revising them to more align with industry best practices. The OIG anticipates continuing in this facilitation role for another year and then producing a report that documents the overall results. In addition, Inspections and Evaluations has been evaluating the efficiency and effectiveness of Amtrak's Right–of–Way maintenance programs. As part of this effort, the OIG engaged a European consultant that has extensive experience evaluating the infrastructure maintenance programs of European Railroads.

During this period, Amtrak abolished its Risk Management Department and reorganized its security assets. As part of the restructuring, the Amtrak Police department became aligned with the Operating Department and the OIG Counter-Terrorism and Intelligence Unit transitioned from an oversight entity and assumed expanded responsibilities as the Office of Security Strategy and Special Operations (OSSSO). The OSSSO, working closely with Amtrak Police, has developed and resourced protocols for emergency response, passenger screening, visible deterrence, intelligence, policy and resourcing, and public awareness initiatives, among others. These initiatives are currently being implemented in stages.

While part of the OIG, the Counter-Terrorism and Intelligence Unit successfully pioneered new security paradigms for Amtrak, and placed increased emphasis on protecting passengers, employees and infrastructure through partnerships with Federal, State, regional and local governments, as well as with other public and private partners. Many of the efforts initiated by the OIG will transfer to the OSSSO. The OIG will, however, continue to provide security oversight and review of the OSSSO progress, in keeping with its statutory mission.

We realize that FY 2008 will be a pivotal year for Amtrak as Congress considers Amtrak's reauthorization, and we support the Board and management's efforts to have constructive dialogs with the Administration and Congress in charting Amtrak's future direction. I also want to express my appreciation for the cooperation and support we regularly receive from Congress. Finally, I want to recognize the extraordinary dedication and professionalism of the OIG's staff.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General

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Inspector General Viewpoint

FY 2007 YEAR-END RESULTS

Amtrak completed the fiscal year with $2.153 billion in total revenue ($1.730 billion in passenger related revenues); total revenue was 5.4 percent greater than FY 2006, with passenger revenues up 10.5 percent. Total expenses were $3.109 billion. Amtrak's adjusted losses, before depreciation, were $1.051 billion, $16.5 million better than last fiscal year.

Total ridership for the year was 25.86 million, with Acela being a major driver of performance. Acela's overall performance, and the challenges to maintaining and improving upon FY 2007's results, is discussed below. Amtrak's other Northeast Corridor services, the Regionals, posted a seven percent increase in revenues, with a one percent increase in ridership.

At the national, non-NEC level, ridership and revenue performance was mixed. For Amtrak's sixteen long distance services, Amtrak ended the year slightly favorable to the prior year in both revenue (+5.0%) and ridership (+2.4%). Shorter distance state and regional corridors performance was also up, ridership was up 7.6% over FY 06, and revenues were up 9.0%. There was some noteworthy growth in the State of Illinois services (Chicago-St. Louis posting a 55.8 percent ridership growth) reflecting the addition of two new frequencies; the Capitol Corridor Service (San Jose-Sacramento) posting a 14.8 percent increase in ridership; and the Keystones (Philadelphia-Harrisburg) posting a 20.1 percent gain, also due to the addition of new frequencies and an improved schedule.

Keystone Service | near Lancaster, PA

Amtrak was the beneficiary of a number of external economic factors, including rising fuel prices and a significant deterioration in airline on-time performance and worsening customer service in that sector. To its credit, Amtrak took advantage of these economic and market conditions. Amtrak improved on-time performance on the Northeast Corridor, with Acela on-time performance almost reaching its 90 percent on-time goal. More importantly, Amtrak's revenue yield per passenger mile increased to $.27, continuing an improvement trend for the past three years. Amtrak also reduced its total net loss year over year.

AMTRAK'S CHALLENGES AND OPPORTUNITIES

Amtrak is well-positioned to continue to make incremental improvements in its overall performance for the next several years, but there are risks to this upward trend depending upon how well some key risk areas are managed.

REVENUE OPPORTUNITIES

With the year-end results in, it is clear there is a window of opportunity for Amtrak to continue to garner additional passenger revenue growth in FY 2008. Gasoline prices are continuing to rise, with little likelihood of abatement for some time, and congestion and delays at major airports are taking their toll on the patience of air travelers. Amtrak's Acela revenues exceeded $400 million in FY 2007, and Amtrak has yet to deploy a 17th trainset into scheduled revenue service (out of the 20 available trainsets); the customer demand for rail services in the Northeast Corridor is there. Increased availability of Acela frequencies, and continued consistent and reliable on-time performance, will make Acela a preferred travel choice.

The challenge for Amtrak is to protect and indeed increase its market share, ensure the continued reliability and availability of Acela in the Northeast Corridor, exploit opportunities on the New York to Boston market, and improve load factors for the off-peak frequencies. Amtrak is working toward greater differentiation of the Acela product, replacing seating and interior appointments, exploring continuous Wi-Fi connectivity, and rewarding frequent travelers. These actions may help attract and hold some customers. The OIG believes that Amtrak needs to redouble its efforts to keep Acela reliability and availability as high as possible. This means the company should achieve greater than a 90 percent on-time performance, and should successfully deploy its 17th trainset in early FY 2008. The

Acela Express | Northeast Corridor

company must also re-examine its placement of the new "Express" service as it does not appear the current schedule is achieving the desired results. The larger economic risks to sustained growth include the possibility of an economic downturn (recession) and any actual or perceived security threat to the transportation systems.

With respect to the long-distance services, the OIG had issued a report on the importance of on-time performance last year. Additionally, there is a report due from the DOT OIG regarding off-corridor on-time performance in early FY 2008. We recommend that Amtrak concentrate its improvement of on-time performance toward four of the sixteen long distance routes, specifically the Autotrain service, the Coast Starlight, the San Francisco Zephyr, and the New York-Florida Silver Services. We also have recommended previously that Amtrak closely examine its long-distance 'business model' for some routes. Amtrak needs to move away from a 'speed' model for certain routes and consider a 'service' or 'rail experience' model. Amtrak needs to better exploit the entirety of the rail experience along the route by marketing the intermediate route destinations, partner with state and local entities and businesses along the route, promote more stopovers, and position its product differently (akin to the Canada's VIA model I reported upon in prior Semiannual Reports, or the cruise ship experience).

Short-distance rail services also represent real growth opportunities for Amtrak —- as an operator and maintainer of those services, and as a supplier of other passenger rail services. The challenge for Amtrak is to continue to offer rail-related services that current, and prospective, state partners perceive as 'value added' and worthwhile. Most states are willing to pay more for Amtrak in their state, but as their payments increase, they will want to see higher quality and more reliable service. During the past year, as noted earlier, several states added frequencies to their routes and experienced significant incremental gains in ridership. Amtrak is appropriately repositioning its management resources to support these new services and plans for smart growth with these state partners. In the short term, Amtrak must establish an equipment acquisition strategy and find sufficient passenger equipment to satisfy the states' growing needs.

EXPENSE CONTAINMENT

Approximately fifty percent of Amtrak's operating expenses relate to employee wages, salaries, and benefits. It follows that even small improvements in productivity, when applied across the entire system, can generate significant savings. As Amtrak ends the fiscal year, Amtrak and most of its major labor unions are operating without having settled major labor-management agreements. Amtrak must continue to be very attentive to the need for the successful settlement of these negotiations, as the final trade-off between wage and benefit increases and work rules must be accommodated within the reauthorization funding levels.

With respect to capital spending, much of Amtrak's capital budget in recent years has been invested in restoring the 'state of good repair' to the Northeast Corridor. The OIG is in strong support of this initiative, but we believe more work is required to bound the effort and lay out a more rigorous analysis of return on capital invested. Amtrak needs to delineate specifically the results of these large investment programs and the resulting impacts on revenue and expense reduction. For example, Amtrak can prescribe a level of utility (class of track to permit high-speed operations) for all sections of the Northeast Corridor track infrastructure. Amtrak can categorize the incremental costs for maintaining track at Class 7 (MPH) or Class 8 (MPH), and can tie revenue projections to scheduled performance. Amtrak has approximately 950 miles of high speed mainline tracks (high speed as defined by the FRA are class 6, 7 and 8 tracks - 110 to 150 mph); with 1600 total mainline track miles. Other efforts can be oriented to major bridge and tunnel work, e.g. - to keep the useful life of an asset within 90 percent of its expected useful life before replacement. Additionally, a more complete inventory of major programs and projects, by asset type, should be maintained and shared with Congress and rail partners.

