ACQUISITION AND PROCUREMENT:
Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks
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Memorandum

To: Stephen Gardner
   Executive Vice President/Chief Northeast Corridor Business Development

From: Stephen Lord
   Assistant Inspector General, Audits

Date: December 14, 2016


Baltimore Penn Station—Amtrak’s (the company) 8th busiest station—and its surrounding assets are being redeveloped as part of a larger company effort to optimize the value of its underutilized assets.\(^1\) In fiscal year 2014, the company launched the Terminal Development Initiative to assess opportunities to optimize the use of its assets, attract private investment, and generate new revenue streams to fund critical infrastructure projects.\(^2\) As part of this effort, the company decided to redevelop Baltimore Penn Station and its adjacent assets by procuring the services of a master developer. Under the master developer approach, the company will use a private partner—a master developer—to design and implement a master plan to redevelop the station and surrounding assets, including the financing, construction, and maintenance of these assets. This differs from the company’s traditional procurement approach whereby the company would award and finance separate contracts for the planning, design, and construction phases of the project. We found, however, that the master developer approach has been successfully used on a number of transit-oriented development projects across the United States.

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\(^1\) The company’s goal of achieving financial excellence by becoming profitable on an operating basis remains a top management challenge. During the last decade, company officials and federal oversight agencies have identified the public/private environment as a challenge to the company’s improving the efficiency and effectiveness of its operations, and its ability to plan for and build the infrastructure needed for the future. [OIG, AMTRAK: Top Management and Performance Challenges—Fiscal Year 2016 and Beyond, OIG-SP-2015-015, September 30, 2015].

\(^2\) Five stations were included in the scope of this initiative: Baltimore Penn Station, Chicago Union Station, New York Penn Station, Philadelphia 30\(^{th}\) Street Station, and Washington Union Station.
In September 2015, Senator Barbara Mikulski requested that we review the company’s efforts to redevelop Baltimore Penn Station. In October 2015, we responded that we were skeptical about the company’s ability and readiness to undertake and oversee the redevelopment of the station using a master developer in a timely manner, given the company’s history of weaknesses in managing its programs and projects.3 Subsequently, in January 2016, Senator Mikulski and other members of the Maryland congressional delegation asked us to clarify for the company the basis for our skepticism. Thus, we initiated an audit to further review the company’s efforts to manage and oversee the Baltimore Penn Station redevelopment project.

Our objectives are to provide an update on the Baltimore Penn Station redevelopment project and assess the extent to which the company is following leading practices in selecting a master developer and managing and overseeing the project. For details about our scope and methodology, see Appendix A.

To identify leading practices, we conducted a review of available literature and contracted with the American Productivity and Quality Center4 (APQC) to conduct research and provide insights on how other project sponsors have successfully managed the selection and oversight of a master developer. Based on our combined research, we identified several leading practices for selecting and overseeing a master developer:

- establishing a clearly defined vision and goals
- assembling an experienced core project team
- engaging external and internal stakeholders
- assessing the project’s economic and financial feasibility
- creating a transparent and competitive selection process
- establishing transparent governance and project management frameworks

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3 See OIG correspondence to a letter of inquiry from Senator Barbara A. Mikulski, October 20, 2015. Also, as identified in many of our reports, improving the company’s governance processes will require significant cultural change in the company’s day-to-day management of its programs and operations. For example, in September 2013 and again in July 2014, we reported on the company’s capital planning processes and found that the company had opportunities to improve its processes by developing business cases, prioritizing investments through a project ranking process, and evaluating project outcomes. [OIG, AMTRAK: Top Management and Performance Challenges—Fiscal Year 2016 and Beyond, OIG-SP-2015-015, September 30, 2015].

4 The American Productivity and Quality Center is a member-based nonprofit organization that provides business benchmarking, best practices, process and performance improvement, and knowledge management solutions for organizations.
For a description of these leading practices, see Appendix B.

**SUMMARY OF RESULTS**

The Baltimore Penn Station redevelopment effort is a critical, high-risk project with the potential to generate significant new revenue streams for the company. While the company has taken, and plans to take, a number of steps toward selecting a master developer as part of this effort, there are opportunities to improve the project’s chances for success as it moves forward. In November 2016, the company selected a short-list of three qualified master developers, and plans to select a master developer by August 2017 and finalize a master development agreement by January 2018. The agreement will identify the project’s scope, estimated cost, and anticipated schedule for the project, which will likely take years to complete.

Based on established “leading practices” for undertakings of this nature, the company has adopted a number of these practices to help select a master developer and manage and oversee the redevelopment project. These practices include establishing a vision and goals for the project, assembling an experienced core project team, assessing the economic and financial feasibility of the project, and creating a transparent and competitive selection process. The company has also taken a number of steps to identify, engage, and communicate with both internal and external stakeholder groups related to the Baltimore Penn Station redevelopment project.

However, the company has not finalized a framework to manage and oversee the project, a weakness identified in many of our prior reports on other programs and projects. As the Baltimore project moves forward, the company has opportunities to adopt additional leading practices to help mitigate risks and ensure project success. These practices include:

- establishing a governance and project management framework
- creating a strong legal agreement with the master developer
- developing a plan and dedicating resources for managing and overseeing project implementation
Amtrak Office of Inspector General

Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks


Two of the leading practices that the company has not yet adopted are management weaknesses we identified in prior reviews of company programs and projects—(1) establishing transparent governance and project management frameworks and (2) developing a plan for managing and overseeing project implementation. Adopting these practices as it proceeds through the remaining steps could help the company avoid past mistakes, which resulted in significant cost overruns and missed milestones.

