



Semiannual Report to Congress

10/01/08 - 3/31/09



ON THE COVER

President-elect Barack Obama with
Vice President-elect Joe Biden
on the Inaugural Train.

Photographed by
Bob Johnston, *Trains Magazine*



The OIG Vision

The Office of Inspector General (OIG) strives to provide Amtrak's employees, its customers, the public, and the Congress with the highest quality service and programs through vigilance, timely action, accuracy, and an overall commitment to excellence across the broad range of OIG responsibilities.

The OIG Mission

The OIG will conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations; promote economy, effectiveness and efficiency within the agency; prevent and detect fraud, waste, and abuse in agency programs and operations; review security and safety policies and programs, and, review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.

The Inspector General's Guiding Principles

Amtrak's Office of Inspector General (OIG) will:

- ★ *Work with Amtrak's chairman, the board of directors, and the Congress to improve program management.*
- ★ *Maximize the positive impact and ensure the independence and objectivity of the OIG audits, investigations, inspections, and evaluations, and other reviews.*
- ★ *Use OIG audits, investigations, inspections, and evaluation, and other reviews to improve integrity and recommend changes to prevent fraud, waste and abuse.*
- ★ *Be innovative and question existing procedures and suggest improvements.*
- ★ *Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.*
- ★ *Strive to improve the quality and efficacy of reports and recommendations.*



March 31, 2009

Honorable Thomas Carper
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

On behalf of the Amtrak Office of Inspector General (OIG), I am pleased to present this Semiannual Report to Congress. The OIG Report highlights significant audits, evaluations, and investigations for the six-month period ending March 31, 2009.

It is the OIG's responsibility to assist the Board and management in making improvements in Amtrak's core business operations which will improve the safety, reliability, and effectiveness of Amtrak services to the travelling public. The current semiannual report identifies some of the recent recommendations that the OIG has made which have resulted in cost savings, improved management policies and procedures, improved revenues, less cost, and more efficient and effective business processes.

In executing its FY 2009 audit plans, the OIG continued its reviews of Amtrak's procurement operations, payments and billings to vendors providing services to Amtrak, and the associated internal controls for physical inventory. We also reviewed numerous payroll activities, with special emphasis for the disbursement of overtime wages. OIG investigators and special agents opened 78 new cases and closed 63 cases during the reporting period; 330 investigations remain active as of March 31.

The OIG obtained nine criminal indictments, five criminal convictions/pleas, and one declination to prosecute; 15 other cases are pending prosecutorial review. As you will see in our detailed reports, our casework continues to reflect the need for Amtrak to protect better its passenger revenues, and the OIG is working with management to improve controls over the \$1.4 billion revenue stream.

The OIG Inspections and Evaluations group is continuing to facilitate numerous initiatives to improve the reliability and availability of Amtrak's rolling stock (passenger cars and locomotives). We have been concentrating our work in overseeing the introduction of reliability-centered maintenance practices and we are working very closely with management to oversee and better monitor the operations of the Acela product line. During this reporting period, we made recommendations to management regarding Acela equipment assignments which, when fully implemented, could result in up to \$9 million in additional revenue annually.

While continuing to conduct our normal oversight of Amtrak's programs and operations for this Fiscal Year, the OIG, like Amtrak, has had to rapidly make new plans to accommodate Amtrak's inclusion in the American Recovery and Investment Act of 2009 ("Recovery Act"). Under the wide ranging "stimulus" bill, Amtrak will be receiving almost \$1.3 billion over the next two years to initiate and accelerate work on the railroad, which will create jobs and further the statutory goals and objectives of intercity passenger

Honorable Thomas Carper
March 31, 2009
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rail services. The OIG has been provided \$5 million to oversee the stimulus spending and to report independently on compliance with the goals of the Recovery Act.

As we have discussed, the Recovery Act represents a significant opportunity for Amtrak to accelerate capital work in a number of key areas, including badly needed investments in track, bridges, facilities, and passenger cars and locomotives. Amtrak's current plans are to spend about 66 percent of stimulus dollars on infrastructure and engineering projects, 15 percent on security and life-safety projects, 11 percent on Amtrak's fleet, and the balance on information technology, finance, and other support functions. The OIG will work to ensure that Amtrak uses stimulus funds in a way which complies fully with the transparency and accountability requirements of the Recovery Act and which furthers the Board's policy directives to improve Amtrak's programs and operations.

In addition to the direct appropriations made available to Amtrak through the Recovery Act, Amtrak is also eligible to participate in, both independently and in conjunction and collaboration with States, a new and unprecedented high speed rail program. The Recovery Act sets aside \$8 billion for a number of high speed rail initiatives, which President Obama's Administration has stated will revolutionize and reinvigorate passenger rail services in the United States. Perhaps more so than the funds directly appropriated for Amtrak, this new investment opportunity for higher speed rail and corridor development is a sea change in the country's national transportation policy.

The OIG encourages Amtrak to act quickly to take advantage of the unique opportunities to position and leverage Amtrak's resources, its people and other assets, and to participate as much as possible in high speed rail services. We will be assisting Amtrak and the Board, where appropriate, by independently assessing the risks and opportunities, and the associated costs and benefits, of Amtrak's investments in these initiatives.

Given the considerable challenges and opportunities that have been presented to Amtrak over the past several months, it is important that the OIG have a productive and effective working relationship with the Board of Directors. We will work closely with you and the Board to ensure that the Office can accomplish its statutory mission consistent with the best practices prevalent in the OIG community and in a way which contributes to safer, more reliable, and more cost effective services for the traveling public.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General



An aerial photograph of a forested hillside. In the upper left, a small house with a brown roof is visible. A train, consisting of a blue and white locomotive and several passenger cars, is traveling along a track that runs diagonally across the lower half of the image. The surrounding area is densely populated with green trees.

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Amtrak Profile

The National Railroad Passenger Corporation, "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). Under the provisions of the Passenger Rail Investment and Improvement Act of 2008 (Public Law 110-432; 49 U.S.C. § 24302), Amtrak's Board of Directors will be reorganized and expanded to nine members.

The company is operated and managed as a for-profit corporation providing intercity rail passenger transportation as its principal business. Congress created Amtrak in 1970 to take over, and independently operate, the nation's intercity rail passenger services. Prior to this America's private freight companies ran passenger rail as required by Federal law. Those companies reported they had operated their passenger rail services without profit for a decade or more. With this in mind, when Amtrak began service on May 1, 1971, more than half of the rail

passenger routes then operated by the freight railroad companies were eliminated.

During fiscal year (FY) 2008 Amtrak carried approximately 28.7 million passengers on up to 315 daily intercity trains on more than 21,100 route miles serving 513 communities in 46 states, the District of Columbia, and three Canadian provinces. During fiscal year 2008, Amtrak ridership was up by more than 11 percent and ticket revenues were up by more than 14.2 percent over the fiscal year 2007.

In terms of market-share, Amtrak serves 63 percent of the combined airline-intercity rail market between Washington, D.C., and New York City. 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 employs about 18,400 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.

Amtrak owns the right-of-way of more than 363 route 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 responsible for the upkeep and maintenance of an additional 181 station facilities and 411 platforms. Amtrak owns 17 tunnels and 1,186 bridges.

Amtrak 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. The host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.



Amtrak's Office of Inspector General (OIG) was established as a statutory entity on April 1, 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. Appendix 3). 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; to promote economy and efficiency in Amtrak operations; and, to keep Congress and the Amtrak Board of Directors fully informed about problems and deficiencies, and the necessity for, and progress of, corrective action.

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 audits, investigates, inspects, and evaluates Amtrak operations, policies, and procedures, and assists management in promoting integrity, economy, efficiency, and effectiveness.