SAFETY & SECURITY

SAFETY

While Amtrak's overall safety performance has been slowly improving, establishing a well-embedded safety culture in the railroad is a difficult and long-term task. The OIG would like to see Amtrak work more aggressively to looking beyond the injury statistics alone, which are still less than optimal among major Class I railroads. Amtrak has reinstated its System Safety program, and the program needs to be fully integrated and as robust as possible.

SECURITY

During the reporting period, the OIG transferred its Counter-Terrorism and Intelligence assessment unit to the newly formed Office of Security Strategy and Special Operations (OSSSO). The OIG will continue to perform critical assessments of Amtrak's overall security preparedness and the newly formed OSSSO. We will also monitor the new program and project initiatives that will be funded under the recently passed Homeland Security authorization.

Capitol Limited

Amtrak Profile

BACKGROUND

The National Railroad Passenger Corporation (NRPC; "Amtrak") is incorporated under the District of Columbia Business Corporation Act (D.C. Code § 29-301 et seq.) in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Amtrak is currently governed by a seven-member Reform Board established under the Amtrak Reform and Accountability Act of 1997 (P.L. 105-134; 49 U.S.C. § 24302).

Amtrak was created by Congress in 1970 to take over the rail passenger services previously required to be operated by private freight railroad companies in the United States. Those companies reported they had operated their rail passenger services without profit for a decade or more. More than half of the rail passenger routes operated by the freight railroad companies were eliminated when Amtrak began service on May 1, 1971. The company is operated and managed as a for-profit corporation providing intercity rail passenger transportation as its principal business. The United States Government through the U.S. Department of Transportation (DOT) owns all 109.4 million shares of issued and outstanding preferred stock. An additional 9.4 million shares of common stock are held by the successors of four railroads whose intercity rail passenger services were assumed by Amtrak in 1971.

During Fiscal Year (FY) 2007 Amtrak carried about 26 million passengers on up to 315 daily intercity passenger trains over 21,000 route miles serving 513 communities in forty-six states, the District of Columbia, and three Canadian provinces. If Amtrak were an airline, it would rank as the nation's eighth largest domestic carrier in terms of passengers carried and employment, and eleventh in terms of operating revenue ($2.1 billion). In terms of market-share, Amtrak serves 56 percent of the combined airline-intercity rail passenger market between Washington, D.C., and New York City. In addition, more than 800,000 people commute every weekday on Amtrak infrastructure or on Amtrak-operated commuter trains around the country under contracts with state and regional commuter authorities.

Amtrak currently employs about 18,600 persons, of whom about 16,000 are agreement-covered employees. These employees work in on-board services, maintenance of way, police, station and reservations services, and other support areas.

Of its route system, Amtrak owns the right-of-way of more than 529 route miles (totaling 2,162 track miles) in the Northeast Corridor (NEC; including Washington, DC-New York City-Boston, Philadelphia-Harrisburg, and New Haven, CT-Springfield, MA) and 97 miles in Michigan. Amtrak owns 105 station facilities, and is also responsible for the upkeep and maintenance of an additional 181 station facilities and 411 platforms. Amtrak also owns 17 tunnels and 1,186 bridges. It owns most of the maintenance and repair facilities for its fleet of about 2,600 cars and locomotives. Outside the NEC, Amtrak contracts with freight railroads for the right to operate over their tracks. On their property, the host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.

Lake Shore Limited | Bannerman's Castle, Hudson River, NY

OIG PROFILE

Amtrak's Office of the Inspector General (OIG) was established as a statutory entity in April 1989, in accordance with the 1988 amendments (P.L. 100-504) to the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. APP.3 Inspector General Act of 1978). The OIG is an independent and objective entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel, and to promote economy and efficiency in Amtrak operations. The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG also audits and evaluates

Amtrak operations and assists management in promoting integrity, economy, efficiency, and effectiveness.

To accomplish these objectives, the OIG establishes policy for audits and investigations relating to all Amtrak programs and operations, and conducts, supervises and coordinates these audits and investigations. Further, the OIG reviews existing and proposed statutes, regulations and policies to evaluate their effect on economy and efficiency in the agency and on the prevention of fraud and abuse and recommends changes as appropriate.

The OIG consists of the following offices with specific responsibilities:

The **Office of Audits** is responsible for conducting independent reviews of Amtrak's internal controls; overseeing and assisting audits of Amtrak's financial statements; reviewing information technology programs and information security; providing accounting counsel to, and oversight of, Finance Department operations; reviewing certain procurements and material acquisitions for appropriateness of cost, pricing and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

The **Office of Investigations** is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. It is also charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Office of Inspections and Evaluations** is a hybrid unit whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies. The evaluative process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve program cost efficiency and effectiveness, management, and the overall quality of service delivery throughout Amtrak.

The **Office of Counter-Terrorism and Intelligence** is responsible for facilitating, and overseeing projects and tasks pertaining to rail security, counter-terrorism and intelligence related to the country's war on terrorism. This group is involved in working with external agencies to provide focus on the importance of rail security and the need for an integrated approach for addressing the many challenges in securing an open-architecture rail passenger system.

There are eight OIG offices located in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Office of Audits

SIGNIFICANT AUDITS

INTERNAL OPERATIONS REVIEW

Review of GSA Fleet Leased Vehicle Utilization
Reporting processes could be improved
Audit Report Number 210-2006 – Issued 04/19/07

The OIG conducted an audit of Amtrak's leased vehicle program to evaluate Amtrak's vehicle utilization, and to determine compliance with corporate automotive policies and procedures related to vehicles leased from the General Services Administration (GSA) Fleet. For the period reviewed, January 2005-March 2006, Amtrak leased a total of 1,451 vehicles from GSA Fleet at a total cost of $11,725,781. The OIG review of billing statements found many GSA Fleet leased vehicles had incorrectly reported mileage and that Daily Vehicle Logs were not being properly maintained. Based on the review, the OIG recommended and management agreed that the Operations Department improve the recording of odometer readings to ensure accurate mileage reporting for billing purposes, and maintain accurate Daily Vehicle Logs in accordance with existing policy. In addition, the Procurement Department will take appropriate action to improve their reporting of mileage exceptions to the Operations Department.

Review of Locomotive Fuel Charges Processed Through eTrax
$105,000 in duplicate or erroneous fuel charges
Audit Report Number 203-2005 – Issued 05/8/07

Amtrak uses the Electronic Transaction Express (eTrax) software system to document the receipt, approval and payment of locomotive fuel transactions. An audit of locomotive fuel purchases processed through eTrax was performed by the OIG to determine the level of compliance with Amtrak's policies and procedures. The audit disclosed varying degrees of noncompliance with locomotive fuel deliveries, approvals and the payment process resulting in over $105,000 in duplicate or erroneous payments to fuel vendors in the first half of FY 2006.

In addition, under agreements with railroads where Amtrak rents locomotives from those railroads, the rental rate paid by Amtrak includes locomotive fuel. During the course of the OIG review, the OIG identified 26 instances in our sample period where Amtrak paid local fuel vendor charges for the locomotives and did not seek reimbursement from the railroad. Management agreed with the OIG findings and recommendation that an approved fuel policy be posted and communicated, and the unbilled fuel charges will be rebilled to the appropriate railroads.

Review of Amtrak's FY 2006 Capital Project Budgeting, Submissions, and Approval Processes
Inadequate policy compliance in key areas of capital expenditure processes
Audit Report Number 106-2005 – Issued 06/22/07

Amtrak's external auditors previously reported a material weakness in Amtrak's capital expenditure processes in connection with their financial statements audit. Subsequently, Amtrak management developed a corrective action plan to address control deficiencies. The objective of this audit was to review FY 2006 capital project budgeting, submissions, and approval processes to determine if Amtrak has developed and successfully implemented new policies and procedures to remedy control weaknesses.

The OIG concluded that compliance to policies designed in response to the material weakness finding was inadequate in key areas of the capital processes four years after implementation. The main findings of the report are summarized below:

- Capital budget submissions did not consistently include a performance measurement strategy that indicates how the end result of the project can be measured to determine if the investment met its intended purpose. The lack of project performance measurements has contributed to Amtrak's inability to perform post-completion reviews.
- More than 90 percent of the $742 million in capital spending approved in FY 2006 was not based on any formal operational or financial criteria other than the assumption that all such projects were a high priority.
- Project justification, impacts of deferral, and alternatives were not adequately presented for a significant portion of the $552 million sampled.
- Capital budget submissions were not reviewed for compliance with generally accepted accounting principles (GAAP), a common set of accounting principles, standards and procedures that the U.S. government and private companies use to compile their financial statements. The Federal Accounting Standards Advisory Board (FASAB) promulgates the generally accepted accounting principles for federal reporting entities, including Amtrak (as defined by FASAB Concepts Statement 2, Entity and Display, June 5, 1995).

