



OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

ACQUISITION AND PROCUREMENT: **Improved Management and Oversight of GE Diesel** **Locomotive Service Contract Could Lead to Savings**

Certain information in this report has been redacted due to its sensitive nature.

OIG-A-2017-005 | February 3, 2017

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Memorandum

To: Scot Naparstek, Executive Vice President/Chief Operating Officer
DJ Stadler, Executive Vice President/Chief Administration Officer

From: Stephen Lord 
Assistant Inspector General, Audits

Date: February 3, 2017

Subject: *Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings (OIG-A-2017-005)*

Amtrak's (the company) fleet of 269 General Electric (GE) diesel locomotives power trains on 15 long-distance routes and 26 state-supported routes. These routes are an important source of company revenue, generating about \$945 million¹ in fiscal year 2016—about 44 percent of total ticket revenue. Since 2001, the company has contracted with GE to provide a variety of parts and related services to support the company's maintenance of the diesel locomotive fleet. The current 5-year contract, signed in November 2013, has an estimated value of \$165 million. As of November 30, 2016, the company has paid \$91.5 million to GE for parts and services provided under this contract.

The company's team for managing the contract consists of a contracting officer from the Procurement department, who is responsible for ensuring that GE is satisfying the terms and conditions of the contract and a technical representative from the Mechanical department, who helps the contracting officer provide oversight. Mechanical department personnel have two means of obtaining parts from GE: (1) they can request the part directly from GE (the preferred practice), or (2) they can obtain the part from the company's inventory and submit a claim for GE to replenishment.

Our objective was to review the effectiveness and efficiency of the company's process for managing and overseeing the contract with GE.

¹ Based on unaudited financial data.

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SUMMARY OF RESULTS

The company can improve its processes for managing and overseeing the GE contract. We found that with more effective management, up to \$5.56 million in company funds could be put to better use. This includes \$5.3 million for parts drawn from the company's inventory—some of which GE may have been contractually obligated to replenish. Additionally, because the company does not have an effective process to ensure that credits for GE's late delivery of parts are properly calculated and received, it missed opportunities to collect \$265,000 in credits resulting from GE's delivery performance. Specifically:

- Mechanical department personnel obtained about \$34.0 million in spare parts through the GE contract from December 2013 through June 2016. The Mechanical department also obtained \$5.3 million in spare parts from the company's inventory but did not submit a claim to GE for replenishment. We were unable to determine whether the parts obtained from the company's inventory were eligible for replenishment from GE because the company's data systems did not indicate why the part was needed. While GE is required to replace failed or defective parts, it is not required to replace parts damaged from debris strikes or wrecks.
- The Procurement department does not have effective oversight in place to monitor the timeliness of GE's delivery of parts and ensure credits for any late deliveries are properly calculated. With more effective oversight, the company could have collected an additional \$265,000 in credits resulting from GE's delivery performance of components covered under the Life Cycle Preventive Maintenance (LCPM), a program used to replace large locomotive components on a pre-determined schedule, as well as other spare parts covered under the contract. Specifically, we found that the contracting officer did not obtain documentation from GE to support his decision to forfeit \$240,000 of \$344,400 in credits that GE owed the company for late delivery of some LCPM parts. In addition, the contracting officer did not ensure that the GE data used to calculate credits was accurate. As a result, the company did not collect \$25,000 in credits GE's owed for its delivery performance.

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We recommend that the company take several steps to strengthen its management and oversight of spare parts, including determining what portion of the parts drawn from the company's inventory are eligible for replenishment under the terms of the GE contract and strengthening its management controls to ensure that the company receives any credits owed based on GE's performance in delivering and shipping parts.

In commenting on a draft of this report for the company, the Executive Vice President/Chief Administration Officer stated that management agreed with our four recommendations and outlined planned actions that, if fully implemented, will address the intent of these recommendations.