Amtrak's Office of Inspector General is led by Fred E. Weiderhold, Jr. The OIG consists of four groups: Audits; Investigations; Inspections and Evaluations; and, Management and Policy. Audits is headed by Gary E. Glowacki; Inspections and Evaluations is headed by Calvin Evans; Investigations, and legal counsel, is headed by Colin Carriere; and, Management and Policy is headed by Bret Coulson. The OIG has offices in Washington, DC, Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Audits:

Audits is responsible for conducting independent reviews of Amtrak's internal controls and recommending improvements to better safeguard its assets; testing the reliability of financial reporting and providing accounting counsel over company operations; reviewing information technology programs and information security; reviewing 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.

Investigations and Legal Counsel:

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. The group is charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

Legal Counsel is responsible for providing legal assistance and advice to the Inspector General, Audits, Inspections and Evaluations, and Investigations. Counsel provides legal and investigatory directions to Investigations, coordinates with outside attorneys including local and federal agencies and law enforcement attorneys, and appears in court on behalf of the OIG and its employees.

Inspections and Evaluations:

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 and evaluations 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 inspection and evaluations process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve cost efficiency and effectiveness, and the overall quality of service delivery throughout Amtrak.

Management and Policy:

Management and Policy provides mission and administrative support services to the OIG by managing: budget formulation and execution; policy development; training, personnel security; dissemination of OIG information; human resources; and OIG equipment and facilities. Management and Policy ensures performance quality and compliance with current and emerging government regulations, directives, and mandates. The office is the primary liaison with the U.S. Congress, the Government Accountability Office, the General Services Administration, the Office of Management and Budget, and other government departments and agencies. Management and Policy has primary responsibility for Amtrak's security oversight; and, provides oversight on the policy, programs, and procedures for Amtrak's Office of Security Strategy and Special Operations, and the Amtrak Police Department.



Legislation and Regulations Reviewed

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to Amtrak's programs and operations and to make recommendations concerning their impact. The OIG uses results from its audits, inspections and evaluations, investigations, and legislative experiences as the basis for its recommendations to Congress. During the reporting period, the OIG reviewed legislation, regulations, policy, and procedures that could affect Amtrak and provided comments both internally within, and to, the relevant Congressional committees and staff.

During the semiannual period, the OIG performed reviews of several pieces of pending legislation and met with Congressional staff from House and Senate Appropriations and Authorization committees to discuss potential impacts that pending legislation would have on both Amtrak's operations as well as impact on the OIG mission. The current six month period saw significant congressional activity relevant to Amtrak. These activities included the consideration of the Omnibus Appropriations which funded both OIG and Amtrak for the remainder of the fiscal year, and the passage of American Recovery and Reinvestment Act of 2009 which included \$5 million

for IG Oversight of \$1.3 billion in Amtrak Recovery Act funding.

The OIG recommended to Congress that Amtrak be granted greater access to the General Services Administration programs and services. This recommendation was enacted into law on October 14, 2008 as part of the Passenger Rail Investment and Improvement Act of 2008.

The specific legislation reviewed is found in Appendix 5.



Bob Johnston, *Trains Magazine*

Procurement and Material Management Issues

Excessive Car Hire/Demurrage Expenses

Questioned Costs of \$753,830

Report #216-2007 – Issued 11/14/2008

On August 8, 2007, while observing the annual inventory, OIG noticed switch material on 11 CSX Transportation flat cars at the Maintenance of Way Yard at Odenton, MD. Further research revealed that the flatcars had been at Odenton since February 13, 2007 and Amtrak had incurred between \$36,200 and \$86,880 in car hire/demurrage expense for that one delivery. The OIG determined that the issue was material enough for further review.

The OIG found that foreign freight railcars had excessive retention times that resulted in unnecessary car hire/demurrage costs to Amtrak of \$753,830 over a four year period between FY 2004 and FY 2007. The audit found a lack of segregation of duties, which resulted in car hire/demurrage expenses not being accounted for according to generally accepted accounting principles and recorded in the incorrect accounts and avoidable interest charges of \$19,215 were incurred for late payment of material related delivery charges.

M/E Inventory Observations – Astoria & Sunnyside Yard, NY

Report #219-2007 – Issued 2/23/09

A wall-to-wall inventory was observed for the Astoria warehouse and Sunnyside Yard, NY Maintenance of Equipment locations on September 17, 2008. The OIG found that the inventories were generally taken in accordance with instructions. Corrective actions suggested by OIG were accepted and addressed by the Astoria, NY, Supervisor; Material Control. The OIG observed that Sunnyside Yard, NY had issues with timely receipt of documentation from other mechanical areas with the Sunnyside Yard location and the variances were cleared subsequent to the OIG visit.

Observation of FY2008 Annual Maintenance of Way Inventory

Report #217-2008 – Issued 12/23/08

The OIG observed the annual maintenance of way physical inventory conducted by Amtrak's Materials Management and Engineering Departments. The audit found that the inventory was generally taken in accordance with instructions. However, the OIG found that at the material stores withdrawals of large dollar value stock were not being reported in a timely manner. Therefore, the OIG again recommended that Engineering

require its personnel to comply with policy and provide Material Management with properly authorized charge out documents at the time material is taken from the location with no exceptions to policy permitted.

The OIG noted that the trend of increasing maintenance of way valuation which was 9.79 percent in FY08 and decreasing inventory turnover from 1.33 percent in FY06 to 0.95 percent in FY07 to 0.83 percent in FY08 continued. This trend is caused by stock levels remaining consistently too high from one year to the next. Audit recommended that Materials Management take steps to reduce stock levels for items with an overstock condition.

CMI-Promex, Inc.

Questioned Costs of \$16,504, Projected Savings of \$100,000

Report #201-2009 – Issued 03/31/2009

At the request of Amtrak's Procurement and Materials Management Department, the OIG performed a post award audit of the costs associated with the installation of the Ridex ® miter rail system by CMI-Promex, Inc. The purpose of the OIG review was to verify the accuracy and acceptability of the costs associated with the installation of the Ridex ® miter rail system on the Connecticut and Niantic River Bridges. The total purposed cost was \$656,000.

Based on the results of the OIG review, the OIG established questioned costs of \$16,504, a 2.52 percent error rate. Most of the questioned costs pertained to direct labor, manufacturing overhead, and general and administrative expense. Procurement agreed with the OIG questioned costs, along with the audited rates established for overhead and G&A.

Procurement agreed to apply the audited rates against future projects with Promex, which, according to Procurement, will amount to approximately \$4 million over the next four years. Therefore, Amtrak should save approximately \$100,000 over the course of this project and future projects utilizing the audited rates.

Review of Southern Pacific Transportation Company (SP) Diesel Fuel and Fuel Handling Accounts

UP offers \$305,000 as settlement for diesel fuel questioned costs

Audit Report Number 505-2009 – Issued 03/18/2009

The OIG completed an audit of costs billed by the SP for diesel fuel and fuel handling for the period January 1, 1997 through December 31, 1999. The purpose of the audit was to determine whether monthly billings submitted by the SP for the subject accounts were

Significant Audit Activities

accurate, valid, reasonable, and in compliance with the operating agreement and contract amendments between Amtrak and the SP. As information, after the merger of the SP into the Union Pacific Railroad (UP), the UP became the designated railroad for handling all SP-related findings.

The OIG analysis revealed that for San Antonio, there were unexplained increases in the gallons billed for the current audit period when compared to a comparable prior audit period. Based on the exceptions noted, the OIG identified and presented a total of \$455,314 in questioned costs to the UP. After various discussions, the UP offered \$305,000 as settlement for the questioned costs identified.

