



OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

SEMIANNUAL REPORT to the United States Congress

April 1, 2018–September 30, 2018
Report # 58





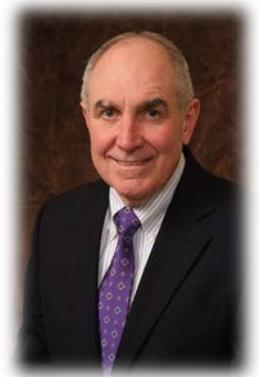
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From the Inspector General



OFFICE of INSPECTOR GENERAL
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This year marks the 40th anniversary of the Inspector General Act and the creation of the original 12 Offices of Inspector General. Our office was established in 1989 as a result of 1988 amendments to the Act. Since that time, the community has grown to include 73 statutory Inspectors General who collectively oversee the operations of nearly all aspects of federally funded operations. Every six months, we are required by the Act to provide Congress a report detailing our independent oversight of Amtrak. This report—the 58th in our history—highlights our activities for the six months ending September 30, 2018.

Our activities continued to focus on assessing the efficiency and effectiveness of Amtrak's programs and operations while investigating allegations of fraud, waste, and abuse. Most recently, we reported our views of the top management and performance challenges facing Amtrak for fiscal years 2019 and 2020. We concluded that the company made progress across each of the challenge areas. In particular, the company reduced operating costs to the lowest amount in the past five fiscal years, and it institutionalized more effective management processes and tools. However, the company continues to face several longstanding challenges. Chief among them is improving its safety record, as employee and passenger fatalities increased to their highest levels since fiscal year 2015.

Among other issues, our investigative work led to a \$650,000 settlement from an alleged False Claims Act violation involving an Amtrak contractor. We also participated in multiple investigations of health care fraud that resulted in arrests and convictions in Florida and California. Additionally, we investigated a significant breach of the company's ethics policy that involved collusion between an Amtrak employee and officials of a contractor on maintenance contracts worth \$7.6 million.

In the months ahead, we will continue to focus on high-risk areas of the company's programs and operations and will unwaveringly pursue our vision of operating as a model OIG by developing objective products that provide value to company management, the Board of Directors, Congress, and the public. We also continue working with the 73 statutory Inspectors General that constitute the Council of Inspectors General on Integrity and Efficiency. We trust that you will find this report informative.

A handwritten signature in blue ink that reads "Tom Howard". The signature is fluid and cursive.

Tom Howard
Inspector General

OIG Profile

Authority, Mission, Vision, and Focus Areas

Authority

The Inspector General Act of 1978 (Public Law 95-452, 5 U.S.C. Appendix 3), as amended in 1988 (P.L. 100-504), established the OIG for Amtrak to consolidate investigative and audit resources into an independent organization headed by the Inspector General to promote economy, efficiency, and effectiveness; and to detect and prevent fraud, waste, and abuse. Subsequently, the Inspector General Reform Act of 2008 (P.L. 110-409) and the Inspector General Empowerment Act of 2016 (P.L. 114-317) amended and strengthened the authority of inspectors general.

Mission

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.

Vision

Amtrak OIG will operate as a model OIG, generating objective and sophisticated products that add value. Utilizing modern infrastructure and effective support systems, and following efficient, disciplined processes that meet the standards of the accountability community, our diverse and talented team will work professionally with, but independently from, Amtrak management.



Significant Activities:

Management Challenges

Amtrak: Top Management and Performance Challenges—Fiscal Years 2019 and 2020
(Report No. OIG-SP-2018-011, September 28, 2018)

This report identified our views of the top management and performance challenges facing Amtrak (the company). Many other inspectors general are legislatively required to produce similar reports focusing on high-risk or high-impact activities and performance issues that affect programs, operations, and the achievement of strategic goals. Those reports have shown that periodically identifying and reporting these challenges to management and other decision-makers can help improve organizational performance. Although we are not legislatively required to report on top management and performance challenges, we do so with the intent of providing similar benefits.