Empire Builder | Glacier National Park, MT

The OIG recommended that the Finance Department along with user departments comply with existing policies and develop financial and operational metrics to ensure that capital budget submissions are aligned with corporate goals. The Finance Department responded with a plan to address the OIG's recommendations and revised business process policies and procedures were issued in February 2007. Future reviews of the capital budget processes are planned for the next fiscal year.

Limited Scope Review of Milwaukee Station Ticket Office Accounting Procedures and Operations
Assets were adequately safeguarded and records were organized
Audit Report Number 403-2007 – Issued 09/17/07

The OIG performed a limited scope review of the Milwaukee, Wisconsin, station ticket office to; determine compliance with station accounting procedures, verify assigned working funds, ticket stock and other assets, evaluate safeguards over these assets, and appraise the efficiency of station operations. The OIG found that employees generally are in compliance with daily station accounting and reporting procedures. We found assets were adequately safeguarded and records were organized. The OIG identified several minor deviations from Amtrak's operational procedures, including: the Over and Short Ledger was not being used; station personnel issued Emergency Exchange Vouchers without approval signatures; and several employees had substandard attendance as defined by Amtrak's National Attendance Policy. Management agreed with and promptly implemented all OIG recommendations.

Review of Use of NRPC Form 75 Emergency Exchange Vouchers at Chicago Union Station
Procedures and guidelines not fully complied with
Audit Report Number 404-2007 – Issued 09/28/07

The OIG performed an audit of NRPC Form 75 Emergency Exchange Vouchers (EEVs) issued at Chicago Union Station (CUS) for the months of March, April, and May 2007. The EEV is designed to provide an accounting methodology for expenditures to accommodate and assist passengers who have been inconvenienced. In instances where it is necessary to take cash from station funds for addressing the needs of the inconvenienced passenger, an approved EEV is required. The objectives of this audit were to determine whether EEVs were processed in accordance with established company procedures and whether EEV expenditures were appropriate and properly supported with valid receipts or other documentation.

The OIG review disclosed that, generally, adequate controls exist for EEV processing at CUS. However, the OIG found that EEV procedures and guidelines were not always followed, a total of 336 EEVs could not be accounted for, and the mini-audit dated June 14, 2007, was not complete. Management agreed with the OIG findings. The OIG recommended communication and a reemphasis of the importance of following EEV guidelines, and that counseling or disciplinary action be taken with employees routinely not in compliance with the guidelines. The OIG recommended and management agreed to account for the 336 EEVs, and to issue EEVs sequentially and reconcile them monthly. The OIG recommended and management agreed to complete all mini-audits in compliance with procedures.

INFORMATION TECHNOLOGY

Review of Payment Card Industry (PCI) Data Security Standards
PCI Data Security Standards not fully complied with
Interim Report for Project Number 103-2005

In response to a request from Amtrak's Chief Information Officer (CIO), the OIG completed a desktop review of Amtrak's compliance with the Payment Card Industry (PCI) Data Security Standards (DSS) and issued an interim report as part of the Credit Card and Cash Management Systems Audit (Project Number 103-2005). Amtrak is currently a Level 2 merchant for compliance with the PCI standards, but it will most likely become a higher volume Level 1 merchant in the near future when its credit card

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 4/1/07	41
Audit projects postponed or cancelled	(2)
Audit projects started	16
Audit reports issued	(12)
Audit projects in progress 9/30/07	43

Audit Findings

Questioned costs	$207,435
Unsupported costs	$0
Funds to be put to better use	$0
Total	**$207,435**

transactions exceed 6 million per year. Once Amtrak is determined to be a Level 1 merchant, an onsite assessment by an independent evaluator must be completed every year. PCI security standards consist of twelve basic requirements that must be complied with to avoid fines and penalties. If non-compliant and there is a security breach, it can cost Amtrak between $90 and $305 per lost record.

The objectives and scope of the OIG review were to evaluate the Level 2 self-assessment questionnaire completed by management, and to identify gaps to achieve full Level 1 compliance so that a security plan can be developed. The OIG found that Amtrak currently does not fully comply with the PCI DSS requirements and an aggressive action plan would be required to achieve Level 1 compliance. The scope of the remediation effort could be reduced if Amtrak can eliminate or encrypt the credit card information; and segment its network to isolate applications that process and store such data. The OIG found that the ownership, roles and responsibilities were not clearly defined to achieve PCI compliance. Also, many policies, procedures and standards required by PCI standards either did not exist or were not sufficiently enforced. As a result of our review, Amtrak management has launched an aggressive effort to develop a comprehensive security plan and strategy to achieve full PCI compliance in the near future.

PROCUREMENT

Review of Low Foam Cleaner Contract B 098 13443
Inconsistent costing methodologies, unallowable costs, and excessive profit margin
Audit Report Number 205-2007 – Issued 04/29/07

The OIG completed a limited review of a contract with the Chemical Corporation of America, Inc. (Chemcoa), of Chester, New York, a supplier of industrial cleaning compounds for the railroad industry, for the purchase of low foam cleaner for air brake cleaning machinery in order to verify the accuracy and acceptability of the cost and pricing data shown on the contractor's estimated cost breakdown. This was a non-competitive, blanket two-year firm fixed-price agreement, and it is estimated that approximately $250,000 of the $300,000 agreement would be used to purchase the low foam cleaner. As a result of the post-award audit, the OIG questioned 17 percent of the $7.61 per gallon sales price because of inconsistent costing methodologies, costs unallowable under the Federal Acquisition Regulation System (FAR 31.404-4), and incorrect account coding. Chemcoa also failed to provide supporting documentation covering 64 percent of various cost components and the proposal included a profit margin of 49 percent, which the OIG considers excessive. Negotiations are continuing with Chemcoa, and the OIG recommends that Amtrak management utilize FAR guidelines in negotiating a reasonable profit margin.

Limited Scope Review of the Proposed Costs to Manufacture and Install Escalators at New York Penn Station
Unsupported labor burden contingency cost identified
Audit Report Number 222-2006 – Issued 07/27/07

The OIG completed a limited scope review of the proposed cost of $418,000 to manufacture and install the initial escalator at New York Penn Station. This was part of a purchase order for two escalators totaling $878,000. The contractor, ThyssenKrupp Elevator Corporation (a wholly-owned subsidiary of ThyssenKrupp Elevator AG of Dusseldorf, Germany), agreed to an actual cost audit on the first escalator to determine the reasonable cost of future work at New York Penn Station, which needs 14 escalators replaced. The accuracy and acceptability of the proposed costs and pricing data was reasonable, however, the proposal included an unsupported labor burden contingency cost that is generally unallowable under the Federal Acquisition Regulation System (FAR 31.205-7). As a result of the review, the OIG recommended the labor burden contingency cost be disallowed unless it can be supported by the contractor's actual cost records.

Follow-Up Review on Non-Traction Utility Management
Improved oversight of non-traction utilities has saved over $3 million
Audit Report Number 302-2007 – Issued 08/3/07

In September 2004 the OIG issued Audit Report Number 302-2004 which assessed the adequacy of controls used to manage non-traction utility costs in terms of assuring that Amtrak is receiving the best prices possible and reducing energy usage. The audit concluded that adequate controls were not in place to provide reasonable assurance that Amtrak was efficiently procuring and managing non-traction utilities, which cost over $30,000,000 annually. The OIG recommended that Amtrak management develop and implement a comprehensive master plan for procuring and controlling non-traction utility expenses.

This year the OIG completed a follow-up review to determine whether internal controls are now in place to provide reasonable assurance that non-traction utilities are being properly managed. The OIG found that management is placing greater emphasis on monitoring and controlling non-traction utility costs. A new organization (Utility Management) was established in January 2006 to provide formal and defined oversight of non-traction utilities. Utility Management has undertaken several initiatives to address the internal control weaknesses reported in the previous audit, and has already saved over $3,000,000. As a result, the OIG concluded that current controls, and those that are being implemented, provide reasonable assurance that Amtrak is adequately managing non-traction utility costs.