The OIG is currently working with the UP to finalize the settlement letter language. The OIG recommended that management use the finalized settlement letter language to be sent to the UP to initiate the recovery of the proposed settlement amount of \$305,000 from the railroad.

Accounting and Reporting Procedure Issues

Food and Beverage Incentive Payment Review

Possible Lost Revenue of \$3,193,307

Report #208-2007 – Issued 1/15/09

The objectives of the OIG audit were to determine whether the quarterly incentive payments to Amtrak's Food Service Provider were correct and to ascertain if Amtrak was receiving its share of credits due. The OIG reviewed the period January 1, 2007 through June 30, 2008. OIG auditors visited five commissaries in Boston, New York, Washington, Chicago, and Los Angeles on April 30, 2008 to observe their physical inventory counting process. The OIG visits determined that each commissary had high gross variances with the main count swings in linens, support non-reusable, and support reusable.

The OIG audit disclosed that Food and Beverage (F&B) suppliers were not processing stock rebate credit requests in a timely manner. When discussed with Amtrak F&B Management, stock rebate credit requests were prepared and credit requests were submitted resulting in additional payments of \$161,780 as of November 30, 2008.

The OIG calculated Amtrak condemnation costs of \$6,941,970 for the 24 month period January 1, 2006 through December 31, 2007, and discussed with F&B Management the potential reported loss of revenue mark-up of 46 percent amounting to \$3,193,307 if the items had been sold on Amtrak trains. The lack of condemnation oversight was the primary cause of reduced savings to Amtrak.

Internal Use Computer Software Costs

\$1.66 million of \$115 million or 2.9 percent of costs improperly capitalized

Audit Report Number 101-2008 – Issued 12/3/08

The OIG performed an audit of the accounting for internal use computer software. The objectives of this audit were to determine if costs incurred from January 2005 through September 2007 for new or upgraded computer software developed or obtained for internal use were properly classified by project managers as capital expenditures or period expenses in accordance with Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants Standard Operational Procedures (SOP) 98-1.

To determine if actual software expenditures were being reviewed by management other than project managers for compliance with SOP 98-1 and if project managers were timely preparing and submitting project completion forms to Capital Accounting when the project was completed or the asset was ready for its intended purpose.

The OIG found that project managers are miscoding software expenditures. Software expenditures are being capitalized when they should be expensed. The OIG audit revealed that Capital Accounting's review process identified and corrected more than \$1.66 million in miscoded software costs or 2.9 percent of the population for the 22 projects the OIG tested. Miscoding occurred because project managers have not been diligent in correctly coding costs relating to computer software and the reviews by the project managers' respective departments failed to catch coding errors.

The OIG recommended that departmental management should monitor the financial activity of the respective departments' project managers by reviewing the monthly detailed project cost transaction reports. Capital Accounting should continue to communicate the results of their monthly reviews of the department's capital project costs, so departmental managers can address areas where reclassifications are required.

The closeout process as currently documented on the Amtrak Intranet, the Capital Project Manager Financial Management Requirements Manual and Amtrak Policy and Instruction Manual Policy Instruction 8.3.1, are not reflective of current practices and needs to be updated.

Amtrak Uniform Inventory

Improved vendor contract enforcement is needed

Audit Report 106-2008 – Issued 1/30/09

The OIG performed an audit of Amtrak's Uniform Inventory. The objectives of this audit were to determine the existence and accuracy of Amtrak uniform inventory on hand at Fechheimer Brothers; review the process for managing the Amtrak uniforms inventory by Amtrak management and Fechheimer Brothers; and, determine that proper controls exist. Amtrak contracted Fechheimer Brothers to manufacture and supply uniforms to certain on-board and station employees.

The OIG conducted a physical count and reconciliation of Amtrak uniforms with the perpetual inventory reports of Amtrak uniforms at the Fechheimer Brothers' warehouse on August 26-27, 2008. The inventory sampled for verification by the auditors was 10,635 or 83 percent of the 12,853 total number of items reported on the perpetual inventory records with a value of \$468,974. The result of the inventory, comparing the physical count to the perpetual inventory records was a difference of 20 units or approximately .19 percent of the total inventory. OIG concluded that the inventory at Fechheimer Brothers was highly accurate.

In addition to the physical count, OIG reviewed the Amtrak Uniforms processes and related internal controls. OIG found that inventory management of uniforms for Amtrak employees needed to be improved. The levels of the inventory items were not in line with the usage and resulted in overstock of items that were not in demand and stock outs of items in demand.

The over and under-stock positions occurred because Operations Management did not enforce the provisions of the contract and receive the needed reports from the vendor in order to make accurate stock level decisions. As a result, Amtrak employees may not have the required uniforms. Amtrak may incur avoidable costs when the contract is terminated and Amtrak has to take possession of the residual inventory.

The OIG recommended Operations Management establish procedures and controls for establishing and maintaining stock levels; monitoring stock levels, safety stock and reorder points; and enforcing contractual compliance by Amtrak and Fechheimer Brothers. Management needs to identify the cost of the uniform inventory which would have to be reported as a contingent liability in the event the contract is terminated.

Transportation Certificate Database

Customer Relations database was incomplete and contained discrepancies

Audit Report Number 502-2008 – Issued 2/26/09

The OIG performed a review of transportation certificates (TCs) to determine whether Customer Relations issued the TCs honored system-wide during the audit period April 23, 2007 through April 30, 2007. TCs are a customer service recovery tool issued by Customer Relations to inconvenienced passengers on a case-by case basis as a result of customer service-related issues.

The OIG review results indicated that Customer Relations database was incomplete and contained discrepancies. The OIG recommended that written policies, procedures and/or guidelines be established to adequately document changes to TC amounts, customer names, and reasons for extending TCs. The OIG further recommended that Customer Relations supervisors sample and review TCs generated to ensure compliance with established policies, procedures, and/or guidelines.

Providence Station, Rhode Island Audit

Report #301-2009 – Issued 12/ 22/08

In accordance with the Office of Inspector General-Audits annual audit plan, the OIG performed a station audit of the Providence, Rhode Island ticket office. The purpose of the OIG review was to: test for compliance with station accounting and reporting procedures; verify assigned working funds, ticket stock and other assets; evaluate the safeguarding these assets; and, appraise the efficiency of station operations.

The OIG review indicated that the Providence Station ticket office and the baggage room were in general compliance with station accounting and reporting procedures. However, the OIG observed the following:

- ★ Manually issued tickets were not always issued in sequential order;
- ★ Copies of manually issued tickets were not always maintained;
- ★ Manually issued tickets were not being recorded in the Control Log, Form NRPC 277; and,
- ★ Invoices for the receipt of manually issued ticket stock were not available for the OIG review.

Management agreed with the findings and has taken appropriate corrective action.

Significant Audit Activities

Contract Issues

New Jersey Transit - Maintenance of Equipment Services Interim

\$777,394 in Under Billed Expenses

Report #204-2008 – Issued 11/5/08

A primary objective of the OIG audit was to determine whether Amtrak billed New Jersey Transit (NJT) in accordance with the Maintenance of Equipment Services Agreement. Billable charges include direct labor costs, labor additives, shop overhead, direct material costs and material additives. NJT assumes a percentage of the costs of the operation of the Sunnyside Yard car wash system.

A secondary objective of this audit was to compare actual overhead costs that Amtrak incurs to support the maintenance services versus the fixed overhead rate contained in the Agreement. Due to the significance of the under billing to NJT, the OIG is issuing this interim report. The OIG will complete its secondary objective of reviewing actual overhead costs at a later date.

