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Semiannual Report to Congress

Report #41 ★ 10/01/09 - 3/31/10



ON THE COVER

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I am pleased to present the first Semiannual Report to Congress since my appointment as Amtrak Inspector General in November 2009. In addition to reporting on the Office of Inspector General's (OIG) accomplishments during the six-month period ending March 31, 2010, I am identifying several significant challenges the OIG faces and the ongoing and planned actions we are pursuing to overcome the challenges.

Significant Accomplishments

During this semi-annual reporting period, the OIG continued to identify opportunities to reduce costs, improve management operations, enhance revenue, and institute more efficient and effective business processes. For example:

- ★ An OIG audit of the monthly on time performance (OTP) bills and schedules from April 1993 through April 2004 disclosed that CSX inaccurately billed Amtrak resulting in \$20,052,519 in questioned costs. This occurred because CSX did not comply with the provisions of the operating agreement and routinely submitted inaccurate billings.

We also found that Amtrak did not perform a complete and thorough review to verify the OTP incentives billed by CSX prior to approving them for payment. In our August 2008 report, we advised Amtrak the invoices from host railroads were not reviewed prior to payment. Specifically, we reported that management controls were inadequate and ineffective and host railroads had consistently over billed Amtrak. Although management agreed to thoroughly review bills before making payment, nearly two years later Amtrak had not implemented our recommendations. We estimate, based upon our audit work over the last 10 years, the potential cost to Amtrak of not establishing effective controls over the OTP incentive review and payment process is about \$5 million a year.

We recommended that Amtrak recover the \$20,052,519 from CSX and make a commitment and provide a plan with milestone dates for implementing corrective actions. Amtrak agreed that a thorough review to verify OTP incentives billed by host railroads should be performed prior to paying the invoice and in April 2010 provided an action plan with milestone dates.

- ★ Our October 2009 evaluation report, found that because Amtrak's training program is largely decentralized, it cannot ensure that training efforts are aligned to meet the company's strategic needs. We also found that Amtrak needs to develop an effective corporate-wide strategy for developing management employees to assume the future leadership roles in the company.

We made a series of recommendations to improve the effectiveness and efficiency of training and employee development, focusing on developing and implementing a corporate-wide training and employee development strategy. This would ensure that training aligns with the overall corporate strategy and provides employees with the skills needed to assume leadership roles in the future.

Management recently agreed with all of our recommendations and provided a plan to implement them. It is important, however, for management to stay focused on making near-term improvements, because effective training and development practices will be a key component of Amtrak's ability to deliver high quality services.

- ★ The Office of Investigations was instrumental in securing convictions and restitutions in multiple theft schemes. The courts ordered three former Amtrak employees to pay \$183,863 in restitution to the company for theft schemes involving train provisioning and Fleet credit cards.

Significant Challenges Facing the OIG

A critical element for ensuring that the OIG can effectively perform the independent role mandated by the Inspector General Act of 1978, (IG Act) is a professional and effective working relationship between the OIG and Amtrak management. Unfortunately, there was a breakdown in this relationship prior to my appointment, and rebuilding a professional and effective relationship presents a number of challenges.

In response to the relationship breakdown, Amtrak management took a number of actions to limit or control the OIG's access to people and information and some of the actions were inconsistent with the spirit, and perhaps the letter of the IG Act.

The seeds of the breakdown may have been planted in management's original expectations for the OIG when the organization was formed, and in response, the manner in which the OIG implemented the IG Act. For example, when the OIG was formed in April 1989, it was designated as the "Department of Internal Affairs (Office of Inspector General)" and its authority was limited to performing internal audits and investigations. Until March 2010, when it was revised, the policy governing the relationship between Amtrak management and the OIG was still listed under the heading "Office of Internal Affairs (Office of Inspector General)". Although the Amtrak OIG conducted many independent and objective audits, evaluations, and investigations over the years, much of its work, even up to the present, consisted of internal audit and review functions.

Message from the Inspector General

In addition, the Amtrak OIG was heavily involved in management functions, including participating extensively in management decision making, serving as a first level of management controls, and helping to implement OIG recommendations for management. The OIG's focus on internal review functions and its heavy involvement in management functions were also inconsistent with the spirit, and perhaps the letter of the IG Act.

Moreover, this involvement likely led over time to mutual confusion, conflict, and resentment about the respective roles of management and the OIG that contributed to the breakdown in relationships. While these factors do not justify management's actions to deal with the OIG, hopefully, they provide an additional perspective about the underlying issues.

Actions to Overcome Challenges

I am pleased to report that Amtrak management and the OIG made significant progress overcoming these relationship issues by (1) developing a new relationship policy that fully meets the letter and spirit of the IG Act, (2) withdrawing the OIG from performing management functions, and (3) rebuilding relationships among Amtrak and OIG managers and staff.

The Fiscal Year 2010 Consolidated Appropriations Act (Public Law 111-117) also called for an Inspector General (IG) who is a member of the Council of the Inspectors General on Integrity and Efficiency to determine that the new relationship policy is consistent with the letter and the spirit of the IG Act. Carl Clinefelter, Inspector General of the Farm Credit Administration, conducted an evaluation and determined: "the Corporation and the IG have agreed to a set of policies and procedures for interacting with each other that are consistent with the letter and the spirit of the Inspector General Act of 1978, as amended."

Moreover, no instances of resistance to or restrictions on OIG oversight have occurred since my appointment in November 2009. Also, all significant stakeholders I have talked to — the Board of Directors, the president and other senior executives of Amtrak; as well as Congressional authorization, oversight, and appropriations committees, OMB, GAO, and the Department of Transportation OIG — agree that an effective Amtrak OIG, operating in the mainstream of the IG community, is an important oversight and accountability mechanism that contributes significantly to improved Amtrak operations.

The OIG has several other initiatives under way to strengthen our operations and ensure that we operate efficiently and effectively.