To enhance the company’s management and oversight of the Baltimore Penn Station redevelopment project and mitigate project risks, we recommend that the company establish a transparent governance and project management framework, develop a strong legal agreement with the master developer, and develop a plan and dedicate resources to manage and oversee the master developer. In commenting on a draft of this report, the company’s Executive Vice President/Chief Northeast Corridor Business Development agreed with our recommendations and outlined planned actions that, if fully implemented, will address the intent of these recommendations.

BACKGROUND

Baltimore Penn Station Redevelopment Project

Baltimore Penn Station is the company’s eighth-busiest station, serving nearly 1 million Amtrak passengers and 1.9 million Maryland Area Regional Commuter passengers in 2015. Built in 1911, the station is in need of significant rehabilitation. The company has a number of projects underway to set the stage for future expansion and bring the station to a state of good repair, including replacing the roof, replacing drainage systems, and repairing the facade and canopy. The company is also planning track and platform improvements to accommodate its new high-speed trainsets that will replace the Acela trains. The new trainsets are expected to be in service by 2020.

In addition to these more immediate improvement efforts, the company initiated the broader Baltimore Penn Station redevelopment project. According to the company’s request for qualifications, the master developer will design and implement capital improvements and large-scale development opportunities to enhance the customer’s experience at the station and stimulate ridership growth, company revenue, and the city of Baltimore’s economy. The master developer is also to prepare a comprehensive and financially viable development plan for the station and will retain exclusive rights and responsibility for implementing the plan.
The scope of the redevelopment project will include assets owned by the company, as well as assets controlled by the city of Baltimore. Company-owned assets include the main station and adjacent parcels of land, including the Lanvale and West lots, as well as rights of way, air rights, and subsurface rights in proximity to the station.

City-controlled assets include the station plaza and parking garage, which the city constructed on Amtrak property. The company has identified various development and redevelopment opportunities for these assets, including the following:

- redeveloping the main station
- modifying and expanding existing retail business in the station
- developing the Lanvale and West lots and air-rights above company-owned properties, including the main station rail yard

For a map of the company and city-controlled assets included in the project, see Figure 1.

*Figure 1: Map of Baltimore Penn Station Redevelopment Project*

*Source: OIG and Amtrak Infrastructure and Investment Development department*
Infrastructure and Investment Development Team Leads the Project

Multiple company departments are involved in the Baltimore Penn Station redevelopment project, but the company’s Infrastructure and Investment Development (IID) department is responsible for leading the overall project. IID’s Major Station Planning and Development/Business Development unit is responsible for day-to-day project planning and selecting the master developer. The core project team also includes staff from IID’s Commercial Planning and Development unit and the Procurement and Law departments. In addition, the Finance, Engineering, Operations, Emergency Management and Corporate Security, and Marketing and Sales departments have also assigned staff to assist the core team, on an as-needed basis.

THE COMPANY HAS MADE PROGRESS IN INITIAL EFFORTS TO SELECT A MASTER DEVELOPER

The company has made progress in its initial efforts to select a master developer but several key steps remain to be completed in the selection process. The selection process began in January 2016 when the company released its request for information\(^5\) to gauge potential master developers’ interest in the redevelopment project. IID officials anticipate selecting a master developer by August 2017 and signing a master development agreement by January 2018. The master development agreement will outline the project’s scope, estimated cost, and anticipated schedule. Overall, the company’s planned schedule to select a master developer and finalize the master development agreement is consistent with leading practices for this type of effort.

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\(^5\) The purpose of the request for information was to gauge interest in the project and solicit feedback from experienced parties to assist the company in refining the project scope and commercial considerations.
Figure 2 outlines the company’s timeline for selecting a master developer and implementing the project.

**Figure 2. Company’s Timeline for Selecting a Master Developer and Implementing the Project, as of November 2016**

![Timeline Diagram](image)

*Source: OIG analysis of data provided by the Infrastructure and Investment Development department

*Final construction and project implementation schedule will be determined upon finalization of the master development agreement and could include short-term actionable projects and longer-term projects implemented in a phased approach over years.

**Requests for Information and Qualifications Completed**

Nine companies responded to the January 2016 request for information and identified a broad range of commercial opportunities for the station’s assets, including residential, retail, student housing, and office space. A number of the respondents expressed a desire for the company to more clearly define its project goals and objectives, and to discuss its willingness to share risk and help obtain financing. In April 2016, company officials conducted separate interviews with seven of the nine respondents to further discuss these issues and subsequently incorporated their responses to many of these concerns into the request for qualifications. In addition, the company held an Industry Day in August 2016 to provide a networking opportunity for prospective master developers and stakeholders, introduce the project to the public, and announce the release of the request for qualifications.

In August 2016, the company released its request for qualifications to solicit, evaluate, and select a short-list of the most qualified master developers. Several prospective developers responded to the request and submitted their statements of qualifications.
and preliminary development plans for the project. The company selected a short-list of three master developer teams in November 2016.

**Key Steps Remaining in the Selection Process**

Several key steps remain in the master developer selection process, including the following:

- drafting and releasing the request for proposals
- selecting the master developer
- negotiating and finalizing the master development agreement

The Law department has contracted with Ballard Spahr, LLP, a legal firm with expertise in transit-oriented public-private partnerships, to provide legal services for these remaining steps. IID officials told us they plan to use the request for proposals for the Chicago Union Station redevelopment project, which Ballard Spahr developed under a separate contract with the company, as a baseline for the Baltimore project. Ballard Spahr is expected to draft the master development agreement to share and discuss with the short-listed master developers. Any changes will be negotiated and incorporated into the final request for proposals, which the company plans to release in January 2017 to the short-listed developers.