Fiscal year (FY) 2018 was a year of significant change and improvement for the company. Most notably, the company made progress toward operating more like a business. This included articulating a clear set of strategic goals and priorities, making decisions based on these priorities, and moving quickly to achieve bottom-line results. To sustain its progress, the company proceeded vigorously on a wide range of concurrent initiatives. For example, the company took aggressive steps to improve its financial performance, and its FY 2017 operating loss of \$194 million represented a \$167 million (46 percent) improvement over its FY 2013 loss. The company forecasted a loss of about \$180 million for FY 2018 and is planning to eliminate the loss by the end of FY 2021. However, the company will face difficulties accomplishing this without addressing the historically high costs incurred on its long-distance routes.

The company is also taking steps to improve its safety culture and performance, including implementing a safety management system, advancing positive train control implementation, and appointing a Chief Safety Officer at the Executive Vice President level to oversee and emphasize the importance of operating safely. However, the company continues to face challenges with its safety culture and performance. According to the National Transportation Safety Board, the company has a weak safety culture that has

Significant Activities

contributed to a poor record. This record includes a series of train crashes, derailments, and other safety incidents that have killed 11 passengers and 9 employees since October 2012.

Among its other initiatives, the company has focused more on taking care of customers, as evidenced by its decision to fund initiatives that include refreshing passenger car interiors, providing customers with cleaner bathrooms, and developing additional training for all customer-facing employees. In addition, the company is pursuing a once-in-a-generation upgrade to its diesel locomotives and passenger rolling stock, as well as major redevelopment initiatives at some of its largest stations. Furthermore, the company and its partners have identified infrastructure needs, although they will require significant funding, and securing adequate resources is sometimes beyond the company's control.

Although the fast pace of changes in the company's business operations has resulted in many accomplishments, it is also creating some strains. Executives and senior officials voiced concerns that the company may lack the capacity to handle so many initiatives simultaneously. For example, the size and scope of the company's ongoing and planned asset purchases would make managing any one of them challenging given the company's history of weaknesses in planning and managing major programs; therefore, pursuing them concurrently is a daunting undertaking. Given the pace, volume, and scope of the ongoing changes, it will be important for the company to ensure that departments and employees embrace these transitions and that they crystalize into sustainable, institutional solutions.

In this environment, we identified the following eight major management and performance challenges:

- **Safety and Security:** *Addressing Significant Risks to Employees and Passengers*
- **Governance:** *Institutionalizing More Effective Management Processes and Tools*
- **Financial Performance:** *Securing the Company's Financial Future*
- **Asset Management:** *Ensuring Capacity, Coordination, and Effective Planning for Major Asset Upgrades*
- **Customer Service:** *Putting Customers First*
- **Acquisition and Procurement:** *Strengthening Procurement Processes*

- **Information Technology:** *Effectively Delivering on Technology Projects While Minimizing Cyber-Security Risks*
- **Human Resources:** *Strategically Managing the Workforce*

We discuss each of these challenges in detail in this report, highlighting examples where our work illustrates the nature and extent of the challenges, the company's progress in addressing them, and additional actions the company can take to further address the challenges and their underlying causes.

Audits and Investigations

Governance

Governance: Quality Control Review of Amtrak's Single Audit for FY 2017

(Report No. OIG-A-2018-009, July 25, 2018)

The company is required to have an independent audit of its control over federal grant funds in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The objective of the audit is to test internal control over compliance and determine whether the company complied with the laws, regulations, and provisions of its federal grant agreements.

As authorized by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with generally accepted government auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards and Uniform Guidance requirements.

Bribery

April 2018 (Investigation)

On April 19, 2018, a former company employee pleaded guilty to one count of federal program bribery in the United States District Court for the Eastern District of Pennsylvania.