BACKGROUND

Under the terms of the 2013 contract, GE provides the following four services:

- **Spare Parts.** GE provides new or repaired parts to replace failed or defective parts on the company's diesel locomotives, with some exceptions. The contract requires GE to maintain an inventory of 359 specific spare parts that it can deliver to Chicago within 8 hours of the company's request and ship to other field locations the next business day after the company's request.² However, GE does not cover parts needing replacement or repair due to a locomotive being damaged in a wreck or debris strike. In this case, the replacement part would be obtained from company inventory or purchased. The company pays a monthly fixed fee for spare parts for each locomotive covered by the contract, averaging about [REDACTED] annually. GE or the company may earn a monthly credit based on GE's performance in delivering and shipping parts. GE earns a credit if its on-time delivery and shipment performance for the month is at or above [REDACTED] percent, and the company earns a credit if GE's on-time delivery and shipment performance for the month is less than [REDACTED] percent.³

² Mechanical department personnel perform diesel locomotive maintenance primarily in Chicago, IL, and seven other locations: Los Angeles, CA; Washington, DC; Sanford, FL; Beech Grove, IN; Albany, NY; New York City; and Seattle, WA. Also, 23 other field locations perform some diesel locomotive maintenance.

³ Neither party earns a credit when on-time performance is between [REDACTED] and [REDACTED] percent.

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- **Life Cycle Preventive Maintenance (LCPM).** GE also provides parts for the LCPM program, which is designed to reduce or eliminate equipment failures by replacing 37 large locomotive components, such as the engine, on a pre-determined schedule. Under LCPM, parts are replaced every 2 to 15 years based on the estimated life of each part.⁴ The company provides GE with an annual LCPM schedule detailing the types and quantities of parts scheduled for replacement, and the necessary delivery dates. GE does not earn a credit for on-time delivery of LCPM parts, but the company earns a [REDACTED] credit for each day a part is delivered late. Under the contract, GE is responsible for calculating the credits and providing a report to the contracting officer. The contract also requires the company to return some of the parts being replaced under the LCPM program to GE for reconditioning within 30 days of receiving the replacement part. In those cases, the company forfeits its late delivery credit if GE's delivery of a corresponding part is subsequently delayed by the company's late return of a part. The company pays GE for each LCPM part, which averages \$13.8 million annually.
- **Traction Motor Service.** GE will replace traction motors—the motor that powers a locomotive's wheels—that fail or are defective. In addition, GE will overhaul traction motors on a 750,000-mile cycle. The contract requires GE to ship traction motors within 24 hours (excluding weekends) of receiving the company's request. The company earns a [REDACTED] credit for each day that GE is late in shipping a traction motor. GE does not earn a credit for on-time shipment of traction motors. The company pays a fixed fee of [REDACTED] annually for traction motor services.
- **Material Personnel Service.** GE has stationed personnel in the company's Chicago maintenance facility who are required to deliver requested spare parts to the company 24 hours a day, 7 days a week. The company pays a fixed fee of [REDACTED] annually for these personnel. Under the previous contract, GE personnel were available 8 hours a day, 5 days a week, excluding weekends.

The Procurement department negotiated the GE contract and has primary responsibility for administering it, but the Mechanical department is responsible for obtaining the

⁴ Prior to 2008, the Mechanical department replaced LCPM parts through overhauls every five years regardless of the condition of the parts.

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spare parts from GE. The contract management team consists of a contracting officer (Procurement) responsible for ensuring that GE is satisfying the terms and conditions of the contract and a technical representative (Mechanical) who helps the contracting officer provide oversight. Mechanical department personnel have two means of obtaining spare parts from GE: (1) they can request the part directly from GE (the preferred practice), or (2) they can obtain the part from the company inventory and submit a claim for GE to replenish the company inventory. The company's inventory is located at maintenance facilities across the country and includes some GE locomotive spare parts that have accumulated over time.

MANAGEMENT AND OVERSIGHT OF THE GE CONTRACT CAN BE IMPROVED

From December 2013 through June 2016, the company obtained about \$34.0 million in spare parts through this contract. Leading practices for public⁵ and private⁶ sector management controls state that management should establish effective monitoring procedures to evaluate program results, i.e., to help ensure the company's spare parts management system is operating in an effective and efficient manner. With more effective management and oversight, the company could have determined whether GE was contractually obligated to replenish \$5.3 million in parts drawn from the company's inventory. If GE was required to provide the parts, up to \$5.3 million in company funds could be put to better use.