When the master developer is selected in August 2017, IID and Ballard Spahr officials plan to work with the master developer to negotiate and finalize a master development agreement by January 2018, including the project’s scope, cost, and schedule. The agreement also is to identify short-term improvements, such as adding additional retail shops and restaurants in the station, as well as long-term improvements, such as constructing residential housing or commercial office space, that could take many years to complete. IID officials noted that the timing for construction and project implementation will depend on financing and associated requirements. Overall, the company’s schedule to select a master developer and finalize the master development agreement is consistent with leading practices for this type of effort.

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Prospective master developers also provided specific financial and technical information, including their company’s organizational structure and their experience as a master developer, financial statements, ability to secure funding, and proposed approach to the project.
ADOPTING ADDITIONAL LEADING PRACTICES COULD ENHANCE PROJECT MANAGEMENT

The company has adopted a number of private- and public-sector leading practices to manage the initial stages of its Baltimore Penn Station redevelopment project, including establishing a vision and goals for the project, assembling an experienced core project team, engaging stakeholders, assessing the economic and financial feasibility of the project, and creating a transparent and competitive selection process. Nonetheless, because the project is in its early stages, opportunities exist to adopt additional leading practices that will be critical to project success. These practices include establishing governance and project management frameworks, creating a strong legal agreement with the master developer, and developing a plan and dedicating resources for managing and overseeing the master developer. Adopting these leading practices as it plans and executes the remaining steps in the project will help the company mitigate project risks and help ensure project success. For more detailed descriptions about the leading practices, see Appendix B.

The Company Has Adopted a Number of Leading Practices in Managing the Initial Stages of the Project

The company’s core project team has adopted several leading practices we identified for selecting and managing a master developer for the Baltimore Penn Station redevelopment project. Specifically, the company

- established a clearly defined vision and goals for the project
- assembled an experienced core project team
- engaged internal and external stakeholders
- assessed the feasibility of the project
- created a transparent and competitive master developer selection process although key elements have not yet been finalized

Establishing a clearly defined vision and goals. Consistent with leading practices, the company established its vision and 13 supporting goals for the project, stakeholders, and the surrounding community in its August 2016 request for qualifications. The vision for the redeveloped station and vicinity is to
serve as “an enhanced transportation hub for the city and region, and also as a community asset and iconic destination as part of a premier transit-oriented development in the heart of Baltimore.” Project goals include identifying development opportunities to realize values from currently underutilized company assets; maximizing revenues to Amtrak; providing a sustainable, maintainable, and expandable station that will allow for future growth; and enhancing the transit and pedestrian circulation within the station to provide better station integration and connectivity with the surrounding neighborhood. In addition, the company is in the process of defining its core operational needs (for example, placement of red cap services, ticketing, and police), historic preservation guidelines, and expected transit rider growth assumptions for the station. It plans to use the findings from these assessments to further define project goals in its request for proposals.

**Assembling an experienced core project team.** The company has assembled a diverse core project team of employees from the IID, Procurement, and Law departments. Consistent with leading practices, this team has collective experience in finance, law, procurement, contract management, real estate, and communications. The company has also supplemented its core team capabilities by retaining KPMG, LLC, as its external financial consultant and Ballard Spahr as its legal advisor. In addition to its work on the Terminal Development Initiative, KPMG has assisted in developing the request for information and the request for qualification documents and will also assist in evaluating prospective master developers’ statements of qualifications. Ballard Spahr will assist the company in drafting the request for proposals, and in drafting, negotiating, and finalizing the master development agreement. Additionally, the company has selected Cushman & Wakefield, a leading global real estate services firm, to assist the company in evaluating developers’ proposals and finalizing the master development agreement. The company is also developing a request for proposals to select an architectural and engineering firm to support the core project team in reviewing the designs submitted in the developers’ proposals.
Engaging external and internal stakeholders. As called for in leading practices, the company has taken a number of steps to identify, engage, and communicate with internal and external stakeholder groups related to the Baltimore Penn Station redevelopment project. Beyond its core project team, IID established an internal Baltimore Penn Station redevelopment working group that meets weekly to discuss ongoing efforts at the station. This group has included representatives from six company departments: IID, Engineering, Transportation, Emergency Management and Corporate Security, Marketing and Sales, and Government Affairs and Corporate Communications. This internal working group reviewed and commented on the request for qualifications and will be involved in reviewing the request for proposals.

Externally, the company has communicated with several stakeholders on the project concept and status, including the Maryland Department of Transportation, Maryland Transit Administration, the city of Baltimore, local business members of the Greater Baltimore Committee, neighboring civic associations, and educational institutions. The company is also an active member of the Baltimore-based stakeholder group—the Mayor’s Working Group—which meets quarterly. The company has also established an external stakeholder forum—the Community Advisory Partners—which has been briefed at key milestones through the process. The company’s briefings to these stakeholder groups have included a summary of the station redevelopment program in Baltimore, a review of rail and station improvement projects completed and underway, and an overview of the master developer selection effort. The company began these briefings in summer 2015 before the release of its request for information and continued these meetings through the release of the request for qualifications. Members of the Mayor’s Working Group, who executed a nondisclosure agreement, reviewed and commented on the draft request for qualifications and are also expected to review and comment on specific components of the request for proposals upon signing an additional nondisclosure agreement. Four external stakeholders have also participated in evaluating responses to the request for qualifications: the Maryland Transit Administration, city of Baltimore, Central Baltimore Partnership, and University of Baltimore. Additionally, the company has been working with Congressman Elijah

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Leading Practice: Actively engage and communicate with internal and external stakeholders throughout the project to garner support for and minimize resistance to the project.
Cummings, who is a strong advocate of the project. The company also expects the selected master developer to continue engaging with the external stakeholder community.