First, I made two organizational changes to improve the OIG's effectiveness and bring its operations closer

to the mainstream of the IG community. The following organizational changes took effect on February 1, 2010:

- ★ I created a new position of Deputy IG and named Tom Howard, former Deputy IG at the National Aeronautics and Space Administration, to fill that demanding job.
- ★ I also separated the previously consolidated roles of Assistant Inspector General Investigations and OIG Counsel into two positions: An Office of General Counsel is now led by the incumbent Colin Carrierre, and an Office of Investigations is led by Adrienne Rish, former Assistant Inspector General for Investigations at the U.S. Agency for International Development. This change is consistent with roles and responsibilities throughout the IG community and should improve our effectiveness.

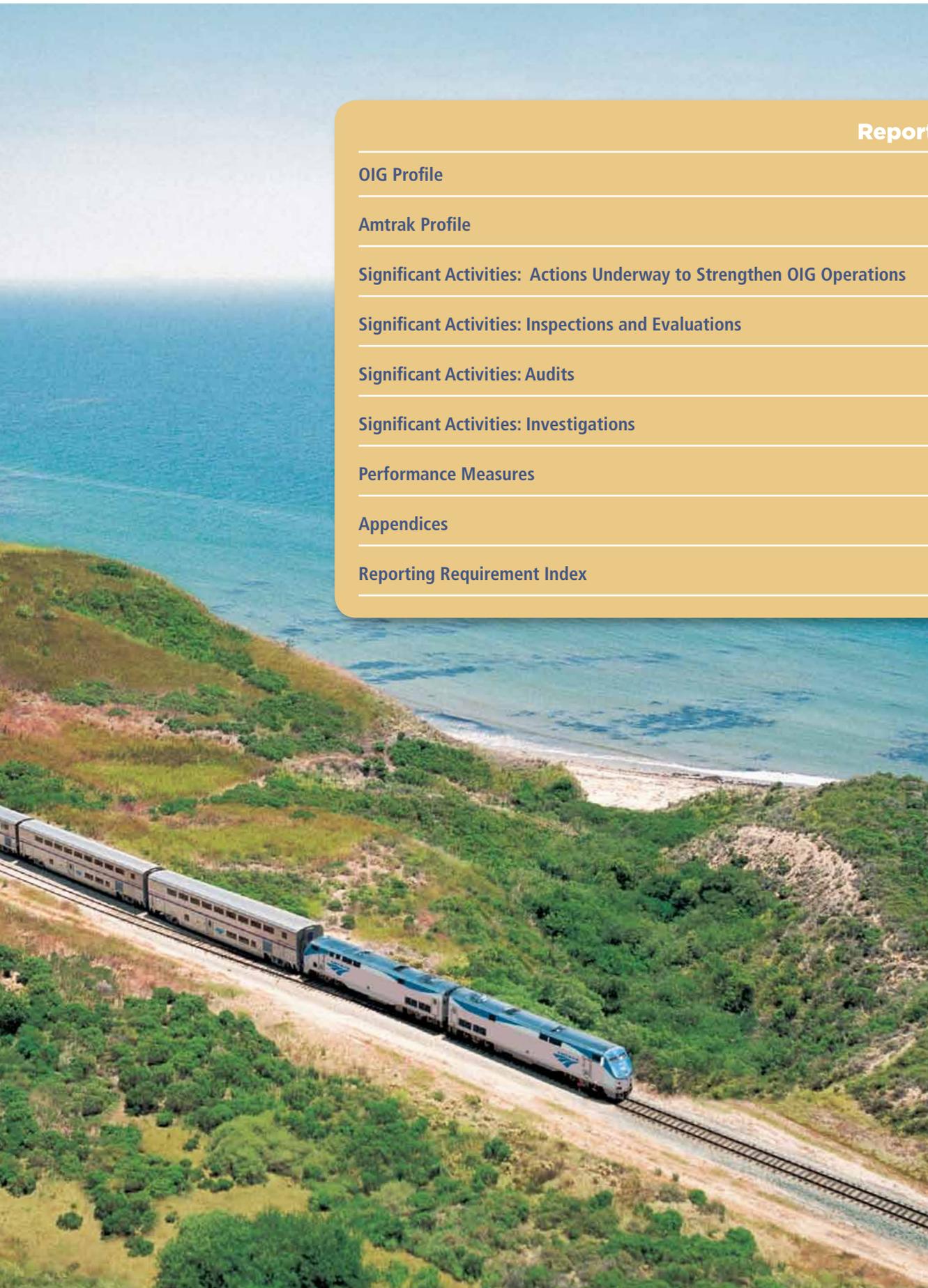
Second, on March 16, 2010, we issued a new strategic plan that sets forth the OIG's priorities for promoting positive change and assuring that our work supports the company's efforts to achieve its strategic goals. It also includes an important OIG goal, which is to lead by example by creating a model OIG organization.

Third, to help us advance our strategic goal of becoming a model OIG, I have engaged the National Academy of Public Administration (NAPA) to conduct an organizational assessment of the Amtrak OIG. This assessment will help identify the OIG's core organizational strengths and weaknesses, and then develop specific, prioritized actions to improve OIG processes, policies, and management practices.

Fourth, it is the policy of the Amtrak OIG that our audit work will comply with the 2007 revision of Generally Accepted Government Auditing Standards. To that end, I have initiated a complete update of our audit and evaluation policies and procedures. Until those new policies and procedures are implemented, which we expect to occur by September 30, 2010, I have instituted interim controls to ensure that our work meets standards.

In conclusion, I want to thank the Chairman, Board members, the president and other senior executives of Amtrak, and the House and Senate authorization, oversight, and appropriations committees, for the support and assistance they have provided in advancing our mutual objective of overcoming the challenges the Amtrak OIG has faced and positioning the OIG to contribute even more to fostering improvements in Amtrak operations. I also want to acknowledge Fred Weiderhold's more than 30 years of dedicated service to Amtrak, including 20 years as the Amtrak Inspector General. Fred retired in June 2009 with a solid reputation throughout the company of being dedicated to advancing Amtrak's mission.

Ted Alves
Amtrak Inspector General



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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.

Mission

The OIG will conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to Amtrak's programs and operations; promote economy, effectiveness and efficiency within Amtrak; prevent and detect fraud, waste, and abuse in Amtrak's 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.