The OIG established that, as it related to the maintenance of equipment services, Amtrak under billed NJT \$777,394 during fiscal periods 2006, 2007 and through June 2008. The OIG attributed the discrepancy to clerical errors, as well as to a misunderstanding of the agreement terms.

Review of Fuel Supply to Los Angeles by General Petroleum

Non compliance with fuel related procedures and a potential duplicate payment of \$15,913 identified

Audit Report Number 503-2008 – Issued 2/06/09

The OIG completed a review of fuel supply to Los Angeles by General Petroleum (GP) and the associated control environment for the period September 1, 2007 through March 31, 2008. The OIG primary objectives were to determine whether GP's fuel deliveries were in accordance with the purchase order (PO) agreement; whether Amtrak's payments to the vendor were accurate and in compliance with the PO provisions; and, whether management controls over fuel receipts, invoicing, payments and dispersal of fuel were adequate and effective.

Overall, the OIG identified various areas of non compliance with fuel-related procedures. Such areas included the handling of a fuel sample result that did not meet all fuel specifications; the resolution of delivery variances; and the reconciliation of fuel receipts, issues, and inventory.

Additionally, the OIG identified a potential duplicate payment in the amount of \$15,913. The OIG recommended that management review and update the respective diesel fuel related procedures to ensure compliance with approved procedures. The OIG recommended that follow-up actions be taken to address the potential duplicate payment.

Management Responses Over 180 Days Old for Which Corrective Action Has Not Been Completed

Union Pacific Audit

\$144,659 Excess Billings Identified

Audit Report 407-2004 – Issued 3/07/07

The OIG has held several meetings with the railroad to discuss resolution of outstanding unresolved audit issues. The OIG hopes to conclude its work in the next reporting period.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned Costs \$63,184

Report 219-2005 – Response 1/25/06

The Procurement and Materials Management Department is still involved in ongoing settlement negotiations with the contractor and his suppliers and the OIG continue to monitor actions taken.

Reviews of Southern Pacific Central States Line

Questioned costs not yet resolved

Audit Report Number: 01-506 – Response 9/04/01

Audit Report Number: 01-507 – Response 9/04/01

Audit Report Number: 01-508 – Response 10/12/01

Audit Report Number: 01-509 – Response 10/12/01

There are no significant developments to report since the last semi-annual report. The OIG will continue to monitor.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/01/08	47
Audit projects postponed or cancelled	1
Audit projects started	31
Audit reports issued	13
Audit projects in progress 3/31/09	64

Audit Findings

Questioned costs	\$1,477,025
Unsupported costs	\$0
Funds to be put to better use	\$4,049,848

Total **\$5,526,873**

Case Handling and Sources of Allegations

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 330 investigations; in the last six months, the OIG opened 78 cases and closed 63 cases.

As set forth in the chart below, entitled "Sources of Allegations," employees and anonymous source referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 31 of the 78 allegations, or 40 percent.

The OIG received 21 telephone HOTLINE complaints during this reporting period. The majority of HOTLINE complaints received during this reporting period were from anonymous sources.

OIG Hotline

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 24 hours a day by calling Amtrak Telephone System (ATS) number 728-3065 in Philadelphia and the toll free number (800)

HOTLINE STATISTICS

10/01/08 – 3/31/09	TOTAL
Hotline Complaints Received:	21
Sources of Hotline Complaints:	
Anonymous Source	10
Private Citizen	9
Amtrak Employee	1
Confidential	1
Classification of Complaints:	
Non-criminal/Other	6
Fraud	6
Abuse of Position	2
Criminal – Other	2
Waste	2
False Claims	1
Theft	1
Drug Violations	1
Complaints Referred To:	
OI Field Offices	12
Management	7
APD	2

468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., the OIG answer 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.

People may 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.

PROSECUTIVE REFERRALS

10/01/08 – 3/31/09

Referrals	U.S. Attorney	Local/ State	TOTAL
Criminal Cases			
Indictments	2	0	2
Convictions/Pleas	5	0	5
Pending*	25	0	25
Declinations	1	0	1

TOTAL 33

Civil Cases

Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0

TOTAL 0

TOTAL CIVIL AND CRIMINAL 33

**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.*

SOURCES OF ALLEGATIONS

10/01/08 – 3/31/09

Amtrak Employee	31
Former Amtrak Employee	2
Anonymous Source	21
Confidential Informant	5
Private Citizen	4
Referred by other Amtrak Department	2
Referred by other OIG	10
Hotline	2
Other	1
TOTAL	78

Significant Activities: Investigations

TYPES OF ALLEGATIONS

10/01/08 – 3/31/09

Fraud	25
Theft/Embezzlement	4
Kickbacks	2
False Claims	3
False T&A Records	5
Other Criminal	1
Waste	8
Abuse of Position	6
Mismanagement	5
Conflict of Interest	3
Administrative Inquiry	3
Other Non Criminal	8
Referral to Other Agency	5
TOTAL	78

CASE STATUS OF INVESTIGATIONS

10/01/08 – 3/31/09

Total Open Cases as of 10/01/08	315
Closed Cases	-63
Opened Cases	78
Total Ongoing Cases as of 3/31/09	330

Theft and Fraud

Previously Reported Investigation Further Reviewed

Fraud of \$175,486

During the last reporting period the OIG detailed an investigation of a former Amtrak Finance Manager responsible for the Manual Credit Card System (MCCS). The investigation found the Manager had refunded more than \$74,000 to his personal credit card accounts for transactions for which he had not made any corresponding purchases. After further review, the OIG determined that the employee had refunded \$103,486 to his personal credit card accounts not identified earlier. The former finance manager admitted that an IBM contractor was involved with the scheme.

The IBM contractor was indicted on 18 U. S. C. § 371 (conspiracy), 18 U. S. C. § 1343 (wire fraud), 18 U. S. C. § 666 (theft of federal programs funds), and 18 U. S. C. § 2 (aiding and abetting). A notice of forfeiture was held on March 17, 2009. The OIG is seeking \$72,486 in restitution from the former contractor.

Theft Scheme Involving Train Provisioning Management System Clerk and 42 Lead Service Attendants.

Loss \$124,686; Restitution Sought

On January 12, 2009, a former Train Provisioning Management System (TPMS) Clerk pled guilty in the United States District Court for the Northern District of Illinois Eastern Division to the violation of Title 18 U. S. C., § 666 (a) (1) (A) Theft or Bribery Concerning Programs Receiving Federal Funds. The former employee, along with another former TPMS Clerk, currently under indictment, orchestrated a theft scheme involving 42 Lead Service

Attendants. All of whom were terminated or resigned. The scheme resulted in a loss to Amtrak of \$124,686. Sentencing is scheduled for April 17, 2009.

Wire Fraud Involving Voucher Refunds

Loss of \$31,928, restitution ordered.

An OIG investigation found that a Providence, Rhode Island Travel Agency had an exceptionally large number of Amtrak refunds. A review of the issued tickets revealed that many of the refunds involved ticket exchanges and issuance of vouchers. An in depth review revealed the vouchers were not valid resulting in a total loss to Amtrak of \$31,928.

As a result of the OIG investigation, the owner of the agency pled guilty to one count of wire fraud, 18 U. S. C. § 1343. He was sentenced to 27 months incarceration; 15 of which will be served in a Federal Correctional Facility, followed by 12 months of community confinement. He was ordered to make full restitution of \$571,000 to eight airlines and Amtrak.

Waste, Abuse, and Mismanagement

Over Billing for Superliner Remanufacture

\$34,000 in questioned costs

The OIG identified \$34,000 in over billings by a vendor contracted to provide modules for the Superliner Remanufacture project at Amtrak's Beech Grove Facility. The over billings consisted of unauthorized charges for General and Administrative costs on a change order and erroneous charges related to scrap material.