**Assessing the economic and financial feasibility of the project.** In 2014, the company’s external financial consultant, KPMG, assessed the project’s economic and financial feasibility consistent with leading practices as part of the company’s Terminal Development Initiative. Specifically, KPMG evaluated market conditions and prepared financial analyses, including cash flow projections, of real estate development opportunities at five of the company’s major stations, including Baltimore Penn Station. KPMG reported that the Baltimore redevelopment project was likely to attract private capital and generate new sources of revenue. However, it also identified a lack of near-term demand in the immediate Baltimore region for office space. Company officials also noted a competing development in Baltimore that may weaken demand for residential and office space. The company has not updated the original analysis but plans to further assess the project’s financial viability when it receives the master developers’ proposals.

The company also plans to complete an environmental site assessment on Baltimore Penn Station and its assets in fall 2016. This assessment will include a review of previous ownership records, a site visit, and interviews with present and past owners, operators and occupants of the property, and local government officials. This evaluation is expected to take 4 to 6 weeks; it will conclude with a report that will be shared with the short-listed qualified master developers.

**Creating a transparent and competitive selection process.** In accordance with leading practices, the company created a transparent and competitive selection process that includes requests for information, qualifications, and proposals, although key elements have not yet been finalized. In its request for qualifications, the company established clear timelines and milestones for each step of the
process, including selecting a short-list of developers. The request for qualifications also detailed the company’s process for evaluating developers’ statements of qualifications, as well as the evaluation criteria and weighting the company will use. The company also established various committees to review and evaluate the statements of qualifications based on evaluation criteria contained in the request for qualifications and guidelines established by the Procurement department.

The company is drafting the request for proposals and finalizing milestones for issuing the request for proposals and selecting the master developer. IID officials told us they are working to complete these elements, which will include a specific timeline for selecting the master developer and clearly defined criteria on which the final selection will be based. Completing these elements in a timely manner will help ensure that the company meets its project goals and timelines for selecting a master developer.

**Opportunities Exist to Adopt Additional Leading Practices**

As the project moves forward, the company has opportunities to adopt additional leading practices that are critical to successfully selecting a master developer, managing the project, and mitigating future project risks. These include establishing a governance and project management framework, creating a strong legal agreement with the master developer, and developing a plan and dedicating resources for managing and overseeing the master developer.

*The project lacks the governance and project management frameworks critical to successful project management.* The company has not established a formal governance or project management framework, which is critical to successfully managing the project and overseeing the master developer, as called for by leading practices and standards established by the company’s Enterprise Program Management Office.8 Specifically, the company has not developed or documented key project governance elements, including a project organization chart, relationships between the project team and the internal and external stakeholders, and the processes and procedures for decision-making and

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8 The Enterprise Program Management Office was established in January 2016 to provide the company a clear methodology for project management activities and to provide direct project management and oversight of the company’s highest-level projects.
communicating project information. In addition, the company has not developed a written project charter or project management plan—key elements of a project management framework. Our previous audit reports identified similar governance and project management weaknesses that resulted in scope changes, cost overruns, schedule delays, and lost revenues for the company. These past reports were the basis for the skepticism we expressed to Senator Mikulski in October 2015 about the company’s readiness to manage and oversee a master developer approach to redevelop Baltimore Penn Station in a timely manner. For a list of these reports and the specific weaknesses we identified, see Appendix C.

The Senior Director for Major Station Planning and Development noted that the organizational structure for the project is similar to the company’s organizational structure; however, the company has not formally documented this or any other project governance or management elements. According to leading practices, project sponsors should develop and issue a project charter to authorize a project at its initiation. For the Baltimore Penn Station redevelopment project, a charter should have been developed when the company first decided to pursue the selection of a master developer to redevelop the station and its assets. The senior director said the company is working on a request for proposals to select a consultant to develop a project charter for the various development efforts at Baltimore Penn Station. She also plans to work with Enterprise Program Management Office to ensure compliance with the company’s project management standards that were released in September 2016. These standards require that existing projects establish a project management plan, including a project charter and project management processes for cost, schedule, and scope by October 1, 2017.

A strong legal agreement will be necessary to protect the company’s interests. Because the company is still in the early stages of selecting a master developer—the master development agreement that will serve as the legal agreement—will not be finalized until the master developer is selected. The company plans to include a draft of the master development agreement in the draft request for proposals, which it plans to release after the short-list of qualified master developers is selected in November 2016. Ballard Spahr is assisting the company in drafting the request for proposals, as well as drafting and negotiating the master development agreement. The company will then negotiate the terms of the agreement with the short-listed master developers and include any revisions into the final request
for proposals, which is expected to be released in January 2017. When the master developer is selected, the master development agreement will be finalized and will define the project scope, cost, and key milestones. In addition, the company is assessing the project risks to ensure that the company’s interests are protected. Ensuring that the master development agreement is a strong legal agreement consistent with leading practices will help mitigate future risks and ensure that the company’s interests remain protected through the project lifecycle.

**Effective contract management and project oversight will help ensure the master developer fulfills requirements.** Given the early stages of the project, the company has not created a plan or dedicated resources to manage the contract and oversee the master developer through the project’s lifecycle. Leading practices call for such a plan to include key performance indicators or measures, established monitoring methods, and assigned staff dedicated to overseeing and managing the project. As of September 2016, the Procurement department has assigned two contracting officers for the lifecycle of the project. The department previously developed a contract management plan template that identifies the processes and guidelines needed to manage large procurement acquisitions. The contracting officers stated that the company plans to adapt this template for the Baltimore Penn Station redevelopment project once the master development agreement is signed in January 2018. It will include project oversight guidelines, performance measures, and timeframes. Additionally, the company’s Enterprise Program Management Office could assist the core project team in establishing an effective contract management and project oversight plan, using company-wide project management standards to help control the project’s scope, schedule, and cost. Establishing an effective plan for contract management and project oversight that is consistent with leading practices will help ensure that the master developer fulfills its contractual obligations and the company achieves its vision and goals for Baltimore Penn Station.