Authority

The Inspector General Act of 1978 (Public Law 95-452, 5 U.S.C. Appendix 3), as amended in 1988 (P.L. 100-504), established the Office of Inspector General for Amtrak to consolidate existing investigative and audit resources into independent organizations headed by an Inspector General (IG) to promote economy, efficiency, and effectiveness; and, prevent and detect fraud, waste, and abuse. Subsequently, the Inspector General Reform Act of 2008 (Public Law 110-409) amended and strengthened the authority of the Office of Inspector General to:

- ★ Conduct and supervise independent and objective audits, inspections, evaluations, and investigations, relating to Amtrak programs and operations;
- ★ Promote economy, efficiency, and effectiveness within Amtrak and the OIG;
- ★ Prevent and detect fraud, waste, and abuse in Amtrak programs and operations;
- ★ Make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations; and,
- ★ Keep the Board of Directors and Congress fully and currently informed of problems in company programs and operations.

Guiding Principles and Values

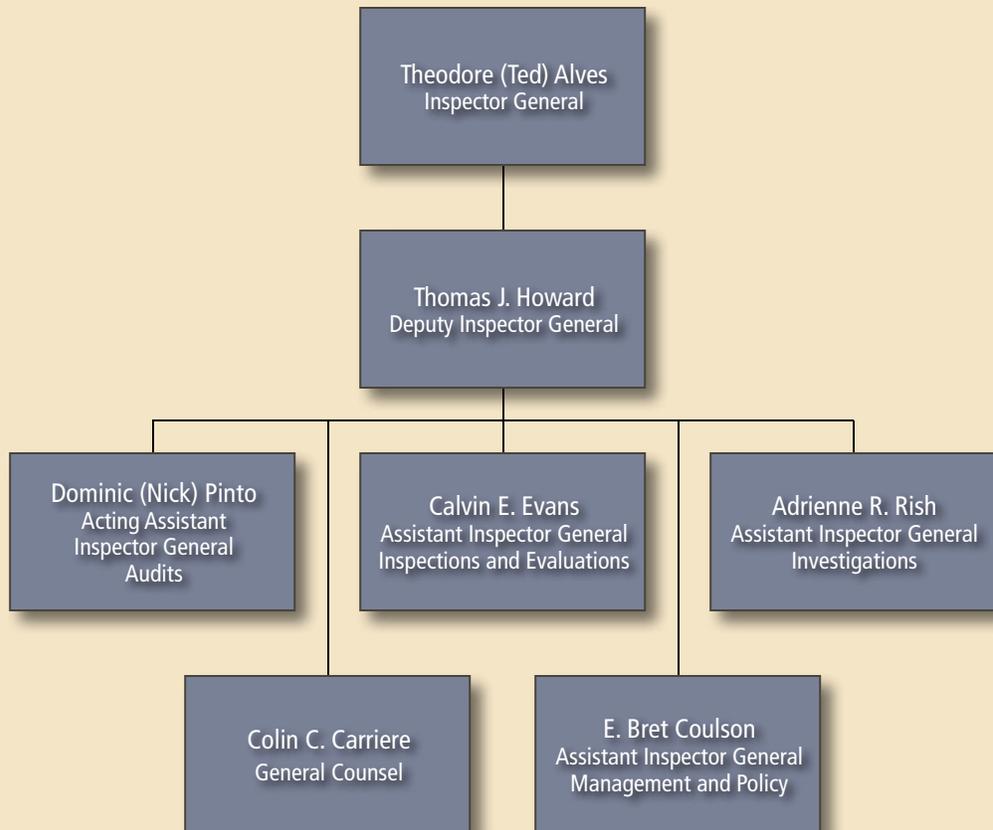
OIG principles and values are important because they form the building blocks used to accomplish its mission and conduct its day-to-day operations:

- ★ **Quality, Relevant, and Timely** — Provide valuable and timely service. Work products are high quality, relevant, timely, and add value and are responsive to the needs of Amtrak, and its stakeholders;
- ★ **Independence and Objectivity** — Be committed to carry out its mission with objectivity and independence, both in appearance and fact. Conflicts, improper influence, or other impediments do not interfere with our work;



- ★ **Customer Service** — Strive to be aware of the needs of stakeholders and work with Amtrak's chairman, the Board of Directors, and the Congress to improve program management;
- ★ **Innovation** — Be innovative, question existing procedures, and suggest improvements. New ideas and creativity are fundamental to continued growth, development, and problem solving;
- ★ **Respecting and Developing People** — Create an environment that supports gathering, sharing, and retaining knowledge, fosters treating everyone fairly and with mutual respect through words and actions, ensures professional growth, and values the diverse backgrounds, skills, and perspectives of employees; and,
- ★ **Professionalism** — Be committed to our professional standards and will foster relationships with stakeholders that rely on communication and cooperation. Relationships with program managers are based on a shared commitment to improving program operations and effectiveness.

Office of Inspector General



The OIG headquarters is in Washington, D.C. with seven field offices in Baltimore, Boston, Chicago, Los Angeles, New York, Philadelphia and Wilmington, DE. The chart on the previous page reflects the OIG organizational structure.

Inspector General/Deputy Inspector General

The Inspector General provides policy direction and leadership for Amtrak’s Office of Inspector General and serves as an independent voice to the Chairman of the Board and Congress by identifying opportunities and promoting solutions for improving the company’s performance. The Deputy Inspector General assists the Inspector General in development and implementation of the OIG’s diverse audit, investigative, legal, and support operations

General Counsel

The General Counsel is responsible for providing legal assistance and advice to OIG senior management and supports audits, evaluations, special reviews, and investigations. Counsel 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.

Audits

The Office of Audits conducts independent and objective audits and reviews of Amtrak’s programs and recommends improvements to better safeguard

its assets, and to improve programs and operations including contractor activities.

Inspections and Evaluations

The Office of Inspections and Evaluations (I&E) conducts targeted inspections and evaluations of Amtrak programs and operations to identify opportunities to improve cost efficiency and effectiveness, and the overall quality of service delivery throughout Amtrak.