Questionable Actions Leading to Purchase of Deluxe Dividing Door Partitions

\$10,669 in questioned costs

The OIG identified questionable actions by the Senior Contracting Agent which allowed the purchase of two unused Deluxe Dividing Door Partitions totaling \$10,669, as well as two possible underpayments of \$12,210 to the contractor. Currently, OI is awaiting management's response to the administrative report.

Uncollected Private Railroad Car Fees

\$7,000 in fees to be recovered

During September 2008, OIG agents regularly observed two private railroad cars sided on Amtrak property in the Northeast Corridor. A subsequent analysis of the Private Car Tariff account for the cars in question revealed that Amtrak was not collecting fees for the cars as outlined in company policy entitled *Conditions for Movement – Private Railroad Cars on Amtrak*. Agents found systemic problems in the manner the billing functions of the process were administered.

An analysis of the account in question revealed that nearly \$7,000 in fees went uncollected. All deficiencies uncovered by OI Agents regarding private cars were referred to management. Management reported that the nearly \$7,000 in fees not collected would be collected immediately, as well as taking other steps to remedy the deficiencies outlines in the OIG referral.

Former Employee Overpaid

Loss of \$3,964.40

The Bakersfield California Station Manager allowed a Station Agent, who was attending a Corrections Academy after accepting employment with the California State Department of Corrections, to be placed on a Leave of Absence in order to use his sick leave, accrued overtime, and accrued vacation time. Ultimately, the Station Agent was overpaid \$3,964.40 for sick time which should have been cashed out at a 50 percent rate and collected a uniform allowance that he was not entitled to receive.

The Station Manager was placed on suspension for 30 days without pay and OIG sent a copy of the investigative report to the Department of Corrections, Internal Affairs Division to address the fraud perpetrated by its employee. The discipline of a California Peace Officer is considered privileged and confidential under Section 1043 of the California Evidence Code and the result of that investigation is not available.

Amtrak's Arrive Magazine Distribution

Approximately 180,000 magazines never distributed

In February 2008, the OIG received an allegation that there was an on-going pattern of significant waste involving the distribution of Amtrak's *Arrive* Magazine. The OIG learned through investigation that approximately 200,000 copies of *Arrive* are distributed bi-monthly by the magazine's publisher to various Amtrak facilities throughout the Northeast Corridor. Of the 200,000 copies distributed, agents found that nearly 90 percent of the magazines were never distributed, but actually discarded and not recycled. The investigation identified flaws in the magazine distribution system.

The OIG reported the situation to management. Management has taken steps to lower the number of magazines distributed by the publisher, as well as exploring recycling options for the magazines that are discarded, and improving the flaws in the distribution system.

Misuse of Fuel Credit Cards

Theft of Fuel

\$5,760.39 in restitution sought

The OIG worked jointly with the Mercer County Prosecutor's office on an investigation regarding the theft of fuel while utilizing an Amtrak fleet credit card. It was discovered that an employee, had used a fleet credit card without authorization to purchase \$5,760.39 worth of fuel, while not on Amtrak property. The employee was terminated and charged with a felony. Amtrak is seeking the total amount in restitution.

Theft of Fleet Credit Cards

Loss of \$83,711.16

In the last Semiannual Report, the OIG reported on a joint investigation with the Government Services Administration (GSA) Office of Inspector General regarding the theft of fleet credit cards used to purchase \$83,711.16 in diesel fuel and gasoline. OIG's investigation revealed that Amtrak vehicles were being left unsecured with vehicle fleet credit cards inside. As a result, Engineering implemented steps to address this failure including disciplinary action steps.

Conflict of Interest and Abuse

Falsification of Training Rosters

The OIG received an allegation that senior members of Amtrak's Engineering Department were being placed on attendance rosters for training classes that they did not attend. The subsequent OIG investigation proved that senior members of Amtrak's Engineering Department were in fact placed on rosters for classes that they did not attend.

The OIG found that the class instructors were not involved in the false entries but a senior member of the Amtrak Employee Development Department did place two senior members of Amtrak's Engineering Department on training rosters in an attempt to give the appearance that their training qualifications were up to date.

As a result of OIG's investigation, the former Development employee received a letter of reprimand and both senior members of the Engineering Department received verbal warnings about their behavior. Amtrak's Chief Operating Officer reaffirmed that Amtrak's Employee Development

Significant Activities: Investigations

Department will act independent of outside influences from other Amtrak Departments.

Moynihan Station Project Manager Irregularities

The OIG conducted an investigation into the circumstances surrounding the Moynihan Station Redevelopment Project including the memorandum of understanding (MOU) between Amtrak and the Moynihan Station Project developer, the employment of a project manager for the Moynihan Station, expenses incurred by the project manager, an apartment lease in New York associated with the project manager employment, and the use of lobbying firms or consultants associated with the project.

In the OIG referral to The Amtrak Board of Directors, OIG questioned the Executive Summary and Request submitted to the Board to hire the project manager exclusively for the Moynihan Project at a salary of \$200,000, when the individual was already employed as a contractor, being paid a contracting fee equivalent to \$200,000 per year.

The OIG questioned the creation of the senior E-Band position solely for this project, which has a history of stalling, as it has at the time of the investigation. Due to the project being located in New York, but the project manager being located in Washington, unnecessary expenses were incurred. For the two months that the project manager was acting as a private contractor, Amtrak's expense policy regarding hotel rates was continuously violated.

The investigation revealed that an apartment was leased at Amtrak's expense for the project manager's use in lieu of hotel stays in New York. The apartment owner is a family friend of the Amtrak vice president who supervised the project manager. Both the project manager and the vice president used the apartment for personal use on several occasions at no cost, a benefit not afforded to other employees.

As a result of the investigation, the project position was eliminated and the individual was terminated from employment.

Recommendations to Enhance Efficiency and Effectiveness

Lax Procedures Led to Probable Theft of Receipts

\$13,337 recovered

An OIG investigation revealed numerous instances wherein deposits to the Salinas Station either had not been made or lesser amounts than indicated were deposited. The OIG focused on two instances where

deposits were recorded but were never received by the bank. The result of the investigation was the termination of the Station Agent. However, the OIG was unable to gain an indictment on the Station Agent due to the lax controls which were in place at the time. The OIG met with management to advise management of the findings. As a result, management changed and improved procedures on station deposits throughout the Bay area.

In conjunction with the case outlined above, the OIG made inquiries into the overages/shortages reported to management spanning five years and totaling over \$13,337 which went uncollected. As a result of the OIG's involvement and inquiry into these uncollected funds, management informed OIG that all outstanding funds had either been collected or the employee responsible was charged and disqualified.

Unsecured Cartons Led to Secure Shipments of Conductor Ticket Stock

The OIG became involved in a case where a shipping carton of conductor tickets sent in June 2007 was discovered. The tickets were unsecured and left unnoticed in the baggage area of Union Station, Washington, D.C. and only discovered in August 2008. Eventually all identified tickets were recovered and accounted for. In conjunction with this issue, the OIG made recommendations to management to better secure and ship conductor ticket stock. Those recommendations are currently being implemented.

Violation of Amtrak's Standards of Excellence

False Statements

During this reporting period, the OIG conducted an investigation into false statements and misrepresentations made to the OIG by a Beech Grove employee found to have provided false information to the OIG during an investigation into the unauthorized sale of scrap material. The employee waived formal investigation proceedings and was assessed ten days suspension without pay.

The OIG issued a referral to the Dispute Resolution Office and Amtrak Police Department regarding an Auto Train Food Specialist who made a false statement alleging that another employee had assaulted them. Due to the unsubstantiated statement, the former Food Specialist was terminated.