Significant Activities

According to court documents, Timothy Miller—a former Lead Contract Administrator with Amtrak, responsible for procuring equipment and services and managing the account for diesel and locomotive seat-cushion vendors—steered four fleet maintenance contracts worth more than \$7.6 million to a single vendor in exchange for approximately \$20,000 in bribes, trips, and other items of value. Miller received the payments through a sham consulting company he created in coordination with two executives from the vendor to conceal his relationship with them.

A cross-agency team of our investigators and special agents from the Federal Bureau of Investigation (FBI), the Department of Transportation OIG, and the Internal Revenue Service conducted the investigation that resulted in the charge. On June 1, 2018, the Federal Railroad Administration also suspended Miller from participation in federal procurement and non-procurement programs.

Employee Theft of Cash

April 2018 (Investigation)

A ticket agent resigned on April 5, 2018, prior to an administrative hearing, for stealing money from a cash drawer at Los Angeles Union Station. Our investigation determined that the employee would wait until train conductors electronically scanned passengers' tickets and would then reset the ticket's status as if it had not been scanned at all. This process of resetting the tickets' status allowed the tickets to be refunded or exchanged. Subsequently, the employee processed the tickets for cash refunds, taking and keeping the money from the cash drawer.

In connection with the same scheme, on August 23, 2018, a second ticket agent self-surrendered and appeared in the United States District Court for the Central District of California on charges of Theft of Public Funds, and a third resigned on August 28, 2018, prior to an administrative hearing for stealing money from a cash drawer at Los Angeles Union Station. To date, a total of six ticket agents have resigned as a result of this investigation.

Use of Improperly Obtained Parking Passes

April 2018 (Investigation)

Three employees were dismissed from the company on April 25, 2018, for violating company policy by using improperly obtained parking passes to avoid paying parking fees at Chicago Union Station and for not fully cooperating with our investigators.

In addition, six other individuals—not employed by Amtrak—have been arrested on charges related to this case. Three have been convicted for theft charges in the Circuit Court of Cook County, Illinois, while judicial proceedings are pending for the others.

We conducted this joint investigation with the Amtrak Police Department.

Health Care Fraud

During this reporting period, we were involved in multiple investigations related to health care fraud.

Nationwide Department of Justice Health Care Fraud Enforcement Actions

In June 2018, we supported the Department of Justice during a nationwide health care fraud enforcement action resulting in charges against hundreds of individuals allegedly involved in fraudulent activities.

Our investigators and other law enforcement officials from dozens of agencies conducted the operation that spread across 58 federal districts. According to a Department of Justice press release, 601 individuals were charged for alleged participation in health care fraud schemes that resulted in more than \$2 billion in false billings. Of those charged, 165 were doctors, nurses, or licensed medical professionals.

In a California investigation, we discovered that the owner of a health and wellness company allegedly misled Amtrak employees by claiming that their health plan covered gym memberships, personal trainers, supplements, and fitness tracking devices. The owner allegedly used this ruse to collect insurance information from the employees and subsequently generate falsified prescriptions for compounded medications in the employees' names. The owner allegedly provided the falsified

Significant Activities

prescriptions to the owners of a pharmacy — co-conspirators in the scheme — who would then bill Amtrak’s health plan. In exchange for the prescriptions, the health and wellness company owner allegedly received hundreds of thousands of dollars in kickback payments from the pharmacy owners. The owner was charged with one count of health care fraud and one count of conspiracy to commit health care fraud. Criminal judicial proceedings are continuing.

Two Florida Substance Abuse Treatment Centers Owners Sentenced

On May 11, 2018, two substance abuse treatment center owners were sentenced to prison for their participation in a multimillion dollar health care fraud and money laundering scheme.

According to a press release from the United States Attorney’s Office, Southern District of Florida, Tovah L. Jasperson, 48, of Wellington, Florida, was sentenced to 78 months in prison, to be followed by 3 years of supervised release. Alan M. Bostom, 75, also of Wellington, was sentenced to 30 months in prison, to be followed by 3 years of supervised release. Both were ordered to pay restitution of \$4,045,364.98. Jasperson previously pleaded guilty to one count of conspiracy to commit health care fraud. Bostom previously pleaded guilty to one count of making false statements related to a health care matter.