Some Spare Parts Obtained from Company Inventory May be Covered by the GE Contract

We found that, from December 2013 through June 2016, Mechanical department personnel used about \$5.3 million in spare parts from the company's inventory without submitting a claim to GE for possible replenishment.⁷ For example:

- In June 2016, Mechanical department personnel obtained a \$30,000 turbocharger, which is one of the 359 parts covered by the contract, from company inventory and did not submit a claim to GE for replenishment.

⁵ Standards for Internal Control in the Federal Government, United States Government Accountability Office, GAO-14-704G, September 2014.

⁶ Committee of Sponsoring Organizations, Internal Control-Integrated Framework, May 2013.

⁷ Chicago accounted for about \$2.9 million of those parts. Field locations accounted for the remaining

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- From February 2014 through June 2016, Mechanical department personnel obtained 10 integrated function display panels totaling \$134,879.30 from company inventory and did not submit a claim to GE for replenishment. This part is one of the 359 parts covered by the contract.

This occurred because Material Management (within the Procurement department) does not have effective management controls to determine whether parts obtained from the company's inventory are eligible for replenishment under the terms of the contract. Specifically, we could not determine whether these parts were eligible for replenishment because the company data systems did not specify whether the parts were used to repair damage from debris strikes or wrecks, which are excluded from the contract. However, the Procurement and Mechanical departments may be able to determine which portion of these \$5.3 million in parts was covered by the contract by interviewing the Mechanical department personnel who requested the parts and by reviewing department files for the locomotives. With more effective management controls and monitoring, the company could have better ensured that it was not using additional funds of its own to obtain spare parts that GE was contractually obligated to provide; thus, creating an opportunity to put these funds to better use.

OVERSIGHT OF CONTRACTOR PERFORMANCE CAN BE IMPROVED

The Procurement department could also improve its oversight of GE's delivery of spare parts and related items, and its calculation of the associated credits due for late parts deliveries. The company's procurement manual⁸ and management control leading practices⁹ state that a contractor's performance should be monitored to help ensure the successful outcome of contracts.

\$2.4 million. We identified these parts by performing a comparative analysis of all transactions for spare parts obtained from company inventory and all claims approved by GE from December 2013 through June 2016.

⁸ Amtrak Procurement Manual, December 2015.

⁹ Seven Steps to Performance-Based Services Acquisition, http://acquisition.gov/comp/seven_steps/index.html

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However, we found that the company does not have adequate insight into GE's performance to support decisions regarding credits.¹⁰ Specifically, the contracting officer:

- agreed to forfeit about \$240,000 of \$344,400 in credits for GE's late delivery of LCPM parts but did not have, or obtain from GE, any supporting documentation to justify these forfeitures;
- relied on GE-reported delivery dates to determine whether the company is owed credits for late deliveries of some LCPM parts because Procurement department personnel do not accurately record the delivery dates; and,
- relied on GE-reported data to assess whether spare parts and traction motors were delivered or shipped in accordance with the terms of the contract and did not review the supporting data GE used to calculate credits. Our analysis identified that the company should have been credited an additional \$25,000 for GE's delivery performance of spare parts.

In the absence of effective oversight, the company did not collect \$265,000 in credits for GE's delivery performance that we consider as funds that could be put to better use.

Unsupported Forfeiture of Credits Due to Late Delivery of LCPM Parts

The contracting officer forfeited \$240,000 of \$344,400 in credits for GE's late delivery of LCPM parts and did not have or obtain documentation from GE to support this decision. As noted earlier, the company earns a [REDACTED] credit for each day a part is delivered late but forfeits these credits if GE's delivery schedule was impacted by the company's late return of the corresponding parts. We determined that GE delivered [REDACTED] LCPM parts late from December 2013 through March 2015. The company received \$104,400 in credits for [REDACTED] of these parts but no credits for the remaining [REDACTED] parts. We calculated that the company was due a \$240,000¹¹ credit for the late delivery of these [REDACTED] parts.