RAILROAD AUDITS

Limited Scope Review of CSX Corporation, Inc. (CSX)-New York High Speed Line Agreement
Recovery of $237,265 in questioned costs
Audit Report Number 212-2006 – Issued 06/7/07

The OIG evaluated the accuracy and reasonableness of billings pertaining to the use of Track 2 of the NEC by CSX Corporation, Inc. (CSX), freight trains. The OIG identified $64,037 that is owed to Amtrak as a result of CSX freight trains using portions of dedicated Amtrak tracks without notifying Amtrak or paying for such usage. CSX officials agreed with the finding. In addition, the OIG also resolved all prior audit findings related to such freight train usage, resulting in a refund to Amtrak of $237,265.

UNRESOLVED AUDIT ISSUES

Appendices 1 and 2 show the status of management decisions on audit recommendations and dollar values of questioned costs, unsupported cost, and funds to be put to better use.

Section 5(a)(10) of the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. APPENDIX Inspector General Act of 1978), requires "a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. . ." Such reports are shown in Appendices 1 and 2. In addition, 5 U.S.C. APP. ß 5(a)(11) requires "a description and explanation of the reasons for any significant revised management decision made during the reporting period." There were none during this reporting period. Finally, 5 U.S.C. APP. ß 5(a)(12) requires "information concerning any significant management decision with which the Inspector General is in disagreement." No such decisions were made during this reporting period.

MANAGEMENT RESPONSES OVER 180 DAYS OLD FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

The OIG continues to monitor and follow up with management on corrective action measures. The following items were reported in previous semiannual reports and additional information is being reported.

CSX Transportation, Inc. (CSXT) – Audit of Non-On-Time Performance Items
$478,000 in erroneous billings identified
Audit Report Number 01-105 – Response 08/20/2001

The Chicago OIG office has met and discussed proposed audit adjustments, supporting documentation, correspondence, and audit work papers with representatives of CSX Transportation, Inc. (CSXT). CSXT is a wholly-owned subsidiary of CSX Corporation, Inc., of Jacksonville, Florida. CSXT operates the largest freight railroad in the eastern United States with a 21,000-mile rail network in 23 states, the District of Columbia, and two Canadian provinces. A tentative agreement has been reached to settle all issues identified in Audit Report Number 01-105. The final settlement letter has been reviewed and approved by both entities, and CSXT will credit or reimburse Amtrak a total of $478,000 during the next reporting period.

Review of Union Pacific Corporation (UP) Billing Processes
$144,659 in excess billings identified
Audit Report Number 407-2004 – Issued 03/7/2007

Effective January 1, 2000, Amtrak entered into an agreement with the Union Pacific Corporation (UP) of Omaha, Nebraska (the largest freight railroad in the United States with a 32,000-mile rail network in 23 western states), which consolidated four previous contracts with the Denver and Rio Grande Western Railroad, the Southern Pacific Railroad, the Southern Pacific Central States Line, and the Union Pacific Railroad for intercity rail passenger operations on tracks and properties now wholly-owned by UP. Under the agreement provisions, UP bills Amtrak each month for specific services and facilities for intercity rail passenger operations. The audit purpose was to determine the accuracy, reasonableness, and validity of the charges UP billed Amtrak for selected items and to develop an audit adjustment claim if appropriate.

The scope of our audit encompassed the period from January 1, 2002, through December 31, 2003, and consisted of analyzing UP's monthly billing costs, records, payments, technical opinions, vendor invoices, Amtrak delay reports, internal/external letters and memoranda, historical documentation of similar railroad billings, where available, and other information, as deemed necessary.

We did not audit 100 percent of the billing costs due to resource limitations, dollar materiality, and other constraints. We audited 14 of 23 items accounting for over 98 percent of the total billing. We found erroneous billings in 10 of the 14 items selected for audit, $230,282 over-billed and $85,623 under-billed for a net total of $144,659 due Amtrak. UP representatives agreed with our findings. We recommended that management initiate a final settlement letter and that monies due Amtrak be collected. Management verbally agreed, but has not provided a written response to this audit.

Review of NEC Work Trains
Audit Report Number 212-2003 – Response 10/28/2003

Our review disclosed that Amtrak could establish a more efficient system to fuel Mid-Atlantic work trains by fueling work trains at a closed fueling location. The OIG has requested additional information to determine if management has taken appropriate action.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul
Questioned costs of $63,184
Audit Report Number 219-2005 – Response 01/25/2006

The Procurement and Materials Management Department is involved in ongoing settlement negotiations with Mass Transit Products, Inc., of Montgomery Village, Maryland, and its' suppliers. The OIG continues to monitor actions taken.

Physical Inventory of Acela High-Speed Rail Parts
Questioned costs of $222,186
Response 02/23/2007

The OIG assisted in counting the Acela Parts inventory that was owned by the Bombardier/Alstom OEM consortium. The OIG also performed and are currently assisting in a pricing review. The OIG originally identified $222,186 in questioned costs. However, there are still under-priced items and items that have not been entered into Amtrak's Accounting, Material and Purchasing System (AAMPS). The OIG will continue to monitor.

Reviews of Southern Pacific Central States Line
Questioned costs not yet resolved
Audit Report Number: 01-506 – Response 09/04/2001
Audit Report Number: 01-507 – Response 09/04/2001
Audit Report Number: 01-508 – Response 10/12/2001
Audit Report Number: 01-509 – Response 10/12/2001

The audit reports listed above have been reported on in previous Semi-Annual Reports. As of this reporting period, there are no significant developments to report. The OIG will continue to monitor.

Office of Investigations

CASE STATUS OF INVESTIGATIONS

4/1/07 – 9/30/07

Total Open Cases as of 3/31/07	289
Closed Cases	(71)
Opened Cases	58
Total Ongoing Cases as of 9/30/07	**276**

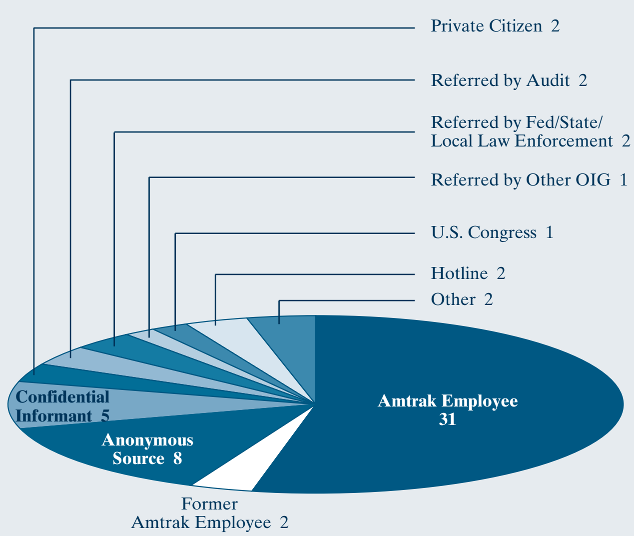
CASE HANDLING

The OIG receives allegations from many sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 276 investigations; in the last six months, we opened 58 cases and closed 71 cases.

As set forth in the chart below, entitled "Sources of Allegations," employees and anonymous referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 31 of the 58 allegations, or 53 percent. All allegations are reviewed, screened and resources are allocated based upon, among other things, the seriousness of the allegations and potential harm to Amtrak or the public.

SOURCES OF ALLEGATIONS

4/1/07 – 9/30/07



HOTLINE STATISTICS

4/1/07 – 9/30/07	*Total*
Hotline Complaints Received	**9**
Sources of Hotline Complaints	
Amtrak Employee	1
Anonymous Source	3
Private Citizen	3
Referred by Other Amtrak Department	1
Referred by Federal/State/Local Law Enforcement Agency	1
Classification of Complaints	
Time and Attendance	2
Waste	1
Mismanagement	1
False Statements	1
False Claims	1
Theft	1
Abuse of Position	1
Criminal – Other	1
Complaints Referred To:	
Mechanical Department Management	4
OI Field Offices	2
Customer Services	2
Safety	1

The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE twenty-four hours a day by calling Amtrak Telephone System (ATS) number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m. the OIG answers callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine. In addition, people can write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received nine telephonic HOTLINE complaints during this reporting period, which is an increase from the previous reporting period. The majority of HOTLINE complaints received during this reporting period were made by anonymous sources and private citizens.

SIGNIFICANT INVESTIGATIONS

THEFT AND FRAUD

Theft and fraud is a problem which affects many organizations that handle large amounts of cash. Due to the nature of the passenger rail business, cash transactions on our trains and in our stations are at risk for employee embezzlement and/or theft of company assets. The OIG spends considerable time and effort identifying and addressing these issues, with examples of such investigations listed below.