We are supporting the FBI-led Greater Palm Beach Health Care Fraud Task Force in its ongoing investigation into a series of complex insurance fraud schemes in Florida. We were invited to be part of the task force in 2014 after Amtrak insurance providers received allegedly fraudulent charges from substance abuse treatment centers and facilities known as “sober homes” in the area.

California Podiatrist Convicted of Health Care Fraud

On July 25, 2018, Domenic Signorelli, a podiatrist, pleaded guilty in the United States District Court for the Central District of California to conspiracy to commit health care fraud, money laundering, and mail fraud. According to court documents, Signorelli received kickbacks from a marketer for prescribing unnecessary compounded medications to patients without their knowledge. The medications were dispensed by Precise Compounding Pharmacy and other

pharmacies. As a result of the scheme, Amtrak's insurance providers were fraudulently charged approximately \$22,000. On May 24, 2018, two other defendants were indicted on similar charges, and one of those defendants was subsequently arrested on July 20, 2018. Criminal judicial proceedings for all three defendants are pending.

Corporate Officers in Florida Company Convicted of Health Care Fraud

On August 31, 2018, in the United States District Court for the Southern District of Florida, Smart Lab LLC, the corporation's Chief Executive Officer and Chief Operating Officer, as well as the corporation's top sales representative, pleaded guilty for their participation in a multimillion-dollar health care fraud scheme. The scheme involved the filing of fraudulent insurance claim forms, defrauding health care benefit programs, and money laundering, according to a United States Attorney's Office press release.

According to court documents, Smart Lab's Chief Executive Officer, H. Hamilton Wayne, 40, of Palm Beach Gardens, and its Chief Operating Officer, Justin M. Wayne, 39, of Boca Raton, established relationships in which H. Wayne and co-conspirators would solicit bodily fluid samples from substance abuse treatment centers for confirmatory drug testing at Smart Lab's facility. The scheme sought insurance payments for the testing—testing that was medically unnecessary. In exchange for the submission of bodily fluid samples, Smart Lab would kick back a portion of insurance reimbursements for the testing, fraudulently disguised as payments for sales commissions, to the treatment centers.

Amtrak's insurance programs paid more than \$114,000 to Smart Lab over the course of the scheme. The Waynes each pleaded guilty to one count of conspiracy to commit health care fraud. A Smart Lab sales representative involved in the scheme, Lanny Fried, 41, of Miami, pleaded guilty to one count of conspiracy to commit money laundering. This case was part of our support to the FBI-led Greater Palm Beach Health Care Fraud Task Force in its ongoing investigation into a series of complex insurance fraud schemes in Florida.

Significant Activities

Disadvantaged Business Enterprise Program Fraud

August 2018 (Investigation)

On August 30, 2018, Alpha Painting and Construction, Inc., and a project manager with that company were found guilty in the United States District Court for the Eastern District of Pennsylvania of one count of conspiracy to commit wire fraud, three counts of wire fraud, and ten counts of making false statements. We assisted the Department of Transportation OIG, the Department of Labor OIG, and the FBI in the investigation into the painting company's scheme, which violated requirements for the Department of Transportation's Disadvantaged Business Enterprise Program (DBE) and involved construction projects at the 30th Street Station in Philadelphia.