When asked why the company did not receive these credits, the contracting officer said that the company does not always return LCPM parts to GE for reconditioning within

¹⁰ Under the contract, GE is responsible for calculating the credits and providing a report to the contracting officer.

¹¹ The \$240,000 was based on [REDACTED] parts delivered late totaling [REDACTED] days late [REDACTED]

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30 days of receiving the replacement part. The contracting officer stated that this was the reason that he did not pursue the \$240,000 in credits for these [REDACTED] parts; however, he did not have any documentation to show that the company's late return of parts negatively impacted GE's ability to satisfy the future LCPM delivery schedule. The contracting officer noted that there is still an opportunity to renegotiate with GE and potentially recover these credits.

Company Data for Verifying GE's Reported Delivery Dates for LCPM Parts is Unreliable

Material Management personnel (Procurement Department) are not accurately recording the delivery dates of LCPM parts, which limits the contracting officer's ability to determine whether the company is owed credits for late deliveries. To determine whether LCPM parts are delivered on time, the contracting officer compares the delivery date on GE's invoices to the delivery date that Procurement department personnel record in SAP.¹² However, Procurement department personnel do not have a procedure for accurately recording the delivery dates in SAP. For example, we found that for larger LCPM items, including engine kits, Procurement department personnel were recording the date the engine kit was provided to Mechanical department personnel for use rather than the date GE delivered the kit to the company's Chicago Maintenance Facility. As a result, the contracting officer relied on GE's reported delivery dates to determine whether the company was owed credits for the late delivery of parts.

Company Relies on GE Data to Assess Timeliness of Delivery of Spare Parts and Traction Motors

The company also relies on GE-reported data to assess whether spare parts and traction motors were delivered or shipped in accordance with the terms of the contract. GE provides the contracting officer a quarterly report that shows the number of spare parts and traction motors that it delivered or shipped on time and late. However, the contracting officer does not review the supporting data to ensure that GE's credit calculations are accurate.

We reviewed GE's supporting data for delivering and shipping spare parts for the

¹² SAP is software processes enterprise-wide data from various business areas, such as finance, procurement, payroll, and sales and distribution.

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entire contract period and found several instances when the company may have missed opportunities to receive credits for late parts deliveries or shipments, including the following:

- The company received a \$45,000 credit based on GE's late delivery of spare parts from December 1, 2013, through March 31, 2015. Both parties agreed to a contract letter for this amount in August 2015. However, in our review of the supporting data, we identified more late deliveries than GE did for 3 of the 16 months, resulting in additional credits owed to the company. We found that the company should have received a credit of \$70,000—a discrepancy of \$25,000 in the company's favor.
- According to GE's data, it is entitled to a credit of \$112,500 based on its timely delivery of spare parts from April 1, 2015, through June 30, 2016. As of December 1, a contract letter has not been agreed to for this amount. However, in our review of the supporting data, we again identified more late deliveries than GE did for 3 of the 15 months, which should result in a lower credit owed to GE. We found that GE should receive a \$37,500 credit—a discrepancy of \$75,000 in the company's favor.

We reviewed GE's supporting data for traction motor shipments for the entire contract period and confirmed that the credits were accurately calculated.

CONCLUSIONS

With more effective management and oversight, the company could have avoided depleting its own inventory of parts that GE may have been contractually obligated to provide, and up to \$5.3 million in company funds could be put to better use. The \$5.3 million is spare parts that may have been covered under the GE contract.

The company can also improve its oversight of GE's performance in delivering and shipping spare parts within the agreed-on time frames. This will help ensure that the company maximizes opportunities to earn monetary credits for these deliveries, such as the \$265,000 we identified through our review. Taking steps to ensure that Procurement department personnel accurately record the date when LCPM parts are delivered would enable the contracting officer to determine whether credits should be received for late delivery. Additionally, performing a thorough review of the data that GE reports for determining whether GE met its contractual obligation for delivering and

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shipping other spare parts and traction motors will help the company ensure that GE is accurately calculating the credits owed for its performance. These actions will contribute to company efforts to reduce net operating loss.