**CONCLUSIONS**

The Baltimore Penn Station redevelopment effort is a high-risk project with the potential to generate significant new revenue streams for the company to fund critical infrastructure projects. Since our initial assessment in October 2015, the company has
adopted a number of leading practices to help reduce project risks, such as establishing a project vision, assembling an experienced project management team, engaging stakeholders, and developing a transparent and competitive selection process.

Nonetheless, adopting the following leading practices could help ensure a successful project: establishing a formal and transparent framework for governing and managing the project, creating a strong legal framework for the master development agreement, and developing a plan for overseeing the master developer. Applying these leading practices is critical for the company to mitigate risks and avoid past mistakes made in managing its programs, projects, and large procurements that resulted in significant cost overruns and missed milestones. Adopting these practices could also help increase the likelihood of project success, help fulfill the company’s near- and long-term vision and goals for Baltimore Penn Station, and help ensure a productive partnership with the selected master developer.

RECOMMENDATIONS

To help enhance the company’s overall management and oversight of the Baltimore Penn Station redevelopment project, we recommend that the Executive Vice President/Chief Northeast Corridor Business Development, working jointly with the Vice President of the Enterprise Program Management Office, take the following three actions consistent with leading practices:

1. Establish a governance and project management framework for the project.
2. Develop a strong legal agreement with the master developer.
3. Develop a plan and dedicate resources to manage and oversee the project.

MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of this report, the company’s Executive Vice President/Chief Northeast Corridor Business Development agreed with our three recommendations and outlined planned actions that, if fully implemented, will address the intent of our recommendations. The company’s planned actions are summarized below.

- **Recommendation 1.** Management agrees with our recommendation to establish a governance and project management framework for the project. Management noted several actions it plans to take over the next six months to develop this framework in compliance with the company’s program and project management
policy. These actions include developing a project charter for all projects to be completed by the master developer, as well as a program charter that will govern all projects, including those initiated by the company, at Baltimore Penn Station.

- **Recommendation 2.** Management agrees with our recommendation to develop a strong legal agreement with the master developer to protect the company’s interests. Management stated it has retained legal, financial, and real estate consultants to provide expertise and guidance in preparing and negotiating the agreement. Management also plans to have interested company departments review and approve the development agreement, as appropriate.

- **Recommendation 3.** Management agrees with our recommendation to develop a plan and dedicate resources to manage and oversee the project. Management noted that its core project team, along with consultant support, will manage and oversee the master developer partnership in accordance with the governance and project management framework that it plans to develop. Management also plans to work with the company’s new Enterprise Program Management Office to review the schedules and project management plans of the company and master developer to assess their ability to complete the work as defined.

For management’s complete response, see Appendix D.
APPENDIX A

Scope and Methodology

This report provides an update on the status of the company’s Baltimore Penn Station redevelopment project and assesses the extent to which the company is following leading practices in selecting a master developer and managing and overseeing the project. The scope of our work focused on (1) the company’s efforts since March 2015 to select a master developer for the project, (2) actions taken and planned by the company to manage and oversee the project compared to leading practices, and (3) OIG reports issued since 2013 that identified weaknesses in the governance, management, and oversight of Amtrak’s programs, projects, and procurements. We conducted our audit work from February 2016 through November 2016 at company locations in Washington D.C.; Baltimore, Maryland; and Philadelphia, Pennsylvania.

To obtain an update of the Baltimore Penn Station redevelopment project and the company’s efforts to select a master developer, we performed the following steps:

- Interviewed key company officials responsible for the Baltimore Penn Station redevelopment project from the IID, Procurement, Law, Enterprise Project Management Office, Engineering, and Finance departments, as well as external advisors and consultants from KPMG and Ballard Spahr.
- Conducted site visits of Baltimore Penn Station and its surrounding assets to be redeveloped.
- Obtained, reviewed, and analyzed project documentation, including project update reports; the Terminal Development Initiative assessment report; and procurement documents such as the company’s request for information, related responses from prospective master developers, summary of interviews with prospective master developers, and the request for qualifications. We also reviewed the Procurement department’s policy documents that provide oversight guidelines for procurement acquisitions, including the Strategic Acquisitions and Contract Administration Group’s mission statement and contract management plan.
To assess the extent to which the company is following leading practices in selecting a master developer and managing and overseeing the project, we performed the following steps:

- Conducted secondary research of industry, academia, and consulting firm resources to identify leading practices. We also contracted with APQC to conduct secondary research to identify leading practices in selecting, managing, and overseeing a master developer for transit-oriented development projects. APQC provided an extensive summary of leading practices and supporting references.
- Analyzed the Project Management Institute’s *Project Management Body of Knowledge* and the project management policy and standards issued in September 2016 by the company’s Enterprise Program Management Office.
- Summarized leading practices identified by the OIG, the company’s Enterprise Project Management Office, APQC, and the Project Management Institute into eight leading practices. To assess the extent to which the company is following these eight leading practices, we assessed and compared the company’s efforts to select a master developer and its plans to manage and oversee the project to the leading practices. We discussed the results of this comparative analyses with IID officials and obtained their concurrence with our observations.