- The OIG conducted an investigation of a Chicago-based Lead Service Attendant (LSA), for failing to remit monies from on-board sales in the amount of $2,612.50. The LSA was terminated and subsequently indicted for theft and charged with a Class 3 felony in violation of 720 Illinois Comp. Stat. 5/Art. 16-1 (Theft) and ILCS 5/Art. 16A-2.8 in the Circuit Court of Cook County. The former LSA pled guilty to a charge of theft on May 18, 2007, and was sentenced to one year of court supervision and ordered to pay restitution to Amtrak.

- The OIG investigated an allegation that Amtrak employees and their non-Amtrak associates were submitting claims, accumulating, and redeeming frequent flyer mileage on Alaska Airlines utilizing the Amtrak/Alaska Airlines Mileage Plan (AAMP) travel partnership and not remitting the required funds associated with those claims. We began an extensive investigation into fraud by Amtrak employees in connection with AAMP. As a result of the investigation and the OIG's subsequent Administrative Report to Management, fourteen employees were removed from service after being charged, and terminated after their hearing. Effective July 15, 2007, Alaska Airlines discontinued its AAMP travel partnership with Amtrak. They also cancelled and revoked the Frequent Flyer Mileage accounts of those Amtrak employees and non-Amtrak individuals associated with this investigation.

  In conjunction with the Alaska Airlines case, the OIG conducted a separate investigation into an allegation of misconduct on the part of an Assistant Superintendent and Secretary tasked with preparing and ensuring that six of the employees involved with the abuse were served with charge letters within the proper time limits and prior to the hearing date. As a result of the investigation, we recommended that Amtrak management consider discipline for both employees. This recommendation was agreed to by management and resulted in ninety days probation for the Assistant Superintendent and counseling for the Secretary.

- As the result of an OIG investigation, an Engineering Clerk was charged with unauthorized or inappropriate use of an Amtrak Procurement Card (P Card). The

Vermonter | Passing through farmland, VT

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

4/1/07 – 9/30/07

Type	Number
Fraud	17
Theft/Embezzlement	5
False Claims	5
False Statements	1
False Time & Attendance Issues	4
Other Criminal	6
Waste	2
Abuse of Position	6
Mismanagement	3
Conflict of Interest	1
Administrative Inquiries	2
Other Non-Criminal	6
TOTAL	**58**

employee admitted that a P Card was used to purchase at least thirty items valued at more than $2,000 for personal. The items were subsequently recovered. The employee resigned during the administrative hearing.

- During this reporting period, a Chicago Ticket Agent, previously charged with manipulating over fifty passenger ticket exchanges for personal gain in the amount of $4,449, resigned from Amtrak.
- As a result an OIG investigation, a federal arrest warrant was issued for an individual who frequented an Amtrak train station victimizing prospective Amtrak employees. The perpetrator promised employment to prospective employees, but conditioned that upon them paying him for supplies and uniforms. The perpetrator, however, disappeared without providing either jobs or refunds.

FORGED MEDICAL DOCUMENTS

Amtrak Health Services (AHS) requires all Amtrak employees to complete an Amtrak Medical Form Treating Physician Medical Status Report when on a medical leave of absence. AHS found fraudulent discrepancies in Medical Status reports submitted by an Amtrak employee. The OIG's investigation of an allegation that the employee's forms were invalid, found that the employee had committed fraud. The employee forged the doctor's signature and other parts of the form before submitting it to AHS in order to extend medical benefits. As a consequence of the OIG's report to management, the employee elected to resign from the company prior to a scheduled disciplinary hearing.

ABUSE OF MEDICAL LEAVE OF ABSENCE (MLOA) STATUS

Various labor agreements provide that employees who are absent from work because of personal sickness or physical disability will forfeit their seniority if they engage in other employment, unless special arrangements have been made between the designated Corporate Officer and the Division Chairman. In addition, Amtrak's Standards of Excellence contains a Trust and Honesty clause. Despite these requirements, allegations of violations regarding MLOA are reported to and investigated by the OIG, such as those illustrated below.

- While out of work on a MLOA, an Amtrak employee was working for New Jersey Transit. As a result of an OIG investigation and report to management, the employee was terminated from her position at Amtrak for abusing her MLOA status.

California Zephyr

- The OIG found that an Amtrak Reservation Clerk worked another job while out of work on a MLOA. The OIG investigation confirmed the allegation and resulted in the employee being counseled about her leave abuse.

MISUSE OF COMPANY ASSETS

The OIG conducted several investigations pertaining to the misuse of company assets.

- The OIG received an allegation that a Conductor was providing free rail travel to friends and family members to which they were not entitled. The employee confirmed the allegation during the investigation and consequently was dismissed from Amtrak.
- The OIG found that an employee abused his vehicle use privileges and continued to commute in his assigned Amtrak vehicle, despite management's decision not to renew his take-home privileges. The employee admitted to knowingly commuting in the Amtrak vehicle for several months without authorization. In response to the OIG findings, management suspended the employee for thirty days without pay and ordered him to reimburse Amtrak for the commuting expenses.
- The OIG determined that an employee engaged in billing improprieties in connection with the purchase of equipment. The OIG investigation determined an Amtrak management employee initially requested funds to purchase shelving material for an Amtrak store house, making use of funds that had been earmarked for the purchase of emergency equipment by Amtrak. Upon receipt of approval to spend the funds for shelving, the

employee then stated that a sufficient amount of shelving was already in place. The employee then purchased two laptop computers and two iPods to be used by herself and a direct report. The support documentation which she submitted with the bill was falsified to make it appear the approved shelving was purchased instead of the laptops and iPods. As a result of the OIG investigation, the employee was disciplined and reimbursed Amtrak for the cost of the laptops and iPods.

- An OIG investigation revealed that an Amtrak-issued cell phone was used while the employee was off from work. During the resulting interview, the employee admitted to the OIG that the employee's relative used the cell phone for personal business. The employee was disciplined and required to reimburse Amtrak for the use of the cell phone.

EFFICIENCY AND EFFECTIVENESS

In addition to detecting and deterring fraud, waste, abuse and misconduct in Amtrak's programs and operations, OIG investigations also provide information and recommendations to management and employees to improve the company's efficiency and effectiveness. During this reporting period, these investigations have led to recommendations concerning quality improvement to which management generally responded positively and implemented, for the most part, as detailed below.

- The OIG received an allegation that a taxi service was over-billing Amtrak at the Albany Train Station. Although the subsequent investigation did not substantiate over-billing of Amtrak, the OIG did find failure of internal controls in the manner in which Amtrak reconciled corporate billing records. As a result, the OIG recommended some controls to Amtrak's Albany Train Station staff which were implemented.

- During this reporting period the OIG conducted an investigation, based on an allegation that a Division Engineer's Office ordered about $20,000 worth of usable roadway exhaust equipment parts, which were eventually scrapped during a clean up, even though they had not been utilized. The allegation was substantiated and an Administrative Referral was distributed to the Chief Operating Officer (COO). The report recommended that Amtrak management inform employees of the company's applicable policies regarding clean up, control and disposition of inventory and scrap material, including documentation for salvaged items. The COO agreed with the report and implemented the recommendations.

- Amtrak's Private Car Department made two policy changes as the result of an OIG investigation and management report. The Private Car Department implemented a late fee of two percent to be applied to past-due charges for private car movements and also implemented a policy requiring that any special requests for waiver of fees or charges related to private car movements be approved by a member of the Amtrak Executive Committee.

- The OIG received an allegation that, during a twelve month period, there was a significant variance in the delivery of parts delivered to three of Amtrak's mechanical facilities in Miami, New Orleans, and Sanford. While the investigation was unable to substantiate the allegation, the OIG observed that Amtrak had no controls in place to ensure that Amtrak was receiving the parts it had ordered. As a result, the Mechanical and Procurement Departments have instituted procedures which require an enhanced validation and documentation of parts received by outside vendors.

- The OIG received information that Amtrak had purchased computer network servers, related equipment and the applicable maintenance contracts for what was specified to be new equipment valued at more than $89,000. Upon installation of this equipment it was determined that five of the servers were used and only two were new as specified. The OIG investigation confirmed that the servers did not meet specifications; moreover, the OIG determined that the Procurement Department did not have procedures in place for the maintenance of its files and for sufficiently monitoring equipment which it ordered. The OIG made recommendation for procedural improvements of which many have been implemented by the Procurement Department

CONFLICT OF INTEREST

Amtrak policy states, in relevant part, "Amtrak requires all employees to observe the highest standards of business ethics. They must conduct the business and operation of Amtrak and their affairs in a manner that complies with applicable law and high moral and ethical standards and avoids any possible conflict of interest or appearance of a conflict of interest. They shall not realize personal gain, or help others to gain, from their positions with Amtrak or from knowledge or information not released to the public."