RECOMMENDATIONS

To help strengthen management controls and oversight of the GE contract and better leverage company resources, we recommend that the Executive Vice President/Chief Operating Officer direct the Chief Mechanical Officer to take the following actions:

1. In consultation with the Law and Procurement departments, determine what portion, if any, of the \$5.3 million in spare parts previously obtained from the company's inventory are covered under the terms of the GE contract and are thus eligible for GE replenishment.
2. Document whether spare parts obtained from the company's inventory are covered under the contract or are exceptions, such as parts used to repair wrecks or debris strikes.

To help improve contract administration and to enhance company opportunities to earn monetary credits from the GE contract, we recommend the Executive Vice President/Chief Administration Officer¹³ direct the Vice President/Procurement and Logistics to develop a system of management controls for maintaining data on parts deliveries that can be used to assess GE's delivery performance, and any related calculation of credits. These controls should include procedures to:

3. Accurately record the dates that LCPM parts are delivered, and document the calculation of company credits, including any instances in which credits for these parts are forfeited.

Additionally, to enhance company opportunities to earn monetary credits from the GE contract, we recommend the Vice President/Procurement and Logistics direct the contracting officer to:

4. Determine what portion, if any, of the \$240,000 in credits for the late delivery of some LCPM parts and \$25,000 in credits from late delivery of some spare parts can be credited to the company.

¹³ This recommendation reflects the new organizational structure announced on January 4, 2017.

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MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of this report for the company, the Executive Vice President/Chief Administration Officer stated that management agreed with our four recommendations and outlined planned actions that, if fully implemented, will address the intent of these recommendations. All planned actions are estimated to be completed by June 30, 2017. The company's planned actions are summarized below.

- **Recommendation 1.** Management agrees with our recommendation to determine what portion, if any, of the \$6.1 million in spare parts previously obtained from the company's inventory are covered under the terms of the GE contract and are eligible for GE replenishment. Management noted that an initial review of the data indicates that up to \$900,000 of the \$6.1 million may pertain to 500 series locomotives that are not covered under the terms of the contract. Our analysis of the data determined that about \$770,000 of the spare parts were for the 500 series locomotives. Therefore, we reduced our estimate of potential savings from \$6.1 million to \$5.3 million and included this revised figure in the final report. Management noted that they plan to examine the data and develop a strategy to analyze Mechanical department files to determine if there are additional opportunities to file claims with GE for replenishment.
- **Recommendation 2.** Management agreed with our recommendation to document whether spare parts obtained from the company's inventory are covered under the contract or are exceptions, such as parts used to repair wreck or debris strikes. Management stated it plans to perform a gap analysis of all Mechanical department policies, procedures, and trainings, and that it will develop new working procedures if necessary. Management also plans to provide refresher training to Mechanical department personnel on existing policies, as needed.
- **Recommendation 3.** Management agreed with our recommendation to develop a system of management controls to include procedures to accurately record the dates that LCPM parts are delivered, and document the calculation of company credits, including any instances in which credits for these parts are forfeited. Management noted that it plans to standardize the material receiving process to ensure receipt of all parts in a timely fashion. Management also noted the Senior

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Principal Contract Officer will document credits due, including any instance in which credits are forfeited, along with the calculations supporting these figures.

- **Recommendation 4.** Management agreed with our recommendation to determine what portion, if any, of the \$240,000 in credits for the late delivery of some LCPM parts and \$25,000 in credits from late delivery of some spare parts can be credited to the company. Management plans to investigate these potential credits and will seek the appropriate credit(s) from GE, based on the results of their findings.

For management's complete response, see Appendix C.

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APPENDIX A

Scope and Methodology

This report provides the results of our audit of the management and oversight of the contract. The scope of work included all spare parts for GE diesel locomotives obtained under the contract, and from the company's inventory from December 1, 2013, through June 30, 2016. We performed our audit work from May 2015 through December 2016 in Chicago, Illinois; Beech Grove, Indiana; Albany, New York; and Philadelphia, Pennsylvania. Certain information in this report has been redacted due to its sensitive nature.