Investigations

The Office of Investigations investigates allegations of fraud, waste, abuse, and misconduct that could have an impact on Amtrak’s programs, operations, assets and other resources. Investigative findings are referred to the Department of Justice for criminal prosecution and civil litigation, or to Amtrak management for administrative action. The office develops recommendations to reduce Amtrak’s vulnerability to criminal activity.

Management and Policy

The Office of Management and Policy (M&P) provides financial management, procurement, human capital management, administrative, and information technology support to the OIG.



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 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) 2009 Amtrak carried approximately 27.2 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. The first quarter of FY 2010 saw the best first quarter ridership in Amtrak history carrying nearly 7.2 million passengers.

In terms of market-share, Amtrak serves 61 percent of the combined airline-intercity rail market between Washington, D.C., and New York City. The market share of the New York-Boston corridor increased from 39 percent to 50 percent. And the Los Angeles to San Diego market share rose from 73 percent to 97 percent.

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 19,800 persons, of whom more than 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.



Significant Activities: Actions Underway to Strengthen OIG Operations

A critical element for ensuring that any Office of Inspector General (OIG) can effectively perform the independent oversight role mandated by the Inspector General Act (IG Act) is a professional and effective working relationship between the OIG and management. With the appointment of the new Inspector General in November 2009, we have made significant strides in building an effective working relationship with management and embarked on several initiatives to strengthen OIG operations.

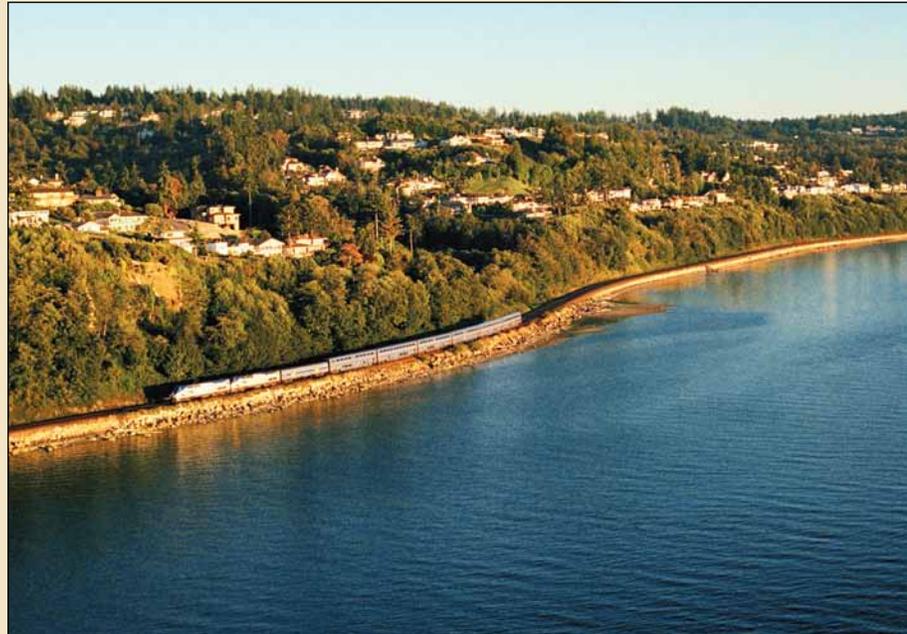
New Relationship Policy is Consistent with the Inspector General Act

On March 4, 2010, Amtrak management and the IG reached agreement on a new relationship policy. The policy establishes the responsibility and authority of the Amtrak OIG, the general principles for ensuring a productive relationship between the OIG and the rest of the company, and summarizes the OIG processes for conducting audits, evaluations, and investigations.

The Fiscal Year 2010 Consolidated Appropriations Act (Public Law 111-117) called for an Inspector General (IG) who is a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to determine that Amtrak and its IG have agreed on a set of policies for interacting with each other that are consistent with the letter and the spirit of the IG Act. Carl Clinefelter, Inspector General of the Farm Credit Administration, conducted the review required by the Appropriations Act and determined that:

- ★ The Corporation and the IG have agreed to a set of policies and procedures for interacting with each other that are consistent with the letter and the spirit of the Inspector General Act of 1978, as amended.
- ★ As a result, Amtrak and the OIG are now positioned to build a constructive relationship that will enable the Amtrak Office of Inspector General (OIG) to operate unhindered in its role of: 1) promoting economy, efficiency, and effectiveness; 2) preventing and detecting fraud, waste, and abuse; and, 3) providing a means for keeping the head of the entity and Congress fully and currently informed about the problems and deficiencies relating to Amtrak's programs and operations.
- ★ Amtrak will benefit by having a properly functioning OIG that remains independent of Corporation programmatic activities and, thus, able to provide objective assessments and recommendations regarding Amtrak operations.

The Appropriations Act further provides that one year after the above determination, the CIGIE shall appoint another member to evaluate the operational independence of the Amtrak IG.



National Academy of Public Administration Engaged to Conduct OIG Organizational Assessment

On March 16, 2010 we completed the Amtrak OIG Strategic Plan for fiscal years 2010 to 2014. The plan sets forth the OIG's strategic priorities to promote positive change, maximize efficiency and value in our work, and lead by example in creating a model organization. In order to help us achieve those goals, particularly creating a model organization, we have engaged the National Academy of Public Administration (NAPA) to conduct an organizational assessment of the Amtrak OIG. This assessment is intended to help us identify our core organizational strengths and weaknesses, and then develop specific, prioritized actions to improve OIG processes, policies, and management practices.

NAPA is a non-profit, independent fellowship comprised of top policy and management leaders, and it has conducted similar organizational assessments at other OIGs. NAPA understands the unique challenges facing OIG operations and is equipped to assist us in identifying our distinct capabilities and obstacles, as well as gaining insight into best practices within the accountability community.

The methodology that NAPA is using in conducting the assessment includes an online survey to capture input from all OIG staff. NAPA is interviewing selected stakeholders, both internal and external to Amtrak, to solicit their views on the impact of the Amtrak OIG's work and areas where our contributions could be enhanced.