In January 2016, Senator Barbara A. Mikulski and other members of the Maryland congressional delegation requested that we clarify for the company the basis of our skepticism about the company’s readiness to manage a master developer approach. We analyzed and summarized the results of OIG reports issued since 2013 that identified weaknesses in the company’s governance, management, and oversight of its programs, projects, and procurements. For a list of these reports and related key findings and management weaknesses we identified, see Appendix C.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Internal Controls

We reviewed the management controls that IID and the Procurement department have in place for selecting a master developer. We focused on controls related to decision-making authority and ensuring a transparent and competitive process to select a master developer for the Baltimore Penn Station redevelopment project. We also reviewed the company’s processes for its request for qualifications and request for proposals that identify various management controls in selecting a master developer, but we did not test or review these controls because the company had not yet reached these steps in the selection process.

Computer-Processed Data

We did not use any computer-processed data to perform our audit work.

Prior Letters of Inquiry or Reports

In conducting our audit, we reviewed and used information from our October 20, 2015, correspondence issued in response to Senator Mikulski’s letter of inquiry about Amtrak’s use of a master developer procurement approach to redevelop Baltimore Penn Station. Appendix C includes other OIG reports that reported on weaknesses in Amtrak’s governance, management, and oversight of its programs, projects, and procurements.
## Appendix B

Leading Practices for Selecting and Managing a Master Developer Project

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<tr>
<th>CATEGORY</th>
<th>LEADING PRACTICES</th>
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<td>Vision and Goals</td>
<td>• Create a vision that clearly defines future goals before the master developer selection process begins.</td>
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<td></td>
<td>• Identify the opportunities, objectives, and goals for the project’s sponsor and the community.</td>
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<td>Core Project Team</td>
<td>• Build a skilled, multi-disciplinary in-house project team to manage the project throughout its lifecycle.</td>
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<td></td>
<td>• Assemble a project team with expertise in finance, law, procurement, contract management, and communications to match the skills of the private-sector partner.</td>
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<td></td>
<td>• Supplement internal capabilities by utilizing external advisors and consultants, specifically in legal and financial services, to assist in analyzing the economic and financial feasibility of the project and developing contract documents.</td>
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<td>Stakeholder Involvement</td>
<td>• Actively engage and communicate with internal and external stakeholders to help garner support for and minimize resistance to a project.</td>
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<td>• Provide opportunities for interested parties to understand, discuss, and provide feedback on the proposed project.</td>
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<tr>
<td></td>
<td>• Communicate throughout the project.</td>
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<td></td>
<td>• Identify local public figures as advocates or “project champions” who can help build stakeholder relationships and convene the right stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Involve internal stakeholders early in the planning process to ensure timely input from affected employees and departments.</td>
</tr>
<tr>
<td></td>
<td>• Include internal and external stakeholders in writing and evaluating responses to proposal documents, such as the request for qualifications and request for proposals.</td>
</tr>
<tr>
<td>Feasibility</td>
<td>• Conduct economic, financial, and environmental analyses to assess project feasibility, including a cost-benefit analysis, a financial viability analysis, and a comparison of the expected project value from either self-delivering the project or using a private partner.</td>
</tr>
<tr>
<td></td>
<td>• Ensure that an identifiable and sustainable revenue stream exists to provide an acceptable rate of return over the life of the project.</td>
</tr>
<tr>
<td></td>
<td>• Conduct analyses before starting the process to select a master developer and again after proposals are received from prospective master developers.</td>
</tr>
<tr>
<td>Transparent and Competitive Process</td>
<td>• Create a transparent and competitive selection process that encourages participation from many potential private-sector partners.</td>
</tr>
<tr>
<td></td>
<td>• Establish clear timelines and milestones for the selection process.</td>
</tr>
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<td></td>
<td>• Document the selection criteria and the decision-making process for reviewing master developer’s proposals.</td>
</tr>
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<td></td>
<td>• Identify an experienced and knowledgeable selection team to evaluate proposals.</td>
</tr>
<tr>
<td>CATEGORY</td>
<td>LEADING PRACTICES</td>
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<td>----------------------------------------------</td>
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</tbody>
</table>
| Governance and Project Management Framework   | • Create key governance and project management elements, which include:  
  o an organization chart that identifies project roles and defines relationships between the project team, organizational groups, and external stakeholders  
  o a project charter that formally authorizes the project and includes a description of the project and its purpose, measurable project objectives, a summary milestone schedule and budget, a list of stakeholders, and the assigned project manager’s responsibilities and authorities  
  o a project management plan that identifies how the project will be executed, monitored, and controlled  
• Establish processes and procedures for decision-making and communicating information, and for identifying and resolving issues that arise during the project.                                                                                                                                                                                                                                                                                                                                 |
| Contract Framework                            | • Establish a strong legal agreement for the project based on a risk allocation that the company and the developer have agreed on—including a detailed description of the responsibilities, risks, and benefits to the public and private stakeholders—and identify measures taken to protect the company’s assets and interests.  
• Identify and allocate project risks based on which partner is best able to handle the risk.  
• Define the performance measures that will be used to measure success, as well as the methods that will be used for tracking and reporting the project’s performance.                                                                                                                                                                                                                                                                                     |
| Contract Oversight                            | • Dedicate resources to oversee a project throughout its lifecycle and ensure that the master developer meets project goals and milestones.  
• Use a project management office to dedicate full-time resources to provide oversight and manage the master developer.  
• Establish robust performance measures and effective management processes to protect the organization’s interests.  
• Ensure that assigned staff monitor key performance measures and that the developer’s performance is in line with agreement requirements.  
• Establish an oversight plan that identifies key performance indicators and measures how the project will be monitored and by whom.                                                                                                                                                                                                                                                                                      |

Source: OIG and APQC research of available literature to identify leading practices
## APPENDIX C