Our methodology for reviewing the effectiveness and efficiency of the company's process for managing and overseeing the contract with GE included reviewing the terms and conditions of the contract and performance measurement reports, and interviewing the following:

- the Contracting Officer, inventory specialists, and buyers associated with GE parts and materials management personnel in the Procurement department;
- the Contracting Officer's Technical Representative and various foremen in Beech Grove and Chicago who order parts in the Mechanical department; and
- General Electric personnel: Passenger Service Leader, Materials Manager Parts and Service, and Field Service Advisor.

We used data analytics to analyze the Service Agreement GE claim database, which contains all the claims for spare parts submitted to GE. Our analysis consisted of identifying spare parts obtained directly from GE, obtained from company inventory and subsequently backfilled by GE, and obtained from GE and company inventory from December 1, 2013, through June 30, 2016.

We also compared all the spare parts obtained from the company's inventory to claims submitted to GE from December 1, 2013, through June 30, 2016. We classified potential missed claims when a part was obtained from inventory but no claim had been submitted to GE. To determine the value of these potential missed claims, we multiplied the price from SAP data, provided to us in August 2016, for each part times the quantity of spare parts when no claim had been submitted to GE.

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To assess the delivery of LCPM parts, we compared the delivery date in the annual schedule, the GE-reported delivery date, and the company's recorded delivery for all LCPM delivered from December 1, 2013 through June 30, 2016. We identified instances when an LCPM part was delivered late, but the company did not receive a credit. For these items, we applied the performance criteria in the contract to identify instances when the company should have received a credit.

To assess GE's delivery and shipment of spare parts and traction motors, we verified the formulas in GE's quarterly performance reports to calculate whether a spare part or traction motor was delivered or shipped on time or late. We identified errors in some formulas; we corrected the formulas and recomputed the credits.

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 objective. 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 used to manage and oversee the contract with General Electric. We reviewed the procedures for ordering spare parts and for recording receipt of LCPM and traction motor services. We did not review the Procurement department's overall system of controls and procedures for contract management.

Computer-Processed Data

We relied on computer-processed data from the Service Agreement GE claim database to identify spare parts claimed under the contract, and we relied on SAP to identify spare parts obtained from inventory from December 1, 2013, through June 30, 2016. To verify the accuracy of this data, we matched claims for spare parts to inventory movements recorded within SAP. Based on the tests conducted, we concluded that the data were sufficiently reliable to be used in meeting our audit objective.

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Prior Reports

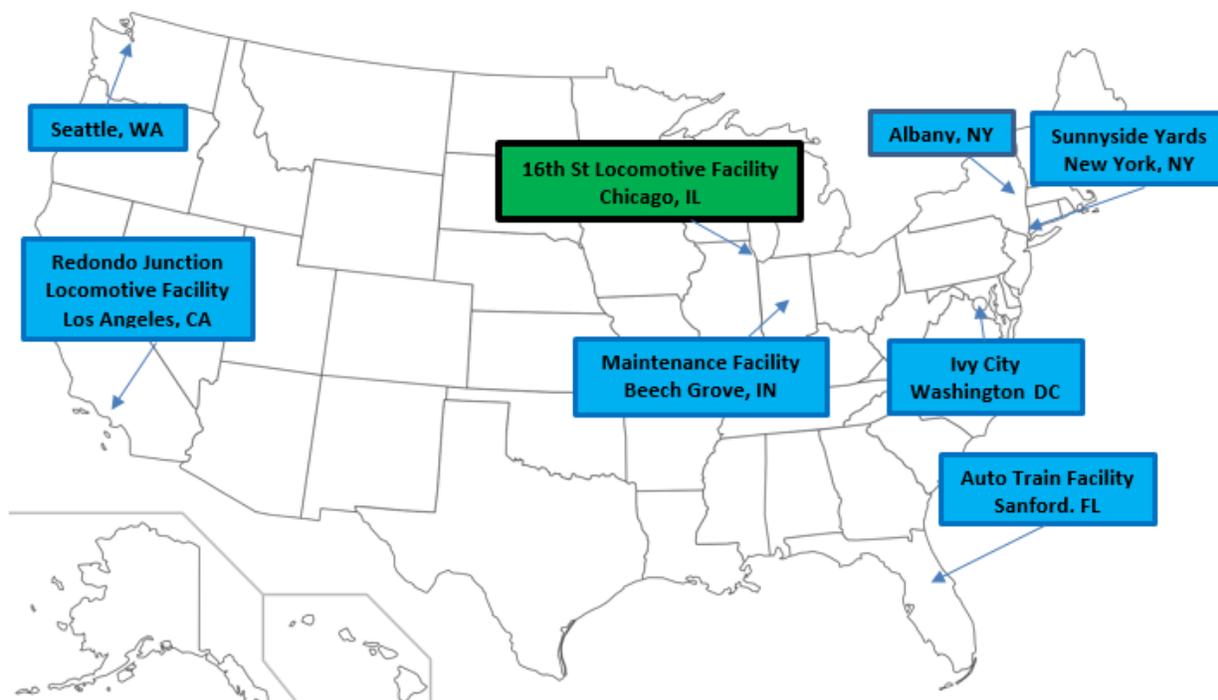
In conducting our analysis, we reviewed the following reports:

- *Acquisition and Procurement: Improved Management Will Lead to Acela Parts Contract Cost Savings* (OIG-A-2015-008), March 10, 2015
- *Governance: Improved Policies, Practices, and Training Can Enhance Capital Project Management* (OIG-A-2014-009), July 15, 2014
- *Acquisition and Procurement: Closer Alignment with Best Practices Can Improve Effectiveness* (OIG-A-2014-006), May 7, 2014

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APPENDIX B

Locations Performing Maintenance on GE Diesel Locomotives



Source: Amtrak OIG

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APPENDIX C
Management Comments

NATIONAL RAILROAD PASSENGER CORPORATION

Memo



Date *January 25, 2017*

From 
D.J. Stadler
 Executive Vice President/Chief
 Administration Officer

To *Stephen Lord*
 Assistant Inspector General, Audits

Department *Administration*

cc *Eldie Acheson*
Michael Alexis
Mario Bergeron
Matthew Gagnon
Stephen Gardner
Ghada Ijam
Scot Naparstek
Bernard Reynolds
Jerry Sokol
Scott Wilkinson

Subject: *Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings (Audit Report for Project No. 014-2015).*

This memorandum provides Amtrak's response to the OIG Audit Report: "*Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings (Audit Report for Project No. 014-2015).*"

We appreciate this opportunity to respond to the OIG recommendations. As indicated in our responses, we agree with all of the recommendations and have initiated actions to address each in a timely manner.

Recommendation 1:

[To help strengthen management controls and oversight of the GE contract and better leverage company resources, we recommend that Mechanical management,] in consultation with the Law and Procurement departments, determine what portion, if any, of the \$6.1 million in spare parts previously obtained from the company's inventory are covered under the terms of the GE contract and are thus eligible for GE replenishment.

Management Response/Action Plan:

Management agrees with this recommendation, and has determined that it is possible that some covered materials requested from the warehouse did not have a claim associated with the material reservation when required. These reservations may represent potential claims and, with supporting documentation, could be the basis for the processing of GE SAGE claims.

Under the contract any materials needed to repair locomotives that are related to damage, debris strike, wreck or derailment are not covered and are not claimed. At this point in time it is not clear how much, if

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any, of the \$6.1 million in spare parts are eligible for reimbursement under a claim. Initial review of the data indicates that up to \$900 thousand of the \$6.1 million may be for 500 series locomotives that were not part of the covered materials agreement. This would mean that \$5.2 million of \$40.1 million (\$34.0M plus \$6.1M) or 13% of material requests needs further review and were not associated with a claim. This may be consistent with the incidents of debris strikes and other related damage to our locomotive usually related to grade crossing accidents.

Mechanical has started to examine the data and determine the strategy needed to perform the analysis that would compare work order information in WMS with SAP and GE SAGE information to determine if there are situations that would support a claim. We expect to complete this examination by the end of June 2017. Final determination of the strength of any claim will be reviewed with Logistics and Law before proceeding. The Sr. Manager Business Systems (Mechanical), working with the Principal Contract Administrator (Mechanical) will lead this review effort.