Alpha Painting entered into a joint venture with Liberty Maintenance and Markias, Inc., a now defunct certified DBE, to qualify for Pennsylvania Department of Transportation contracts to rehabilitate two bridges in the area. The contracts required Alpha Painting to use a qualified DBE to provide supplies for the projects. To receive DBE credits, Alpha Painting's project manager, Stamatios "Tom" Kousisis, used Markias as a pass-through, purchasing materials for the projects himself, but arranging for suppliers to send invoices to Markias, who marked up the invoice prices by 2.25 percent. Markias would send the invoices to Kousisis, who would issue two sets of checks to Markias—one to pay Markias's fee for acting as a bogus pass-through and the other for Markias to pay the suppliers of the goods. Over the course of the fraudulent scheme, Kousisis, 60, of Downingtown, Pennsylvania, was responsible for causing approximately \$4.5 million in false claims for DBE credits to be submitted to the Pennsylvania Department of Transportation.

Ongoing Work—Governance

Monitoring the Work of the Independent Public Accountant Conducting the FY 2018 Audit of Amtrak's Consolidated Financial Statement. Our objectives are to (1) determine whether the Independent Public Accountant performed the audit of the company's Consolidated Financial Statements in accordance with generally accepted government auditing standards and (2) monitor the company's administration and facilitation of the audit.

Monitoring the Work of Amtrak’s Independent Public Accountant Conducting the FY 2018 A-133 Audit. The objective is to determine whether the Independent Public Accountant performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133.

Acquisition and Procurement

False Claims Act Settlement

May 2018 (Investigation)

ABSG Consulting, Inc., agreed to pay the United States \$650,000 to resolve an allegation that it knowingly submitted false claims to Amtrak in the award of a \$1 million training contract. The allegation arose because Amtrak was not notified that ABSG Consulting’s program manager for the contract had a close personal and financial relationship with the senior Amtrak Police Department (APD) official who approved ABSG Consulting’s selection as the winning bidder and oversaw implementation of the training program.

In May 2014, Amtrak awarded a contract to ABSG Consulting, Inc., to provide training to APD personnel and other law enforcement agencies that work with APD in and around rail facilities during inspections, law enforcement operations, and emergencies. The training program, entitled “RAILSAFE,” was funded by federal grant money in an amount of approximately \$1 million.

After the contract was competitively awarded, we learned that the APD employee in charge of overseeing the RAILSAFE contract had a close personal and financial relationship with ABSG Consulting’s program manager before the award and during the performance of the RAILSAFE contract. Our investigation led to the United States alleging that the relationship was a material violation of the RAILSAFE contract’s express prohibition against conflicts of interest, Amtrak’s Ethical Conduct and Conflict of Interest policy, and ABSG Consulting’s own Ethics Code. The United States further contended that it had certain civil claims against ABSG Consulting arising from the submission of invoices and subsequent payments from Amtrak that resulted from the failure to properly disclose the personal relationship and potential conflict of interest.

Significant Activities

As soon as Amtrak was made aware of this relationship, it stopped payment on the RAILS SAFE contract. The APD employee retired from Amtrak, and without admitting liability, the ABSG Consulting employee was dismissed. ABSG Consulting agreed to resolve the potential claims against it by paying an amount equal to three times the total profit made on the contract, or \$650,000. In addition, Amtrak denied payment for outstanding invoices from ABSG Consulting totaling \$76,712.

Ongoing Work—Acquisition and Procurement

Audit of Contracting Oversight. Our objective is to assess the effectiveness of the company’s policies and practices for overseeing contractor performance from contract award to completion, and to identify possible areas for improvement.

Human Capital Management

Time and Attendance Fraud

May 2018 (Investigation)

A Track Supervisor in Hasbrouck Heights, New Jersey, was dismissed from the company following an administrative hearing on May 24, 2018, for theft related to time and attendance fraud. Our investigation found that, from March to April 2016, the employee wrongfully claimed at least 30 hours of regular scheduled time and overtime hours. In addition, on January 22, 2017, he submitted 14 hours of regular time and another 14 hours of overtime for the same day. In total, we determined that the supervisor caused the company to pay him over \$1,700 for time not worked.