### OIG Reports Highlighting Weaknesses in Amtrak’s Governance, Program and Project Management, and Contract Oversight

<table>
<thead>
<tr>
<th>Audit Reports</th>
<th>Governance</th>
<th>Program and Project Management</th>
<th>Contract Oversight</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAFETY AND SECURITY: Progress Made in Implementing Positive Train Control, but Additional Actions Needed to Ensure Timely Completion of Remaining Tasks, OIG-A-2017-001, October 6, 2016</td>
<td>X</td>
<td></td>
<td>X</td>
<td>Diffused accountability across several departments leaves the company vulnerable to cost and schedule increases. Complete cost of all implementation tasks has not been fully estimated and may lead to cost increases totaling hundreds of millions more than is currently budgeted.</td>
</tr>
<tr>
<td>ASSET MANAGEMENT: Additional Actions Can Help Reduce Significant Risks Associated with Long-Distance Passenger Car Procurement, OIG-A-2016-003, February 1, 2016</td>
<td>X</td>
<td></td>
<td>X</td>
<td>Delays in delivery of long-distance passenger cars led to increased project costs of $7 million and deferred benefits of $3.7 million.</td>
</tr>
<tr>
<td>GOVERNANCE: Alignment with Best Practices Could Improve Project Management Office Implementation, OIG-A-2016-002, December 16, 2015</td>
<td>X</td>
<td></td>
<td>X</td>
<td>The company had not established a company-wide project management office to coordinate project management related initiatives and faced a high-risk environment to effectively manage capital project resources.</td>
</tr>
<tr>
<td>AMTRAK: Top Management and Performance Challenges—Fiscal Year 2016 and Beyond, OIG-SP-2015-015, September 30, 2015</td>
<td>X</td>
<td></td>
<td>X</td>
<td>Weaknesses in governance processes were identified as the root cause of operational and programmatic deficiencies. Efforts to improve identified project management weaknesses were not widely followed, and opportunities existed to both improve the quality of business cases and minimize the financial risk associated with weak contract oversight.</td>
</tr>
<tr>
<td>ACQUISITION AND PROCUREMENT: New Jersey High-Speed Rail Improvement Program Has Cost and Schedule Risks, OIG-A-2015-012, June 17, 2015</td>
<td></td>
<td>X</td>
<td>X</td>
<td>Insufficient cost and schedule estimates led to about $83 million in cost increases and schedule delays. Project may not be completed when grant fund authorizations expire in June 2017.</td>
</tr>
<tr>
<td>INFORMATION TECHNOLOGY: Reservation System Infrastructure Updated, but Future System Sustainability Remains an Issue, OIG-A-2015-010, May 19, 2015</td>
<td></td>
<td></td>
<td>X</td>
<td>Program management weaknesses, including inadequate cost tracking and poor interdepartmental communications, adversely affected completion of the program’s projects. Thirty-eight percent of planned projects were not completed.</td>
</tr>
</tbody>
</table>
### Key Management Weaknesses Identified

<table>
<thead>
<tr>
<th>Audit Reports</th>
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<th>Program and Project Management</th>
<th>Contract Oversight</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition and Procurement: Improved Management Will Lead to Acela Parts Contract Cost Savings,</strong> OIG-A-2015-008, March 10, 2015</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Lack of formal procedures resulted in $19 million in penalties for late deliveries not being assessed and $18.8 million in warranties not claimed. Price reviews were not conducted, which led to excess costs paid for parts totaling $85,000.</td>
</tr>
<tr>
<td><strong>Amtrak: Top Management And Performance Challenges,</strong> OIG-SP-2014-012, September 29, 2014</td>
<td>X</td>
<td></td>
<td></td>
<td>Lack of company-wide governance processes to oversee capital and operating programs was identified as a key management challenge.</td>
</tr>
<tr>
<td><strong>Train Operations And Business Management: Addressing Management Weaknesses is Key to Enhancing the Americans with Disabilities Program,</strong> OIG-A-2014-010, August 4, 2014</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Lack of clearly defined accountability and program planning led to an inefficient use of funds. For example, 46 percent of the program’s $100 million budget was spent on management fees, whereas leading practices indicate about 30 percent of a project’s cost would be spent on management fees.</td>
</tr>
<tr>
<td><strong>Governance: Improved Policies, Practices, and Training Can Enhance Capital Project Management,</strong> OIG-A-2014-009, July 15, 2014</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Inadequate cost and scheduling estimates and program inefficiencies led to cost increases on several projects. For example, the Niantic River project had cost increases of $53 million (55 percent above initial estimate), and the time needed to overhaul locomotives increased by 28 percent from fiscal years 2009 through 2012.</td>
</tr>
<tr>
<td><strong>Asset Management: Amtrak Followed Sound Practices in Developing a Preliminary Business Case for Procuring Next-Generation High-Speed Trainsets and Could Enhance its Final Case with Further Analysis,</strong> OIG-E-2014-007, May 29, 2014</td>
<td>X</td>
<td></td>
<td></td>
<td>Opportunities were identified for the company to enhance its business case for the acquisition of next-generation trainsets by improving high-level forecasts, accounting for operational challenges, and better integrating the procurement with overall plans for the Northeast Corridor business line.</td>
</tr>
</tbody>
</table>
## KEY MANAGEMENT WEAKNESSES IDENTIFIED

<table>
<thead>
<tr>
<th>Audit Reports</th>
<th>Governance</th>
<th>Program and Project Management</th>
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<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE GOVERNANCE: Planned Changes Should Improve Amtrak’s Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds, OIG-E-2013-020, September 27, 2013</td>
<td>X</td>
<td></td>
<td></td>
<td>The company did not follow sound business practices, such as developing business cases, objectively reviewing and ranking proposed capital projects, and evaluating the outcomes of completed projects, leading to schedule delays and other problems that potentially cost the company up to $155 million in lost revenues and unrealized cost reductions.</td>
</tr>
<tr>
<td>ASSET MANAGEMENT: Integrating Sound Business Practices into its Fleet Planning Process Could Save Amtrak Hundreds of Millions of Dollars on Equipment Procurements, OIG-E-2013-014, May 28, 2013</td>
<td>X</td>
<td></td>
<td></td>
<td>An inadequate fleet planning process and business needs assessment led to purchase of more electric locomotives than needed to meet peak demand, costing the company about $167 million.</td>
</tr>
</tbody>
</table>