Responsible Amtrak Official(s): Sr. Manager Business Systems and Principal Contract Administrator
Target Completion Date: 6/30/2017

Recommendation 2:

[To help improve contract administration and to enhance company opportunities to earn monetary credits from the GE contract, we recommend that management develop a system of management controls, including procedures to,] document whether spare parts obtained from the company's inventory are covered under the contract or are exceptions, such as parts used to repair wreck and debris strikes.

Management Response/Action Plan:

Management agrees with this recommendation. Our mechanical department will review all relevant procedures and conduct refresher training, on existing procedures, as needed. This review may result in new working procedures and these will be documented as part of this effort.

The review of all (Mechanical) related policies, procedures, training, and identification of gaps including recommendations of corrective actions will be completed by the end of the third quarter, FY 2017. Where changes can be expedited through training or updated procedures they will immediately follow the identification of gaps.

The Director Mechanical Contracts, working with the CMO, will take the lead in the review and response to this recommendation.

Responsible Amtrak Official(s): Director Mechanical Contracts
Target Completion Date: 6/30/2017

Recommendation 3:

[To help improve contract administration and to enhance company opportunities to earn monetary credits from the GE contract, we recommend that management develop a system of management controls, including procedures to,] accurately record the dates that LCPM parts are delivered, and document the calculation of company credits, including any instances in which credits for these parts are forfeited.

Management Response/Action Plan: Management agrees with this recommendation. Procurement and Logistics has begun standardizing the material receiving process and will continue to document and enforce the required receiving activities in order to receive all parts in a timely fashion. The Sr. Principal

Certain information in this report has been redacted due to its sensitive nature.

Amtrak Office of Inspector General
Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings
OIG-A-2017-005, February 3, 2017

NATIONAL RAILROAD PASSENGER CORPORATION

Contract Officer will document the credits due, including any instances in which credits are forfeited, along with the calculations supporting these figures.

Responsible Amtrak Official(s): Deputy Strategic Acquisition & Contract Administration
Target Completion Date: 6/30/2017

Recommendation 4:

[Additionally, to enhance company's opportunities to earn monetary credits from the GE contract, we recommend that the contracting officer] determine what portion, if any, of the \$240,000 in credits for the late delivery of some LCPM parts and \$25,000 in credits from late delivery of some spare parts can be credited to the company.

Management Response/Action Plan: Management agrees with this recommendation. The Sr. Principal Contract Officer responsible for administering the GE Diesel Locomotive Service Contract started investigating these potential credits due to Amtrak during the course of the OIG's audit. Amtrak will continue to pursue this opportunity and will seek the appropriate credit(s) from GE, based on the results of our findings.

Responsible Amtrak Official(s): Deputy Strategic Acquisition & Contract Administration
Target Completion Date: 6/30/2017

Amtrak Office of Inspector General
**Acquisition and Procurement: Improved Management and Oversight of GE Diesel
Locomotive Service Contract Could Lead to Savings**
OIG-A-2017-005, February 3, 2017

APPENDIX D

Acronyms and Abbreviations

| | |
|-------------|------------------------------------|
| GE | General Electric |
| LCPM | Life Cycle Preventive Maintenance |
| OIG | Amtrak Office of Inspector General |
| the company | Amtrak |

Amtrak Office of Inspector General
**Acquisition and Procurement: Improved Management and Oversight of GE Diesel
Locomotive Service Contract Could Lead to Savings**
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APPENDIX E

OIG Team Members

| | |
|-------------------|-------------------------|
| Michael Kennedy | Senior Director, Audits |
| Todd Kowalski | Senior Audit Manager |
| Heather Brockett | Senior Auditor Lead |
| Walter Beckman | Senior Auditor |
| Thelca Constantin | Senior Auditor |

OIG MISSION AND CONTACT INFORMATION

Mission

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

Obtaining Copies of Reports and Testimony

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Report suspicious or illegal activities to the OIG Hotline

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or

800-468-5469

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