Weapons Violation

The OIG received and investigated an allegation that train and engine employees assigned to Reno were bringing firearms onto Amtrak property as well as transporting the weapons concealed on the person, and/or in carry-on bags. The OIG and Amtrak Police detectives jointly investigated the allegation and substantiated that

several employees had carried firearms on the train and others had brought and stored firearms at the Reno Station with the knowledge of management. The result of the investigation was the removal from management of an Assistant Superintendent, the termination of two employees, and a 30-day suspensions for two other employees.

Time and Attendance Reviews

Miscoding of Labor Hours

The OIG conducted an investigation into false statements and misrepresentations made to the OIG by five management employees regarding the intentional miscoding of labor hours at the Beech Grove maintenance facility. The OIG found that the Superintendent, an Assistant Superintendent, the Budget Manager and two General Foremen made misrepresentations and/or false statement to OIG Investigators and Auditors. As a result of OIG's investigation, the Superintendent received a salary reduction, was demoted and transferred, the Assistant Superintendent retired, the Budget Manager resigned after opting not to accept a demotion and transfer, and two General Foremen were suspended without pay for ten days.

Recovery of Unearned Wages

\$170,200 recovered

An the OIG investigation resulting from an allegation pertaining to Amtrak Engineering employees, found that New Jersey Engineering work gangs were submitting for and receiving pay for hours not worked. As a result of this allegation and the subsequent the OIG investigation, the Engineering Department recovered money paid to employees for time paid and not worked. More importantly, the OIG investigation led to the significant findings detailed below.

Amtrak Engineering argued the employees were receiving duplicate wage payments because of an error in the MAXIMO Payroll System which authorizes wage payments for engineering employees. As a result of this allegation and the subsequent the OIG investigation, \$170,200 was recovered from Amtrak Engineering Department employees who were overpaid.

Congressional Investigation Request

Congressman James L. Oberstar, Chairman of the United States House of Representatives Committee on Transportation and Infrastructure, requested that the Amtrak Office of Inspector General investigate the use of Taxpayer Relief Act of 1997 (TRA-97) funds by the six States that were not served by Amtrak at the time. The six states were Alaska, Hawaii, Maine, Oklahoma,

South Dakota, and Wyoming. Per TRA-97, Amtrak paid each of the six states \$23,230,000, which was 1 percent of Amtrak's tax refund. The TRA-97 and the subsequent Surface Transportation Revenue Act of 1998 (STRA-98) placed restrictions on the use of the monies by the six states. Generally, the monies were to be used for state transportation enhancements including aviation, highway, mass transit, rail, and waterway purposes.

Congressman Oberstar also expressed concern that South Dakota used TRA-97 funds to replenish the SD State Aeronautic Fund after the purchase of a state airplane, and may have violated the express provision of the TRA-97 and STRA-98 laws. The OIG investigation, which included a review of SD TRA-97 purchases and the language of TRA-97 and STRA-98, revealed that no violations of Federal law existed. The Audit of the remaining five states in receipt of TRA-97 funds revealed no violations.

2009 Presidential Inauguration Counter Surveillance Operation/Tactical Deployment

The OIG fielded teams of OIG law enforcement agents to work various assignments related to the 2009 United States Presidential Inauguration. On January 17, 2009, OIG agents worked Amtrak stations in Philadelphia, Wilmington, Baltimore, and Washington, D.C., providing counter-surveillance to protect President-elect Barack Obama and Vice President-elect Joseph Biden during their historic train ride to the nation's capital. OIG agents were employed in a tactical response mission alongside the United States Secret Service, providing vehicles and rapid response along the train route.



Bob Johnston, *Trains Magazine*

Significant Activities: Investigations

On January 19 and 20, 2009, OIG agents worked counter-surveillance missions in New York, Trenton, Philadelphia, Wilmington, Baltimore, Baltimore-Washington International Airport Train Station, New Carrollton, and Washington, D.C. OIG agents manned an OIG command post, maintained an event log, provided communications support, and assisted agents who were in the field.

Agents provided further counter-surveillance and security at Washington Union Station during a pre-Inaugural dinner for the president-elect on January 19, 2009, and during the Presidential Ball on the evening of January 20, 2009. The OIG Agents worked very closely with the United States Secret Service, Amtrak Police Department, and Amtrak's Office of Security Strategy and Special Operations (OSSSO) teams, and numerous state and local law enforcement entities with all missions being successfully completed without incident.

Revenue Protection

RPU-initiated Lead Service Attendant Reviews

During this reporting period, Revenue Protection Unit (RPU) analyzed the applicable support documents for on board food and beverage sales on 97 various Lead Service Attendants (LSA). These LSA reviews coupled with the completion of reviews from the previous reporting period

resulted in the distribution of 35 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 30 LSAs with discipline ranging from counseling to termination.

RPU-initiated Conductor Reviews

RPU conducted 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 review period, the RPU conducted a random sampling review based on 43 observations on trains in the Northeast Corridor using Ten-Trip tickets.

The review revealed failure or omission by Conductors and Assistant Conductors to follow policy and procedure in several areas that attribute to a negative impact to Amtrak's cash position. As a result of an Administrative Referral forwarded to the applicable Superintendents regarding these findings, all identified Conductors and Assistant Conductors were counseled on their failures and remedial training was provided to crew base personnel.



Bob Johnston, *Trains Magazine*

Amtrak Maintenance 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 three and a half 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 continues to monitor implementation and provides advice and recommendations to help Amtrak overcome implementation challenges and help insure that benefits are achieved.

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. In calendar year 2008, the delays associated with Acela equipment failures were reduced by 7 percent from the previous year. Efforts to improve on these initial successes and expand to other fleets of equipment are on-going.

Mechanical Maintenance Facility Rationalization and Process Improvement

Potential savings of more than \$5 million; and, overtime reduced by more than \$500,000

Some of the recommendations in the OIG 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. One of the improvement efforts that the OIG continues to support is the consolidation of P42 Diesel Locomotive maintenance to Chicago. Through consolidation and the implementation of a new, streamlined maintenance

philosophy, the OIG estimates maintenance costs can be reduced more than \$5 million per year.

In addition to this specific effort, the OIG is providing advice and assistance with process improvement and manpower utilization for turnaround servicing at Amtrak's major stations. At Washington D.C. alone, overtime expenditures have been reduced by more than \$500,000 during this six month period. As Amtrak implement these improvements at other locations the OIG is hopeful that Amtrak will achieve similar results.

Mechanical Maintenance Servicing Contracts

Under-Billing Commuter Agencies for Parts

\$1,068,044.85 to be recovered

While reviewing one of Amtrak's contracts for maintenance services in preparation for renegotiation, the OIG discovered that Amtrak had been erroneously under-billing one of the commuter agencies for maintenance parts. Based on this discovery, Amtrak retroactively billed the commuter agency for \$1,068,044.85 to cover a five year period of under billing.

Financial Impact of Equipment Delays

Report E-09-02 – issued 3/25/09

OIG-developed tool to assess the benefits of investing in equipment reliability improvement

As part of the OIG's continuing effort to improve the efficiency and effectiveness of Amtrak's rolling stock maintenance program, we noticed that Amtrak has had a difficult time quantifying the monetary benefits associated with investments in maintenance programs that improved equipment reliability. This information is essential to measure the financial benefits of proposed maintenance initiatives and to prioritize programs vying for scarce resources.

The OIG study provides Amtrak a tool to assess the economic benefits of investing in rolling stock maintenance initiatives to improve equipment reliability. The OIG has analyzed the impact that equipment related train delays had on FY '07 ticket revenue and have quantified the impact in terms of revenue loss per delay minute and total annual revenue loss by type of equipment. This information should be helpful in determining which equipment maintenance programs to focus on and in estimating the revenue gains that should be anticipated from any maintenance initiatives that positively impact equipment reliability.