Significant Activities: Actions Underway to Strengthen OIG Operations

The survey addresses work processes, leadership, communications and other areas related to working in the Amtrak OIG, and builds upon interviews conducted with the senior leadership team. In addition, NAPA and Amtrak OIG staff are meeting with Inspectors General from other organizations to benchmark best practices that maximize their efficiency and effectiveness in audits, inspections and evaluations, and investigations

NAPA is scheduled to complete a draft of its organizational assessment by the end of July, and to produce a final report in August 2010.

Actions Taken to Ensure Audit Work Complies with Government Auditing Standards

On September 30, 2009, we received a report from the Legal Services Corporation IG's peer review of the system of quality control for the audit function of the Amtrak OIG. While we received a passing rating it was with deficiencies. A deficiency is one or more finding that due to their nature could create a situation in which the Amtrak OIG would not have reasonable assurance of

performing or reporting in conformity with professional standards in one or more aspects. Specifically the peer review team found that the:

- ★ quality control system requirements need to be followed and all quality control requirements need to be made mandatory for limited scope audits; and,
- ★ system for monitoring continuing professional education (CPE) did not ensure that all audit staff obtained the appropriate CPE credits to meet Government Auditing Standards requirements.

Although the Amtrak OIG agreed to completely revise the Audit Policy Manual and training policies by March 31, 2010, those efforts were not completed. Therefore, by a memo dated April 12, 2010, the Amtrak IG implemented interim changes in audit processes, quality control, and training procedures. The IG emphasized that it is the policy of the Amtrak OIG that our audit work will comply with the Government Auditing Standards, 2007 revision. We also instituted a revised process for updating our audit and training policies.

Training and Employee Development – *corporate-wide strategies have not been developed to ensure current decentralized efforts are adequate to meet the needs of Amtrak in the future*

Report E-09-06 – Issued 10/26/2009

We found that training at Amtrak was managed and conducted in a largely decentralized manner. In 2008, Amtrak's 19,000 employees received more than 670,000 hours of training, an average of about 35 hours of training per employee. We estimate that Amtrak spends between \$40 million and \$45 million on training each year.

During this review, we found many hard-working people involved with training. This resulted in some excellent training being conducted. However, since training was decentralized and mainly driven by the individual department's requirements, it was not consistently required or delivered throughout the corporation. In addition, the decentralization of training at Amtrak appears to make training more expensive than at other similarly sized companies.

Part of the reason for the inconsistency between departments is that there is no individual or organization charged with overseeing all training at Amtrak. Furthermore, there is currently no corporate-wide training strategy or program to ensure that the efforts are aligned to meet the strategic needs of Amtrak in the future. For the railroad to work effectively, all employees must be properly trained to do their jobs, not just those in some positions at some locations or in some departments.

In addition to the lack of a corporate-wide training program, there was also no integrated corporate-wide career development program for management employees. Over the last 10 years, only once out of eight times has an internal candidate been selected for an opening in one of the top three leadership positions in the company (CEO, COO, or CFO) and, at the time of the report, only two of the ten members of the Executive Management Committee came from jobs from within Amtrak.

Without a corporate-wide management career development program, Amtrak will continue to be faced with senior managers who apparently do not have the appropriate attributes, education, experiences or management skills needed to assume the senior-most leadership roles in the company.

Corporate training programs will improve senior leadership potential of Amtrak employees.

We made a series of recommendations to improve the effectiveness and efficiency of training and employee development, focusing on developing and implementing a corporate-wide training and employee development strategy. This ensures that training aligns with the

overall corporate strategy and provides employees with the skills needed to assume leadership roles in the future.

Management recently agreed with all of our recommendations and provided a plan to implement them. It is important, however, for management to stay focused on making near-term improvements, because effective training and development practices will be a key component of Amtrak's ability to deliver high quality services.

Procurement and Material Supply Chain Management –

OIG review of parts supply contract results in additional credit of \$1,352,557

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 \$3,271,074.95 for overcharges during the period of September 2007 to August 2008.

Our current analysis and review led to an agreement with Alstom to provide an additional credit of \$1,352,557 for overcharges during this period. The credit will be liquidated against future Amtrak purchases or settlements.

Analysis and review led to \$1,352,557 in savings.

Amtrak Mechanical Maintenance Operations – *Management continues to incur benefits from implementing previous recommendations*

In September 2005, we issued report E-05-04 on Amtrak's Mechanical Maintenance Operations. We 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. We recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past four and a half years we have been monitoring the Mechanical Department's implementation of our recommendations.

One effort that we monitored during this reporting period was with process and manpower utilization improvement for turnaround servicing at Amtrak's major stations.

To date, productivity improvements at five of Amtrak's maintenance locations have generated more than \$7 million in benefits (reduced overtime, vacant positions not filled, or labor made available for other work). About

Significant Activities: Audits

\$3 million of these benefits were reported in previous semiannual reports.

CSX On-time Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments

Questioned Costs: \$20,052,519

Audit Report 406-2005 – Issued March 30, 2010

CSX Transportation Inc. (CSX) billed Amtrak over \$171 million from April 1993 through April 2004 (our audit period) of which \$34 million was for on-time performance (OTP) incentives for operating passenger trains on-time more than 80 percent of the time during a month. The remainder, \$137 million, was for services CSX rendered for operating Amtrak passenger trains over its tracks. The \$34 million billed by CSX for OTP incentives is the subject of this report.

CSX has a responsibility to comply with the terms of the operating agreement by accurately billing and supporting the amounts billed for OTP incentive payments and services. We reviewed all the agreements and corresponding amendments between CSX and Amtrak applicable to the audit period and analyzed the supporting documents for OTP incentives billed by CSX.

**Amtrak
overpaid CSX
\$20,052,519
for On-Time
Performance
incentives.**

We found that CSX over billed Amtrak by \$20,052,519 for OTP incentives. This occurred because CSX did not bill Amtrak for OTP incentives in compliance with Appendix V of the operations agreement. Specifically, CSX did

not provide documentation to support its OTP incentive claims and submitted inaccurate claims for departure and arrival times, and tolerances - such as, station, extra car, recovery time base, miscellaneous, curfew/maintenance of way, and Do Not-Count tolerances claimed.