**Source:** OIG analysis

**Notes:**

- Governance. These reports identified a lack of company-wide policies and procedures to manage programs and projects, as well as a lack of clearly defined decision-making authority and the use of sound business case practices in decision making.
- Program and Project Management. These reports identified poorly defined goals and objectives, as well as a lack of key project documents, including project charters and strategic and risk mitigation plans.
- Contract Oversight. These reports identified weak oversight and enforcement of contract terms, as well as weak monitoring of controls in estimating cost, schedule, and scope.
APPENDIX D

Management Comments

Date: December 6, 2016
From: Stephen J. Gardner, Executive Vice President

To: Stephen Lord
Office of Inspector General

Department: Infrastructure & Investment Development & Real Estate

Subject: Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks (Audit Report for Project No. 013-2016)

cc: Elise Acheson
Sarah Arcuri
Bert Bush
Rina Cutler
Jerry Skolol
DJ Stadler
Matthew Gagnon

This memo represents management’s official response to the Office of Inspector General Report Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks (Draft Audit Report for Project No. 013-2016). Amtrak has remained engaged and cooperative with the OIG throughout the course of the Audit, initiating in February of 2016, concurrent with the ongoing procurement process to select a Master Developer for Amtrak’s assets at Baltimore Penn Station. Management is in agreement with the recommendations of the report, and is in the process of implementing courses of action to address all of them.

Recommendation 1:
Establish a governance and project management framework for the project.

Management Response/Action Plan:
Management agrees with the recommendation to establish a governance structure and project management framework for the redevelopment of Baltimore Penn Station. All projects undertaken as part of the scope of a Master Developer or advanced by Amtrak independently at the station will be initiated in accordance with the enterprise Portfolio Management Office (ePMO) policy through a Project Charter, and subject to an overall governance structure defined by a Program Charter specific to Baltimore Penn Station (Baltimore Station Charter). The Baltimore Station Charter will be developed in compliance with ePMO policy over the next six months with the assistance of a consultant team from the Infrastructure and Investment Development’s Master Services Agreement list. The Station Charter will identify the program’s overall goals, define a governance structure with roles and responsibilities specific to the final commercial structure, and establish a clear process for initiating and successfully completing projects throughout the course of the station development.
Recommendation 2:
Develop a strong legal agreement with the master developer.

Management Response/Action Plan:
Management agrees with the recommendation to develop a strong legal agreement with the Master Developer. A detailed term sheet has been prepared and will be provided as part of the Request for Proposals that will be issued to short listed developer teams in December. During the RFP stage of the solicitation Amtrak and its advisors will be meeting with the short listed developers to determine the essential business terms of any developer agreement. Amtrak has retained Ballard Spahr Andrews & Ingersoll, a nationally known law firm with a highly-regarded real estate and finance practice, to represent Amtrak in the negotiations with the short listed development teams and to draft the development agreement. In addition, Amtrak has also engaged KPMG LLC and Cushman & Wakefield to provide additional expertise and guidance in connection with negotiating the development agreement. Internally, Amtrak will also rely on the review and approval from all interested departments of the Company, including Law, I&D, Finance, Engineering and Operations, where appropriate.

Recommendation 3:
Develop a plan and dedicate resources to manage and oversee the project.

Management Response/Action Plan:
Management agrees with the recommendation to develop a plan and dedicate resources to manage and oversee the project. The core team currently tasked with managing the solicitation of a Master Developer includes:

1. Project Manager
2. Real Estate
3. Structures Engineering
4. Law
5. Procurement
6. Operations

Following the selection of a Master Developer, this team—along with advisory consultant support—will continue to oversee the redevelopment program on behalf of Amtrak with the resources made available through the development agreement, in accordance with the governance structure identified in the Baltimore Station Charter. Through the development of the charter and compliance with the enterprise project management policy, the program team will be able to implement a plan with the resources necessary to manage and oversee the Master Developer partnership. The application of this management framework and processes includes ePMO review of the Master Developer schedule and project management plan to create an integrated master schedule for the site. Both the Amtrak and contractor schedules will be assessed utilizing the DCMA 14 point checklist and GAO best practices as well as Monte Carlo analysis to assess ability to complete the work as defined. The contractor project management plan will work as a component plan for the overall program management plan for the Baltimore Penn Station redevelopment.
Appendix E

Abbreviations

APQC            American Productivity and Quality Center
IID             Infrastructure and Investment Development department
OIG             Amtrak Office of Inspector General
the company     Amtrak
APPENDIX F

OIG Team Members

David P. Bixler, Senior Director Audits, Lead

Jodi Prosser, Senior Audit Manager

Heather Brockett, Senior Auditor, Lead

John Flynn, Senior Auditor, Lead
OIG MISSION AND CONTACT INFORMATION

Mission
The Amtrak OIG’s mission is to provide independent, objective oversight of Amtrak’s programs and operations through audits and investigations focused on recommending improvements to Amtrak’s economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak’s Board of Directors with timely information about problems and deficiencies relating to Amtrak’s programs and operations.

Obtaining Copies of Reports and Testimony
Available at our website www.amtrak/oig.gov

Reporting Fraud, Waste, and Abuse
Report suspicious or illegal activities to the OIG Hotline
www.amtrak/oig.gov/hotline
or
800-468-5469

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