Locomotive Camera Installations

Locomotive Camera Installation

OIG-initiated project expected to show significant reduction in settlement costs

The OIG is continuing to advise and assist on a project to install cab-mounted video cameras on all of Amtrak's locomotives. Freight railroads have shown that these types of cameras have made a huge difference in their ability to defend themselves in claims involving grade-crossing accidents, thereby significantly reducing settlement costs and court awards from these types of lawsuits.

This effort began as an OIG-initiated, limited-scope project to demonstrate and learn about the technology. Since then, cameras have been installed on more than 100 locomotives with another 100 to be completed by the end of the fiscal year. So far, five collisions have been captured by the cameras, clearly showing the cause of the incidents. The installation on the rest of Amtrak's locomotives is planned to follow in FY 2010.

Procurement and Material Supply Chain Management

Alstom Parts Contract

\$200,000 refunded

Amtrak entered into a contract with Alstom TLS in 2006 to supply and manage the parts inventory for the Acela trainsets. This contract has an estimated value of close to \$200 million over the five-year term. As reported previously, the OIG questioned whether Amtrak was getting proper credit for components returned to inventory after bench testing. Based on the OIG's inquiry, Amtrak received a credit of \$2,495,137.20 for overcharges during the period of September 2007 to February 2008. Since the last semiannual, Alstom and Amtrak have agreed on a new pricing methodology for bench test services, which has resulted in a further refund by Alstom of \$200,000 for payments made from March 2008 to August 2008.

Mechanical Supply Chain Effectiveness

At the request of the previous Vice President of Procurement, the OIG sponsored and helped to facilitate a major initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams were established to evaluate existing practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams reviewed existing processes and revised them to more align with industry best practices.



After the arrival of the new Vice President of Procurement, this initiative was transitioned into an overall continuous improvement effort solely managed within the current Procurement and Materials Management Department. The OIG agreed to provide limited additional support through May of 2009. At the conclusion of OIG involvement, the OIG will produce a report that will document the results achieved through this initiative and make recommendations on areas where additional opportunities for improvement are available.

Amtrak's Right-of-Way Maintenance

Amtrak's Right-of-Way Maintenance

Performance and costs benchmarked against European Railroads

As reported in the last semiannual, the OIG has been involved in a multi-year evaluation of the efficiency and effectiveness of Amtrak's right-of-way (ROW) maintenance programs. We recently completed an extensive comparison of Amtrak's performance and costs to that of several European rail passenger systems, which included site visits to discuss best practices with ROW maintenance companies in Sweden, Germany, Austria, Switzerland, Great Britain, and the Netherlands. The OIG is in the process of completing our report and will report in detail on our findings and recommendations in the next semiannual report.

Comparison of Amtrak's Infrastructure Labor Cost to European Railroad Averages

Report E-09-01 – Issued 3/24/09

Reasons for Amtrak's higher labor costs identified

As reported above, Amtrak's OIG is in the process of preparing a report that compares Amtrak's infrastructure maintenance expenses to that of a sample of European Rail Passenger Systems. During the cost comparison phase of this evaluation, it was determined that the annual cost of an Amtrak infrastructure worker is more than twice as much as the average European infrastructure worker. When the OIG briefed these preliminary results to the Amtrak President and CEO, he questioned why this was so.

The report explains the primary reasons Amtrak labor costs are so much higher than that of the average European worker. These reasons are that the Amtrak worker earns significantly more in extraordinary wages (overtime); and that, Amtrak pays more than four times more for employee benefits each year. As a percentage of the total difference between Amtrak and European labor costs, 51 percent of the variance in labor cost is due to Amtrak's higher benefit expenses, 30 percent due to higher extraordinary wages, and 19 percent due to higher base wages. A major contributing factor to the higher base wages and extraordinary wages is that, on average, Amtrak infrastructure workers work 32 percent more hours per year, including six times more overtime hours, than Amtrak's European counterparts.

Human Capital Management

Human Capital Management

Is Amtrak prepared for the Human Capital challenges facing it in the next five years?

This evaluation was initiated to evaluate how effectively and efficiently Amtrak manages its Human Capital throughout the company and how well it is prepared for the numerous Human Capital challenges facing it over the next five years. As part of this, the evaluation examined how Amtrak identifies its manpower needs and then how the company recruits, hires, develops and retains the required employees with the necessary skills to accomplish Amtrak's mission, goals, and objectives.

The field work and benchmarking have been completed and the team is currently drafting their final report, which will be detailed in the next Semiannual Report.

Fleet Utilization of Rolling Stock

Increasing Revenue for Acela

Opportunities for up to \$9 million of additional revenue identified

In August 2008, the OIG started a multi-year evaluation of how well Amtrak plans for and utilizes its fleet of rolling stock. Phase one of this evaluation reviewed how Amtrak projects its market demand, how it performs yield management, and how these two functions relate to the assignment of equipment to trains and routes. Initially the OIG focused on the utilization of Amtrak's Acela fleet.

Based on the OIG initial work, the OIG discovered opportunities where Amtrak could increase revenue on the Acela service with only a marginal increase in costs. The OIG presented these findings to the Acela Executive Oversight Committee. In both cases the committee approved the recommendations and actions are progressing to increase the number of trains operating on the weekends and to take actions to optimize ridership levels during peak demand periods. Based on FY08 revenues, OIG estimates these actions, when fully implemented, could result in up to \$9 million in additional revenue annually.

The OIG is in the process of documenting its initial findings and then will start to focus the OIG analysis on the Northeast Corridor Regional fleet of equipment.

Revenue Protection Initiatives – OIG continuing involvement

Onboard Service Oversight

Amtrak employees handle approximately \$110 million annually in on-board ticket and food and beverage sales. A number of these dollars are continually at risk with respect to fraudulent employee behavior. Thus, the OIG continues to work closely with the Transportation, Service Operations and the Marketing and Product Management departments to advise on conductor and onboard service (OBS) remittance policies, OBS accounting policies and procedures, pro-active strategies for safeguarding Food and Beverage (F&B) inventory, and commissary operations.

The OIG participates directly on a number of steering teams – the Point of Sales Change Management Working Group, the F&B Loss Prevention Working Group, the City of New Orleans (CONO) Pilot Team and the Amtrak Revenue Procedures Oversight and Protection Committee (ARPOPC).

Harassment and Intimidation Complaints

Harassment and Intimidation

Three allegations reviewed with one substantiated

During this reporting period, the OIG concluded its review of three allegations received during the previous reporting period. The OIG issued two letters of no findings, whereby the OIG concluded that the employee was not harassed or intimidated by management as defined by FRA 49 CFR 225.33.

The OIG issued one letter of finding to senior management whereby the OIG concluded that even though an injured employee received the proper medical treatment, his manager engaged in behavior that *could be construed* as "harassing or intimidating conduct by an employee that is calculated to discourage or prevent any individual from receiving medical treatment." Management agreed with the OIG findings and immediately addressed these concerns administratively with the employee's manager.