We also found that Amtrak's Transportation Operations Management group did not perform a complete and thorough review to verify the OTP incentives billed by CSX prior to approving them for payment. In our August 2008 report, we advised Amtrak that invoices from host railroads were not thoroughly reviewed prior to payment. Specifically we reported that management controls were inadequate and ineffective and host railroads had consistently over billed Amtrak. We reported that management is responsible for establishing adequate systems of internal controls over its operations to provide reasonable assurance that Amtrak's assets are protected.

We recommended, among other actions, that Amtrak perform thorough and complete reviews of host railroad bills prior to payment. Although management agreed to thoroughly review bills before making payments, nearly two years later management has not implemented our

recommendations. We estimate, based upon our audit work during the last 10 years, the potential cost to Amtrak of not establishing effective and adequate controls over the OTP incentive review and payment process has cost Amtrak about \$5 million per year on average.

We recommended that Amtrak management recover the \$20,052,519 CSX over billed Amtrak for OTP incentives and make the funding commitment and provide a plan with milestone dates for implementing corrective actions. Management agreed with both recommendations and provided an action plan in April 2010.

Improvements Needed in Vendor Repair and Return Process

Audit Report 04-2008 – Issued March 23, 2010

Amtrak's Vendor Repair and Return (R&R) process includes the replenishment, distribution and disposal of train equipment parts/components (parts). One of Amtrak's major initiatives is to maintain its fleet and infrastructure in a state of good repair of which the vendor R&R process is an essential part. Continuous monitoring and follow-up on open R&R purchase orders (POs) with vendors is essential to maintain the Amtrak fleet and to ensure on-time performance and reliability. The Chief Logistics Officer in Procurement manages the Vendor R&R process.

The audit objectives were to determine whether inactive (open) purchase orders for R&R parts are closed on a timely basis and, if internal controls for the R&R processes including warranty repairs are effective. Our scope included R&R expenditures of \$7.68 million for FY 2008.

Our audit disclosed that there were 490 open POs for R&R parts for FY 2008 that were past the

promised delivery date. This occurred because Amtrak did not have guideline specifying the responsibility for tracking open R&R purchase orders or for following up with vendors on the status of overdue part repairs. Amtrak's exposure for not tracking open R&R purchase orders may lead to a delay in the performance of critical maintenance work and the maintenance of higher inventory levels.

Our audit also found contracting agents did not consistently compare the cost of repairing a part to the price of purchasing a new part. Procurement personnel follow a procedure, although not written in any policy or guideline, that if the cost of repairing a part is less than 70 percent of the price of a new part, the part should be repaired. We compared the new price of 15 sample items with the cost for repairing items and determined the cost of repair for 3 of the 15 items exceeded the 70 percent

**Vendor Repair
and Return
policies and
procedures need
improving.**

threshold. We could not make a similar comparison for 15 other sample items because the price of the new part had never been entered into the automated procurement system. If the contracting agents do not perform and document the appropriate analysis regarding purchasing or repairing vendor R&R parts, Amtrak is at risk of not making cost effective decisions which could lead to higher maintenance costs.

Engineering Equipment

Audit Report 101-209 – Issued October 23, 2010

Our audit objectives were to determine whether Engineering equipment was safeguarded and used effectively; business processes and internal controls were effective; and equipment balances were reconciled to subsidiary records. Our audit included a sample of 30 pieces of equipment from the Mid-Atlantic division (Philadelphia to Washington). Our tests in the Mid-Atlantic division concluded that the inventory was adequately safeguarded. However, to ensure accountability over the equipment and sustain the accuracy of records the current business processes need to be enhanced because the current policy only requires a complete inventory every four years and does not require equipment balances to be reconciled to subsidiary records. We recommended that physical inventories be conducted more frequently and include reverse counts, whereby items are traced back to subsidiary records.

Audit Report from Prior Period Withdrawn

The Attleboro Pawtucket Amendment Audit Report 205-2009 issued September 30, 2009 was withdrawn after a thorough review of the audit documentation determined that the report was not adequately supported. We have adjusted Appendix 1 and 2 to reflect the revised amount of both questioned costs and funds to be put to better use as of October 1, 2009. We are taking corrective actions to ensure that our audit work will comply with the Government Auditing Standards, 2007 revision.

American Recovery and Reinvestment Act (ARRA)

More than one year after receiving \$1.3 billion dollars in stimulus money, Amtrak is aggressively pursuing more than 250 projects to include upgrading infrastructure, such as bridges, tunnels, stations and tracks; modernizing its fleet by overhauling and refurbishing existing locomotives and passenger cars; and implementing new computer systems.

In the coming months, Amtrak's spending will increase sharply as the weather is more conducive to construction. With so many projects taking place in such a short time frame, our office will be even more vigilant in monitoring costs and communicating with Amtrak management in an effort to identify waste, fraud or abuse of taxpayer money.

The OIG has initiated several audits of ARRA projects to assess risk, track and review costs and to monitor whether Amtrak is receiving the product for which it has contracted and if the expenditures comply with grant provisions. We will continue to review projects and embark on more audits as work progresses. The OIG received \$5 million and has until September 30, 2013 to complete its work under ARRA.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/01/09	59
Audit projects postponed or cancelled	7
Audit projects started	20
Audit reports issued	3
Audit projects in progress 3/31/10	68

Audit Findings

Questioned costs	\$20,052,519
Unsupported costs	\$0
Funds to be put to better use	\$0

Total	\$20,052,519
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Significant Activities: Investigations

Theft and Fraud

Theft Scheme Involving Train Provisioning Management System Clerk

\$109,000 restitution ordered.

On December 1, 2009, a former Train Provisioning Management System (TPMS) Clerk was sentenced to six months of home confinement on electronic monitoring, four years of probation, and ordered to pay approximately \$109,000 in restitution to Amtrak. The TPMS Clerk previously pleaded guilty in the United States District Court for the Northern District of Illinois Eastern Division for violating Title 18 USC, Section 666 (a) (1) (A) Theft or Bribery Concerning Programs Receiving Federal Funds.