Regional | Northeast Corridor

During this reporting period, the OIG investigated the following allegations pertaining to transgressions of this policy.

- The OIG conducted a Conflict of Interest investigation involving the relationship between a former Vice President and several vendors seeking to do business with Amtrak. The Vice President's initial Certificate of Compliance filing did not list any entity in which he had a financial interest. We learned that the Vice President wanted to use a firm in which he was a member of the Board of Advisors and had a financial interest. Due to being alerted to a possible conflict, the Vice President sought a ruling from Amtrak's Law Department, who determined that the use of the firm would be a conflict and disallowed the contract. The Vice President then resubmitted a Certificate of Compliance that listed three firms in which he had a financial interest. It was later learned that the firm, despite the Law Department's admonition regarding the Vice President advocating doing business with these entities as long as he had a financial interest, was being listed as a subcontractor on two contract proposal submissions. Amtrak terminated all contracts that the Vice President initiated during his term of employment.

- In a previously reported investigation and referral, the OIG found that certain Washington-based management employees provided free travel aboard Amtrak trains to individuals having no legitimate claim or right to complimentary travel. OIG determined that Amtrak travel tickets, valued in excess of $180,000, were provided to persons on a complimentary basis under the guise of legitimate Amtrak programs. Travel included numerous complimentary trips on Acela Express, Regional Service, Auto Train, and long distance service, including first class accommodations. The OIG also learned during the inquiry that the same Washington-based management employees provided complimentary hotel rooms courtesy of Amtrak to individuals having no legitimate claim to said hotel rooms. During the OIG investigation a Vice President and a Senior Director resigned their positions with the company. As a result of the OIG's investigation and report, Amtrak is implementing new guidelines for complimentary travel, as well as creating policies and procedures for auditing departments and programs that participate in providing complimentary travel for legitimate business related travel.

Subsequently, the OIG expanded its inquiry to include Amtrak's Marketing Department, and found deficiencies similar to the deficiencies discovered in the initial probe. As a result of both inquiries, management has realigned the Diversity Department, and implemented new company policies which result in administrative structure and accountability to departmental operations.

The OIG received an allegation and performed an investigation regarding a manager who used her position to inappropriately access a fellow employee's personal information to establish a cell phone account and violate the employee's privacy. Once that cell phone account was established, the employee was able to forward the fellow employee's daily call detail data to their email for review of the fellow employee's personal phone activity. As a result of the investigation, the employee admitted her role and was ultimately terminated from her management position.

TIME AND ATTENDANCE REVIEWS

The OIG receives and investigates allegations regarding time and attendance issues in an effort to assist in addressing and preventing time and attendance fraud. The OIG refers most time and attendance issues to management for their analysis and action, with OIG monitoring management's actions. The following are illustrative of these types of investigations which we conducted during this reporting period.

- The OIG received information that a Secretary routinely reported to work late and left work early every day for a period of approximately six months. The Secretary would complete a "Time Adjustment Form" with an explanation written on the form that she was conducting Amtrak business at the United States Post Office. The

OIG substantiated that the Secretary had not been conducting company business but covering her tardiness by claiming that she conducted company business. The OIG further substantiated that Managers were made aware of the Secretary's tardy arrivals and early departures from work by her co-workers, yet failed to take any corrective action and signed the Time Adjustment Forms. As a result of this investigation, the Secretary was charged and terminated for theft, the Assistant Superintendent was placed on probation for six months, and two Station Managers were reprimanded and letters placed in their personnel files.

- The OIG received an allegation that Amtrak station cleaners, working a night shift, were committing payroll fraud and consuming alcoholic beverages on company time. The subsequent surveillance by the OIG substantiated the allegation. As a result of the completed investigation one employee was terminated and the Assistant Foreman received a thirty-day suspension.

JOINT INVESTIGATIONS

FUEL CREDIT CARD EMBEZZLEMENT

Employees in possession of fuel credit cards are responsible for ensuring each credit card is safeguarded against theft and utilized properly. Although the company has established corporate procedures for the management and control of fuel credit cards, the abuse of fuel credit cards continues to be reported. The OIG substantiated certain of these allegations as indicated below.

- The OIG received an allegation from the General Services Administration (GSA) Office of Inspector General regarding suspicious credit card activity pertaining to GSA leased vehicles at Amtrak. A joint investigation by Amtrak OIG and GSA OIG revealed that an Amtrak employee used GSA Voyager Fleet credit cards to purchase fuel for his personal vehicle as well as friends' vehicles. The employee made more than three hundred fraudulent fuel purchases totaling $16,976.37 using nine separate Voyager Fleet credit cards. By his own admission when utilizing the cards to fuel friends' vehicles he charged them fifty percent of the retail cost of the fuel purchases. The employee resigned from Amtrak in May 2007. The OIG subsequently referred this matter to the United States Attorney's Office for the District of Maryland for criminal prosecution. As a result, a criminal complaint was filed in the United States District Court, District of Maryland, for criminal violation of 18 U.S.C. ß 641 (Embezzlement and Theft of Public Money). The former employee pled guilty to the charges and was sentenced to six months in prison, probation, and full restitution.

EMBEZZLEMENT FROM PREVIOUS EMPLOYER

The OIG assisted the United States Attorney's Office regarding a manager working for Amtrak who was under investigation for embezzling more than a million dollars from his former employer. Our investigation confirmed that a search warrant had been duly executed by federal authorities at the employee's residence. The employee was terminated from his position at Amtrak and the OIG seized his computer for further analysis. The former employee subsequently pled guilty and agreed to pay restitution to his former employer.

REVENUE PROTECTION UNIT

The Revenue Protection Unit (RPU) initiates and provides support in detecting and deterring theft, fraud, waste, abuse and misconduct in Amtrak's programs and operations that impact train service and ticket office employees. The RPU provides critical guidance and support in the strengthening of management accountability and responsibilities, as well as internal controls.

RPU-INITIATED TRAIN SERVICE REVIEWS

- Amtrak provides food and beverage service on board trains to millions of passengers each year. The revenue generated by these sales as well as the food stock and supplies used to supplement these sales, afford a dishonest employee the means for revenue abuse or theft. During this reporting period, the RPU analyzed the applicable support documents for on board food and beverage sales on 197 trains by 67 Lead Service Attendants (LSAs). The completed review resulted in forty administrative referrals consisting of various findings covering theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed, based on the RPU referrals, for thirty-three LSAs consisting of counseling, remedial training, suspensions, and terminations.

- A referral response was received during this reporting period in conjunction with a previously conducted RPU investigation and subsequent Administrative Referral regarding management accountability and responsibilities for a Pacific Division crew base. The response outlined a plan to better address several of the findings and acknowledged management failures in some areas, as well as commitment to hold management accountable for future failures.

- The RPU also conducts preliminary reviews of conductor cash fares to identify, analyze and document, then refer for continued handling, conductor reviews that indicate possible theft or misappropriation situations. During this reporting period, the RPU completed and forwarded to the appropriate management personnel twenty-one conductor referrals. At the close of this reporting period, responses for nineteen of these referrals had been received, with three of those resulting in discipline. The other sixteen indicated possible discrepancies or inconsistencies in remittance procedures, which have been reported to Revenue Operations for further handling and correction.

PROSECUTIVE REFERRALS

4/1/07 – 9/30/07

Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	1	15	16
Convictions/Pleas	3	0	3
Pending*	4	15	19
Declinations	2	0	2
Resolved	0	0	0
TOTAL	10	30	40
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0
TOTAL			0
Total Civil and Criminal			**40**

*Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution, or other resolutions.

Office of Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

AMTRAK MECHANICAL OPERATIONS – OIG CONTINUING TO HELP WITH IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

In September 2005, the OIG issued report E-05-04, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, the OIG recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications. The OIG's report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past two years the OIG has been working with the Mechanical Department to help them implement the OIG recommendations.

Implementation of Reliability-Centered Maintenance

Although day to day administration of this initiative is now under the Chief Operating Officer (COO), the OIG remains engaged in an oversight role to help facilitate progress. The OIG has performed additional analysis and made additional recommendations to help Amtrak overcome implementation challenges and help insure that benefits are achieved.