FY 2009 PERFORMANCE MEASURES

10/01/08 – 3/31/09

Audit Results	Total
Congressional Testimony	0
Costs Questioned/Funds to be Put to Better Use	\$5,526,873
Management Decisions to Seek Recoveries	\$1,372,776

Investigative Results	Total
Indictments/Informations	2
Convictions	5
Fines	0
Court Ordered Restitutions/Civil Judgments/Administrative Restitution	\$582,437
Recoveries	0
Years Sentenced	1.25
Years Probation	3
Years Supervised Release	1
Hours of Community Service	0
Personnel Actions – Termination from Employment	2
Personnel Actions – Other Discipline	1
Debarments and Other Administrative Action	n/a
Hotline Complaints Received	21
Hotline Complaints Investigated by OIG	12
Hotline Complaints Referred to Operating Administrations or Other Agencies	9

FY 2009 ADVISORY FUNCTIONS

10/01/08 – 3/31/09

Advisory Functions	Total
FOIA Requests Received	0
FOIA Requests Processed	0
Legislation Reviewed	6
Regulations Reviewed	1





Appendix 1

**OFFICE OF INSPECTOR GENERAL
AUDIT REPORTS ISSUED WITH QUESTIONED COSTS**

10/1/08 – 3/31/09

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	6	\$1,086,633	\$0
B. Reports issued during the reporting period.	6	\$1,477,025	\$0
Subtotals (A + B)	12	\$2,563,658	\$0
LESS			
C. For which a management decision was made during the reporting period.	7		
(i) dollar value of recommendations that were agreed to by management.		\$1,372,776	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$126,566	\$0
D. For which no management decision has been made by the end of the reporting period.	5	\$1,064,316	\$0

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

10/1/08 – 3/31/09

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	1	\$1,300,000
B. Reports issued during the reporting period.	13	\$4,049,848
Subtotals (A + B)	14	\$5,349,848
LESS		
C. For which a management decision was made during the reporting period. (i) dollar value of recommendations that were agreed to by management. (ii) dollar value of recommendations that were not agreed to by management.	2	\$3,966,352
D. For which no management decision has been made by the end of the reporting period.	2	\$1,383,496

Appendix 3

OFFICE OF INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

10/1/08 – 3/31/09

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
12/3/2008	101-2008	Internal Use Computer Software Costs	\$-	\$-	\$-
10/1/2008	102-2007	Accident/Incident Reporting to FRA	\$-	\$-	\$-
1/30/2009	106-2008	Amtrak Uniform Inventory	\$-	\$-	\$-
3/31/2009	201-2009	CMI Promex, Inc. B 073 14595	\$16,504.00	\$-	\$83,496.00
11/5/2008	204-2008	New Jersey Transit - Maintenance of Equipment Services	\$777,394.00	\$-	\$-
1/15/2009	208-2007	Food & Beverage Incentive Payment Review	\$161,780.00	\$-	\$3,193,307.00
11/14/2008	216-2007	Car Hire/Demurrage Expenses	\$13,849.00	\$-	\$773,045.00
12/23/2008	217-2008	FY 2008 MW Inventory Observation	\$-	\$-	\$-
2/23/2009	219-2008	Cycle Inventory Observation - Astoria, NY	\$-	\$-	\$-
12/22/2008	301-2009	Providence Station Audit	\$-	\$-	\$-
2/26/2009	502-2008	Stations - Transportation Certificates	\$-	\$-	\$-
2/6/2009	503-2008	Fuel Supply to LAX - General Petroleum	\$52,184.00	\$-	\$-
3/18/2009	505-2009	Southern Pacific Transportation Company (SP)-Diesel Fuel and Fuel Handling, Jan 1997-Dec 1999	\$455,314.00	\$-	\$-
TOTALS			\$1,477,025	\$-	\$4,049,848

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

10/1/08 – 3/31/09

Nothing to report this period.

OFFICE OF INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

10/1/08 – 3/31/09

Section (4)a of the Inspector General Act of 1978, 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 programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.”

Furthermore, Section 4(a) states that it is “the duty and responsibility of the Inspector General “to recommend policies for, and to conduct, supervise, or coordinate relationships between such establishment and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to (A) all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by such establishment, or (B) the identification and prosecution of participants in such fraud or abuse.”

In order to enhance the OIG’s ability to meet these Section (4)a, responsibilities, the OIG created during the last reporting period a new group, Management and Policy, to ensure compliance with current and emerging legislation, and government regulations, directives, and mandates. Management and Policy is the primary liaison with the Government Accountability Office, and other government departments and agencies.

In addition, the OIG has an agreement with Amtrak’s Government and Public Affairs Department that allows the OIG to review and comment on the company’s annual grant and legislative request, and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed, as necessary, as a part of every audit, inspection and evaluation, and investigation.

During the period covered by this report the OIG continued to cooperate with and monitor Congressional efforts to draft and enact High Speed Rail legislation, as well as other legislation intended to provide additional funding for Amtrak. The specific legislation reviewed was:

Public Law 111-8

The “Omnibus Appropriations Act, 2009” passed by Congress and signed by the President in March of 2009, providing appropriations for all agencies and activities that would be covered by the regular fiscal year 2009 appropriations bills. The Omnibus Appropriations Act funds the OIG at our fiscal year 2008 level of \$18,500,000 for 2009 or \$1,500,000 below the newly authorized level for FY 2009. The OIG continues to work with the Appropriations Committees to ensure that we are fully funded at our authorized level in order to fulfill our mandate responsibilities.

Public Law 111-5

“American Recovery and Reinvestment Act of 2009” commonly referred to as the stimulus bill passed both chambers of Congress and was signed by the President in February of 2009. H.R.1 provided \$1.3 Billion for Amtrak, \$845 million for Capital Grants, \$450 million for Security Grants and \$5 million for the Office of Inspector General.

Public Law 110-432

The “Passenger Rail Investment and Improvement Act of 2008” was signed by the President on October 16, 2008. PRIIA was the first Amtrak reauthorization in 12 years and the first to include a separate five year authorization for the Amtrak Office of Inspector General. The reauthorization also included language that clearly restated Amtrak’s authority to use the General Service Administration for all services provided by GSA to other Federal Departments under sections 502(a) and 602 of title 40, United States Code.

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms the OIG use in reporting audit statistics are defined below:

Questioned Cost -- 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 -- 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 the OIG audit finding and its final decision concerning agreement or non agreement with the OIG recommendation.

Abbreviations/acronyms used in the text are defined below:

AcSEC	Accounting Standards Executive Committee of the American Institute of Certified Public Accountants	MOU	Memorandum of Understanding
Amtrak	National Railroad Passenger Corporation	NRPC	National Railroad Passenger Corporation (Amtrak)
APD	Amtrak Police Department	NJT	New Jersey Transit
APP	Appendix	OBS	Onboard Service
ARPOPC	Amtrak Revenue Procedures Oversight and Protection Committee	OIG	Office of Inspector General
ARRA	American Recovery and Reinvestment Act of 2009	OSSSO	Office of Security, Strategy and Special Operations
CEO	Chief Operating Officer	OTP	On Time Performance
CFR	Code of Federal Regulations	PO	Purchase Order
COO	Chief Operating Officer	P.L.	Public Law
CONO	City of New Orleans	PRIA	Passenger Rail Investment and Improvement Act of 2008
DIG	Deputy Inspector General	RCM	Reliability-centered Maintenance
F&B	Food and Beverage	ROW	Right-of-way
FRA	Federal Railroad Administration	RPU	Revenue Protection Unit
FY	Fiscal Year	SNS	Salinas Amtrak Station
GAAP	Generally accepted accounting principles	SOP	Standard Operating Procedures
G&A	General and Administrative	SP	Southern Pacific
GP	General Petroleum Corporation	STRA-98	Surface Transportation Revenue Act of 1998
GSA	Government Services Administration	TC	Transportation Certificates
HHP	High Horse Power	TPMS	Train Provisioning Management System
HR	Human Resources	TRA-97	Taxpayer Relief Act of 1997
LSA	Lead Service Attendant	UP	Union Pacific
		U.S.C.	United States Code

Reporting Requirements Index

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