Theft of Fleet Credit Cards

\$74,863 restitution ordered

As a result of a previously reported (Semiannual Report #40) joint investigation with the Government Services Administration Office of Inspector General regarding the theft of fleet credit cards, two defendants were sentenced in the United States District Court for the state of Maryland.

The first defendant, a former Amtrak employee, was found guilty of one count of Aiding and Abetting the Theft of Government Property (Title 18 USC 641 and 642). The former employee was sentenced to three years probation with a special condition to reside in a half-way house for an additional ten months. This defendant was also ordered to pay \$17,000 in restitution to Amtrak.

The other defendant was found guilty of one count of Theft of Government Property (Title 18 USC 641) and was sentenced to three years probation and six months home confinement. This defendant was ordered to pay \$57,863.73 in restitution to Amtrak.

Conflict of Interest

Possible Conflict of Interest Related to Travel Agencies

We received an allegation that a senior management employee in Marketing may have abused his position by engaging in a potential conflict of interest situation with a travel agency with which he had a prior business relationship. The subsequent investigation revealed that the senior management employee's "hands-on" involvement into matters related to this travel agency created, at a minimum, an appearance of favoritism.

It appears that this conduct enabled the travel agency to enjoy exclusivity in a portion of Amtrak's international travel agency arena for an extended period of time. Prior to the completion of our investigation, Marketing took steps to ensure that Amtrak afforded other international

travel agencies an opportunity to engage directly in business with Amtrak.

As a result of our findings and subsequent recommendations, Marketing distributed Amtrak's Ethical Conduct and Conflict of Interest policy for review by the Marketing and Product Management team.

Abuse of Multiple Amtrak Assets

Management Department Employee Abuses Privileges

We received information that a Mechanical Department management employee was abusing his position by claiming Business Travel privileges on his rail pass to commute to and from work. The subsequent OIG investigation not only validated the allegation but revealed the employee's abuse of Amtrak leased vehicles, Amtrak Federal Express services, and multiple types of pass abuse violations.

As a result of the findings and the associated management referral, the management employee was terminated on October 29, 2009.

Assistance to Another Agency

Assistance to United States Attorney for the District of Delaware

During this reporting period, we were recognized by the United States Attorney for the District of Delaware for assisting its agency with the conviction and 30 year prison sentence of an international child predator.

Violation of Firearms Policy

Engineer and Conductors Violate Firearms Policy

We received information that Amtrak Train and Engine personnel were transporting loaded firearms on-board the California Zephyr. An investigation was conducted jointly with Amtrak Police Department (APD). Based on the APD findings, the OIG and APD were able to substantiate that two conductors and a Superintendent of Road Operations had transported loaded firearms on-board their respective trains for the purpose of target practice.

The OIG and APD substantiated that another conductor had stored a shotgun in the Road Foreman's office. As a result of the investigation, the Superintendent of Road Operations, Road Foreman, and two Conductors were terminated. The Conductor who stored the weapon was suspended for 30 days.

Recommendations to Enhance Efficiency and Effectiveness

Emergency Exchange Vouchers (EEVs) and Hotel Authorization Forms (HAFs)

We reviewed the issuance of Emergency Exchange Vouchers (EEVs) and Hotel Authorization Forms (HAFs) at Chicago Union Station and issued an Administrative Report to management recommending several changes to safeguard the EEVs and HAFs to protect Amtrak from unnecessary financial losses. Management has agreed to conduct and document continuous refresher training sessions related to the proper procedures for issuing EEVs and HAFs. Management has agreed to secure blank HAFs, and develop a numbering system to cross reference reservation numbers with passengers' names on HAFs.

Revenue Protection Unit

Revenue Protection Union-Initiated Lead Service Attendant Reviews

During this reporting period, in conjunction with mostly random onboard train observations of lead service attendants (LSAs), The Revenue Protection Unit (RPU) analyzed the applicable support documentation for on board food and beverage sales for 75 trains. The completed reviews resulted in 21 administrative referrals consisting of various findings covering theft, fraud and the failure to follow procedures.

At the completion of this reporting period, discipline had been assessed, based on these and previous reporting period RPU referrals, for 19 LSAs, with discipline ranging from termination, suspension or voluntary resignation, to formal reprimand, remedial training or counseling.

RPU-Initiated Conductor Reviews

The RPU conducted random reviews of various conductors and assistant conductors assigned to work the Downeaster trains in New England. The review revealed widespread patterns of apparent intentional disregard for or lack of knowledge of required policy and procedure. Several of these findings have a negative impact to Amtrak's cash position or pose a safety and/or security issue.

In response to the applicable OIG/RPU Administrative Referral, a response dated November 4, 2009 was received from northeast corridor service operations. The response confirmed counseling and refresher training for 28 conductors and assistant Conductors.

Case Handling

We received allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, the OIG is handling 296 investigations; in the last six months. The OIG opened 142 cases and closed 177 cases.

CASE STATUS OF INVESTIGATIONS

10/01/09 – 3/31/10

Total Open Cases as of 10/01/09	331
Closed Cases	177
Opened Cases	142

Total Ongoing Cases as of 3/31/10	296
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As set forth in the chart below, entitled "Sources of Allegations," employee and private citizen referrals accounted for about 39 percent of the allegations during this reporting period, with private citizens being the source of 29 of the 142 allegations, or 20 percent.

The OIG received 88 HOTLINE complaints during this reporting period. The majority of HOTLINE complaints received during this reporting period were from private citizens.