Mechanical Maintenance Facility Rationalization and Process Improvement

Some of the recommendations in our report on Mechanical Maintenance Operations addressed rationalizing Amtrak's maintenance facilities and streamlining Amtrak's maintenance processes. These recommendations are in various stages of implementation. To assist the COO in coordinating these efforts, the OIG engaged the Thomas Group, Inc., of Irving, Texas, to develop a plan to facilitate and accelerate the implementation of these recommendations. The COO has endorsed the plan and is engaging the Thomas Group to help execute the plan. The OIG will continue to assist and provide oversight to this effort.

Diesel Locomotive Maintenance Consolidation

Another of the recommendations in the OIG report on Amtrak's Mechanical Maintenance Operations was for Amtrak management to examine the costs and benefits of outsourcing part of the maintenance operation to an experienced maintenance provider. To assist Amtrak management in this regard, the OIG engaged a consultant who had helped in the negotiations of several large locomotive maintenance contracts. With his assistance, Amtrak management is in discussions with one of the largest locomotive maintenance providers in North America. In preparation for possible outsourcing, Amtrak has consolidated its diesel locomotive maintenance operations and made significant facility improvements. Even if an agreement does not come to fruition, these actions will lead to improved efficiencies and overall reduced maintenance costs – potentially as much as was envisioned through outsourcing.

Equipment Reliability Improvements

The OIG continues to facilitate and support the establishment of teams dedicated to conducting Root Cause Analyses into recurring equipment failures. The teams that have been established have made significant contributions to the improvements in reliability of both the Acela trainsets and the High Horsepower (HHP) Locomotives. Acela delays due to mechanical failures have decreased by 26 percent over the past 6 months compared to the previous 6 months and HHP Locomotive availability continues to run 42 percent higher than in FY 2006.

PROCUREMENT AND MATERIAL SUPPLY CHAIN MANAGEMENT – OIG FACILITATING IMPROVEMENT EFFORTS

Alstom Parts Contract

The OIG continues its efforts in facilitating improvements and resolving shortfalls identified in our initial evaluation of the Acela Parts Contract. As indicated previously, Amtrak entered into a contract with Alstom TLS to supply and manage the parts inventory for the Acela trainsets, effective October 1, 2006. This contract has an estimated value of close to $200 million over the five-year term. Based on the value of the contract and the importance of the contract to the success of Amtrak's premium Acela service, the OIG continues to work with Amtrak's Mechanical, Procurement and IT departments to ensure that Amtrak puts processes in place to adequately measure and monitor the contractor's performance. Amtrak has just completed the first year of the Acela Parts Contract and during that year many changes, some unforeseen, to the contract have occurred. While, some progress has been made there is still work to be completed to fully integrate this contract. The OIG plans on issuing a lessons learned report as a guide for Amtrak to use in managing similar contracts in the future.

Mechanical Supply Chain Effectiveness

At the request of the Vice President of Procurement, the OIG is sponsoring and helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams are reviewing current processes and revising them to more align with industry best practices. The OIG anticipates continuing in this facilitation role for another year and then producing a report that documents the overall results.

AMTRAK'S RIGHT-OF-WAY MAINTENANCE – PERFORMANCE AND COSTS BENCHMARKED AGAINST EUROPEAN RAILROADS

For the last year, the OIG has been evaluating the efficiency and effectiveness of Amtrak's Right–of–Way maintenance programs. As part of this effort, the OIG engaged a European consultant that has extensive experience evaluating the infrastructure maintenance programs of European Railroads. The results show that Amtrak's infrastructure performance is in line with comparable European Railroads, but Amtrak's costs are somewhat higher. This is partially attributable to the fact that the average age of Amtrak's infrastructure is significantly older than the average age of the railroad infrastructure in Europe and confirms that a backlog of maintenance exists in Amtrak's Northeast Corridor to be able achieve a State-of-Good-Repair. The bench marking exercise has also identified European best practices that may have applicability for Amtrak. The OIG is continuing to work with Amtrak's Engineering Department to identify the opportunities for efficiency improvements offered by adopting European practices. The OIG plans on issuing a formal report on this ongoing evaluation during the next reporting period.

Empire Builder

HARASSMENT AND INTIMIDATION COMPLAINT ALLEGATION UNSUBSTANTIATED – ADMINISTRATIVE POLICIES NOT FOLLOWED

Amtrak's Statement of Policy Against Harassment and Intimidation states, in part, "Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness." This Statement of Policy conforms to Federal Railroad Administration (FRA) Regulations 49 CFR Part 225.33.

During this reporting period, one formal investigation that was opened in the previous reporting period was concluded. The OIG concluded that management did not harass and intimidate an employee who sustained a workplace injury as defined by FRA 49 CFR 225.33. It was determined, however, that administrative policies and procedures were compromised and a letter was issued to the General Superintendent that outlined our concerns. Management immediately addressed these concerns with refresher training for the management staff.

Office of Counter-Terrorism and Intelligence

Union Station | Washington, DC

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

The OIG Counter-Terrorism and Intelligence (CT&I) unit is responsible for the oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with other entities within the Amtrak security program, this unit works to increase awareness about the possibilities of terrorist attack against passenger rail services, and the critical importance of security preparedness and risk mitigation. During this reporting period, we have undertaken various security oversight and outreach activities some of which are highlighted below.

Given the highly confidential nature of this unit, detailed activities and progress of the unit are generally not publicized. The OIG is willing to discuss projects and highlights with Congressional members and staff.

TEN STATION STRATEGY (10SS) – ASSESSING SECURITY AT MAJOR STATIONS

The OIG has developed a security assessment program whereby the ten major stations in Amtrak's national system are to be evaluated for vulnerabilities and detailed recommendations are to be formulated to improve the security preparedness of the stations. During this reporting period, the OIG continued to facilitate implementation of the Ten Station Security Strategy (10SS). The OIG procured funding and coordinated the development of security support product packages at these sites. The OIG provided technical reviews and facilitated stakeholder outreach initiatives described here.

Station Action Team (SAT)

The CT&I continued to assist the Station Action Team at Washington Union Station. The SAT is intended to provide an informal organization where stakeholders can discuss crisis and risk management, incident response, emergency preparedness, and risk mitigation. The SAT model being used in Washington, DC, will be used as the base model for the other 10SS-designated stations.

Homeland Defense Operational Systems (HOPS)

The OIG arranged for the services of the Lawrence Livermore National Laboratory (LLNL) HOPS program to undertake a scientific assessment of critical vulnerabilities at additional 10SS-designated stations. These assessments will provide important decision support tools to managers charged with mitigating vulnerabilities at these important shared facilities.

COUNTER-TERRORISM AND INTELLIGENCE UNIT – ORGANIZATIONAL TRANSITION

In August 2007, Amtrak abolished its Risk Management Department and reorganized its security assets. As part of the restructuring, the Amtrak Police department became aligned with the Operating Department and the OIG Counter-Terrorism and Intelligence Unit transitioned from an oversight entity and assumed expanded responsibilities as the Office of Security Strategy and Special Operations (OSSSO), under the direct supervision of Mr. Alex Kummant, CEO and President.

The OSSSO is responsible for formulating and implementing Amtrak's security strategy. In that regard, OSSSO, working closely with Amtrak Police, has developed and resourced protocols for emergency response, passenger screening, visible deterrence, intelligence, policy and resourcing, and public awareness initiatives, among others. These initiatives are currently being implemented in stages.

While part of the OIG, the Counter-Terrorism and Intelligence Unit successfully pioneered new security paradigms for Amtrak, and placed increased emphasis on protecting passengers, employees and infrastructure through partnerships with Federal, State, regional and local governments, as well as with other public and private partners. Many of the efforts initiated by the OIG will transfer to the OSSSO.

The OIG will continue to provide security oversight and review of the OSSSO progress, in keeping with its statutory mission.

Other OIG Activities

COORDINATION WITH INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Section 805(1) of the Rail Passenger Service Act of 1970 (Public Law 91-518; 49 U.S.C. § 24315(d)) requires Amtrak to have its financial statements audited annually by an independent certified public accountant in accordance with generally accepted accounting principles (GAAP), a common set of accounting principles, standards and procedures that the U.S. government and private companies use to compile their financial statements, and to report the audit findings to Congress in Amtrak's annual report. The Federal Accounting Standards Advisory Board (FASAB) promulgates the GAAP for federal reporting entities, including Amtrak (as defined by FASAB Concepts Statement 2, Entity and Display, June 5, 1995). In March 2007, Amtrak's external auditors, KPMG LLP of McLean, Virginia (a member of KPMG International, a Swiss association), reported that Amtrak's Consolidated Financial Statements for FY 2005 and FY 2006 presented fairly, in all material respects, Amtrak's financial position and conformed with GAAP.