HOTLINE STATISTICS

10/01/09 – 3/31/10

TOTAL

Hotline Complaints Received:	88
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Sources of Hotline Complaints:

Private Citizen	54
Anonymous Source	18
Amtrak Employee	11
Former Amtrak Employee	2
Federal Law Enforcement	2
Confidential Informant	1

Complaints Referred To:

Management	58
OI Field Offices	16
APD	13
OIG/ARRA Group	1

Significant Activities: Investigations

TYPES OF ALLEGATIONS

10/01/09 – 3/31/10

Fraud	3
Theft/Embezzlement	4
Drug Violation	1
False Claims	2
False T&A Records	1
False Expense Report	1
Waste	1
Abuse of Position	5
Mismanagement	6
Conflict of Interest	1
Administrative Inquiry	2
Other Non Criminal	41
Other Criminal	20
TOTAL	88

PROSECUTIVE REFERRALS

10/01/09 – 3/31/10

<i>Referrals</i>	<i>U.S. Attorney</i>	<i>Local/ State</i>	<i>TOTAL</i>
Criminal Cases			
Indictments	0	0	0
Convictions/Pleas	3	0	3
Pending*	15	0	15
Declinations	0	0	0
TOTAL			18
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0
TOTAL			0
TOTAL CIVIL AND CRIMINAL			18

**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.*

FY 2009 PERFORMANCE MEASURES

10/01/09 – 3/31/10

Audit Results	Total
Congressional Testimony	0
Costs Questioned/Funds to be Put to Better Use	\$20,052,519
Management Decisions to Seek Recoveries	0

Investigative Results	Total
Indictments	0
Convictions	3
Fines	0
Court Ordered Restitutions/Civil Judgments/Administrative Restitution	\$183,863
Recoveries*	0
Years Sentenced	0
Years Probation	10
Years Supervised Release	1.8
Hours of Community Service	0
Debarments and Other Administrative Action	0
Hotline Complaints Received	88
Hotline Complaints Investigated by OIG	17
Hotline Complaints Referred to Operating Administrations or Other Agencies	71

** Recovery totals do not include recoveries made as a result of joint activities with OIG*

FY 2010 ADVISORY FUNCTIONS

10/01/09 – 3/31/10

Advisory Functions	Total
FOIA Requests Received	12
FOIA Requests Processed	10
Legislation Reviewed	0
Regulations Reviewed	0





Appendix 1

OFFICE OF INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

10/1/09 – 3/31/10

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	\$248,005*	\$0
B. Reports issued during the reporting period.	1	\$20,052,519	\$0
Subtotals (A + B)	3	\$20,300,524	\$0
LESS			
C. For which a management decision was made during the reporting period.	2		
(i) dollar value of recommendations that were agreed to by management.		\$248,005	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$222,059	\$0
D. For which no management decision has been made by the end of the reporting period.	1	\$20,052,519	\$0

**Report 205-2009 issued on September 30, 2009 was withdrawn during this reporting period. The questioned cost of \$287,927 was subtracted from the amount reported in the prior reporting period.*

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

10/1/09 – 3/31/10

	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	0
(ii) dollar value of recommendations that were not agreed to by management.		
D. For which no management decision has been made by the end of the reporting period.	0	0

**Report 205-2009 issued on September 30, 2009 was withdrawn during this reporting period. The dollar value \$44,706,930 was subtracted from the amount reported in the prior reporting period.*

Appendix 3

OFFICE OF INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

10/1/09 – 3/31/10

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
10/23/2009	101-2009	Engineering Equipment	\$0	\$0	\$0
3/19/2010	104-2008	Audit of Vendor Repair and Return	\$0	\$0	\$0
3/30/2010	406-2005	CSX: On-Time Performance Incentives	\$20,052,5190	\$0	\$0
TOTALS			\$20,052,5190	\$0	\$0

**OFFICE OF INSPECTOR GENERAL
MANAGEMENT'S COMMITMENT TO SEEK FINAL ACTION ON AUDITS WITH AGREED
QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE (FBPTBU)**

10/1/09 – 3/31/10

	Number	Questioned Costs	Number	FBPTBU
A. Agreed Questioned Costs and FBPTBU for which management action is needed at the beginning of the reporting period.	15	\$79,781,559	2	\$3,832,254
B. Agreed Questioned Costs and FBPTBU for which management action is needed during the reporting period.	2	\$248,005		
Subtotals (A + B)	17	\$80,029,564	2	\$3,832,254
C. Management actions taken during the reporting period.	5		1	
(1) Collections (Cost recovery)		\$515,627		
(2) Cost avoidance (Contracts)				
(3) Adjusted material value (Inventory parts)				
(4) Future cost savings (Improved management controls)				
(5) Management reduction of costs (Negotiation)				
(6) More efficient use of funds (FBPTBU)				
(7) Management reduction of costs (Additional evidence)				
(8) Management unwilling to pursue		\$77,038,184		
(9) Management unwilling to pursue (FBPTBU)				\$3,748,758
Subtotals (1 – 9) of management actions		\$77,553,811		\$3,748,758
D. Agreed Questioned Costs and FBPTBU for which management action is needed at the end of the reporting period.	12	\$2,475,753	1	\$83,496

Notes: *Questioned Costs include both Supported and Unsupported Costs. Includes management actions pertaining to reports previously published.

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

10/1/09 – 3/31/10

Nothing to report this period.

**OFFICE OF INSPECTOR GENERAL
REVIEW OF LEGISLATION AND REGULATIONS***10/1/09 – 3/31/10*

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.”

There were no legislation or regulations reviewed during reporting period.

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:

APD	Amtrak Police Department	IG Act	Inspector General Act
ARRA	American Recovery and Reinvestment Act of 2009	MCCS	Manual Credit Card System
CEO	Chief Operating Officer	NAPA	National Academy of Public Administration
CFO	Chief Financial Officer	LSA	Lead Service Attendant
CIGIE	Council of the Inspectors General on Integrity and Efficiency	OIG	Office of Inspector General
COO	Chief Operating Officer	OMB	Office of Management and Budget
CPE	Continuing Professional Education	OTP	On-time Performance
DNC	Do Not-Count	NEC	Northeast Corridor
EEV	Emergency Exchange Voucher	P.L.	Public Law
FY	Fiscal Year	R&R	Repair and return
GAO	Government Accountability Office	RCM	Reliability-centered Maintenance
GSA	Government Services Administration	RPU	Revenue Protection Unit
HAF	Hotel Authorization Form	TPMS	Train Provisioning Management System
IG	Inspector General	U.S.C.	United States Code

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