As part of the annual audit process, the OIG informs the external auditors on the scope of ongoing audit activities being conducted by the OIG, and continues to coordinate significant audit issues with Amtrak management and the external auditors, as necessary.

Review of Indianapolis Distribution Center Maintenance of Equipment Cycle Inventory
Controls are effective in preventing fraud, waste, and abuse
Audit Report Number 210-2007 – Issued 07/24/07

At the request of Amtrak's external auditors, KPMG, the OIG has performed several limited reviews of Maintenance of Equipment cycle inventories. This audit review of the Indianapolis Distribution Center Cycle Inventory was performed to ensure that the internal controls over Amtrak's inventory were adequate; to determine whether Amtrak's inventory levels were being properly recorded; to determine if controls were effective in preventing fraud, waste, and abuse in the requisitioning of materials for Maintenance of Equipment; and to review compliance with Amtrak's policies and procedures related to Maintenance of Equipment Inventory. The OIG review found that the net inventory variance was less than .04 percent, and that the inventory was kept in an orderly manner in a secure area. The OIG determined that controls were effective in preventing fraud, waste, and abuse in the requisitioning of materials.

TEAM MATE IMPLEMENTATION

OIG SECURE SUBNET AND TEAMMATE IMPLEMENTATION (PHASE II)

As previously reported, the OIG has implemented the TeamMate application for electronic work papers and automation of various audit processes. All new audits are now created in TeamMate. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls was built to host the TeamMate application and related databases.

During this semi-annual period, the OIG completed Phase II by implementing PricewaterhouseCoopers Global Best Practices (GBP) in the OIG TeamMate environment. GBP provides continuously updated best practices and bench marking information for standardized business processes, which would be helpful in performing audits and making value-added recommendations to management. The OIG also installed security cameras and video server in the secure subnet enclosures, which allow the administrators to remotely monitor and record any activity near the OIG racks in the data center. The OIG resolved the slow response time issue in our LA and Chicago offices by modifying the system configuration.

In our next phase, the OIG plans to upgrade the TeamMate software to the latest release, update the TeamMate protocol and library, implement 360o reporting, test/install new software capability, and configuration management tools. The OIG also plans to extend the secure subnet access and capabilities to other OIG groups.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY OUTSOURCING (ITO) SCOPE OF WORK AND LEGAL TERMS REVIEW

Amtrak Information Technology (AIT) department is currently undertaking a major initiative to split the current monolithic information technology outsourcing contract with IBM into four (4) outsourcing agreements, each for a different "Tower of Service" (i.e., Data Center, Seat Management, Data Network Services and Voice Services). The goal is to award the contracts to the best-of-breed vendors.

The OIG assisted management in reviewing the scopes of work (SOWs) for all Towers of Service as well as legal terms. The OIG identified issues such as water-based fire suppression system, tower demarcation points, coordination and hand-offs between service providers for incident management, lack of contract guide map, incomplete appendices, lack of standard for backup tape storage, and non-inclusion of cell phones and blackberries. Due to the tight deadlines, the OIG provided our feedback to information technology management as soon as possible. Management took appropriate action to address OIG concerns and made appropriate changes to the SOWs. AIT will be working with the Procurement Department to evaluate and rank the vendor responses so that final selections can be made in time to transition to new agreements by March 2009.

The OIG will be providing necessary oversight by reviewing the terms and conditions of the winning proposals, particularly important provisions such as audit clause before the contracts are finalized.

Appendices

AMTRAK

Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

4/1/07 – 9/30/07

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	$871,275	$277,348
B. Reports issued during the reporting period.	3	$207,435	$0
Subtotals (A + B)	5	$1,078,710	$277,348
LESS			
C. For which a management decision was made during the reporting period.	3		
(i) dollar value of recommendations that were agreed to by management.		$202,203	$0
(ii) dollar value of recommendations that were not agreed to by management.		$5,232	$0
D. For which no management decision has been made by the end of the reporting period.	2	$871,275	$277,348

Appendix 2

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

4/1/07 – 9/30/07

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	$0
B. Reports issued during the reporting period.	0	$0
Subtotals (A+B)	0	$0
LESS		
C. For which a management decision was made during the reporting period.	0	$0
(i) dollar value of recommendations that were agreed to by management.		$0
(ii) dollar value of recommendations that were not agreed to by management.		$0
D. For which no management decision has been made by the end of the reporting period.	0	$0

Appendix 3

OFFICE OF THE INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

4/1/07 – 9/30/07

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
4/19/07	210-2006	GSA Leased Vehicles	$0	$0	$0
5/8/07	203-2005	eTrax Procurements – Fuel	$127,202	$0	$0
6/7/07	212-2006	CSX – High Speed Agreement	$64,037	$0	$0
6/7/07	214-2005	Brandywine Realty	$0	$0	$0
6/22/07	106-2005	Capital Budgeting, Submissions And Approvals	$0	$0	$0
7/24/07	210-2007	Cycle Inventory Review – Beechgrove/Indianapolis	$0	$0	$0
7/26/07	222-2006	ThyssenKrupp Elevator Corporation – Manufacture of Elevators	$0	$0	$0
7/25/07	304-2007	Thames River Project Modification Review	$16,196	$0	$0
8/3/07	302-2007	Non-Traction Utilities Follow-up Audit	$0	$0	$0
8/29/07	205-2007	Chemcoa Low Foam Cleaner	$0	$0	$0
9/17/07	403-2007	Station Audit – Milwaukee	$0	$0	$0
9/28/07	404-2007	Chicago EEV Review	$0	$0	$0
TOTAL			**$207,435**	**$0**	**$0**

Appendix 4

OFFICE OF THE INSPECTOR GENERAL
SUMMARY OF REPORTS TO PRESIDENT OF AMTRAK CONCERNING INFORMATION OR ASSISTANCE UNREASONABLY REFUSED OR NOT PROVIDED

4/1/07 – 9/30/07

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL
REVIEW OF LEGISLATION AND REGULATIONS

4/1/07 – 9/30/07

Section 4(a) of the Inspector General Act of 1978 (P.L. 95-452), as amended, provides that the Inspector General shall …review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports… concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

The Office of Inspector General has an agreement with Amtrak's Government and Public Affairs Department that allows the OIG to review and comment on the company's annual legislative program and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed as necessary, as a part of every audit and investigation.

Appendix 6

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms we use in reporting audit statistics are defined below:

Questioned Cost	A cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak's corporate policy or procedure.
Unsupported Cost	A cost that is not supported by adequate documentation at the time of the audit.
Funds To Be Put To Better Use	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
Management Decision	Management's evaluation of our audit finding and its final decision concerning agreement or non-agreement with our recommendation.

Certain abbreviations used in the text are defined below:

10SS	10 Station Strategy
AAMP	Amtrak/Alaskan Airlines Mileage Plan
AAMPS	Amtrak's Accounting, Material and Purchasing System
AHS	Amtrak Health Services
AIT	Amtrak Information Technology
Amtrak	National Railroad Passenger Corporation
ATS	Amtrak Telephone System
CEO	Chief Executive Officer
Chemcoa	Chemical Company of America
CIO	Chief Information Officer
COO	Chief Operating Officer
CSX	CSX Corporation
CTI	Counter-terrorism and Intelligence Unit
CUS	Chicago Union Station
DSS	Data Security Standards
EEV	Emergency Exchange Voucher
eTrax	Electronic Transaction Express Software System
FARS	Federal Acquisition Regulation System
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GBP	Global Best Practices (Pricewaterhouse Coopers)
GSA	Government Services Administration
HHP	High Horse Power Locomotives
HOPS	Homeland Defense Operational System
ITO	Information Technology Outsourcing
LSA	Lead Service Attendant
MLOA	Medical Leave of Absense
NEC	Northeast Corridor
NRPC	National Railroad Passenger Corporation ("Amtrak")
OIG	Office of Inspector General
OSSSO	Office of Security, Strategy and Special Operations
Pcard	Procurement Card
PCI	Payment Card Industry
P.L.	Public Law
RCM	Reliability Centered Management
RPU	Revenue Protection Unit
SAT	Station Action Plan
SOW	Statement of Work
UP	Union Pacific Railroad

Reporting Requirements Index

INDEX OF REPORTING REQUIREMENTS PURSUANT TO THE INSPECTOR GENERAL ACT AMENDMENTS OF 1988 (P.L. 100-504)

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Amtrak's Office of Inspector General has a toll free hotline number for you to call. You can also write to us.

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