Unauthorized Leave and Failing to Cooperate with Investigators

June 2018 (Investigation)

An electrician with the Mechanical department was dismissed from the company on June 13, 2018, after a hearing officer found that he violated company policies for failure to cooperate with an OIG investigation and for misuse of the Family Medical Leave Act by claiming a day of leave and accepting pay for time spent while incarcerated.

Failure to Report Drug Conviction

June 2018 (Investigation)

A Foreman was dismissed from the company on June 18, 2018, after a hearing officer found that he violated the company's Standards of Excellence policy by failing to notify the company of a drug or alcohol-related conviction for engaging in the distribution of, possession with intent to distribute, or importation of a controlled substance. On November 1, 2017, the foreman pleaded guilty to two drug-related felony counts and was sentenced to 6-23 months confinement followed by 36-months of probation by the Court of Common Pleas of Bucks County, Pennsylvania.

Fraudulent Designation of Health Insurance Beneficiaries

June 2018 (Investigation)

A Food Specialist in Los Angeles, California, was dismissed from the company following an administrative hearing on June 22, 2018, for violating company policy by fraudulently designating four individuals who were not his legal dependents as beneficiaries on his company health insurance. During the time these individuals were improperly covered under the company's health insurance plan, the company paid approximately \$744,000 in health care claims on their behalf.

Improper Acceptance of Gifts

August 2018 (Investigation)

A Trainmaster was dismissed from his position with the company on August 14, 2018, and an executive resigned from his position in lieu of dismissal on August 17, 2018. The Chicago-based employees violated company policy by accepting gifts from the owner of a firm doing business with Amtrak and by intentionally providing false or misleading information to our investigators.

Employee Theft of Cash

August 2018 (Investigation)

An Extra Board Lead Service Attendant in Chicago, Illinois, was dismissed from the company on August 23, 2018, following an administrative hearing for violating company policy by stealing company funds and financial paperwork, wrongfully engaging in

Significant Activities

outside employment while on medical leave, and failing to cooperate with our investigators during the investigation.

Our investigation found that the employee stole approximately \$2,418 in cash and/or the cash equivalent value of unaccounted for/missing inventory. Additionally, we found that the employee worked at a local university while on medical leave from the company. Criminal judicial proceedings related to this case are pending in the Circuit Court of Cook County, Illinois.

We conducted this joint investigation with the Amtrak Police Department.

Theft of Customer Credit Card Numbers

September 2018 (Investigation)

A Reservation Sales Agent resigned from employment on September 4, 2018, after the employee was prosecuted for theft of customer credit card numbers. Our investigation found the employee used the stolen credit card numbers to purchase items for personal use valued at over \$2,100. On August 22, 2018, in the Court of Common Pleas of Philadelphia County, Pennsylvania, the employee entered into an Accelerated Rehabilitative Disposition (intervention program) agreement for 12 months. The investigation was conducted jointly with the Amtrak Police Department.

Appearance of Conflict of Interest

September 2018 (Investigation)

A Foreman in Chicago, Illinois, was issued a letter of counseling on September 9, 2018, for providing an unauthorized written endorsement of a company vendor. The written endorsement was posted on the vendor's website.

On August 23, 2018, the vendor was issued a notice to remove the unauthorized endorsement, along with all company images and logos that had been posted to their website without permission. The vendor subsequently removed the unauthorized endorsement and images containing the company logo from their website.

Information Technology

Information Technology: Opportunities Exist to Improve the Company's Ability to Restore IT Services After a Disruption

(OIG-A-2018-010, September 10, 2018)

Since 2015, the company has spent more than \$12 million to minimize the possibility and impact of disruptions to its information technology (IT) services, which support the company's business functions. The company's IT department is responsible for restoring IT services after a disruption—whether they result from human error or from large-scale events such as natural disasters, cyber-attacks, or physical attacks. To prepare for such events, the IT department is responsible for developing IT business continuity and disaster recovery plans and testing its applications in accordance with these plans to ensure that it can quickly restore IT services.

We found that the company had opportunities to improve its efforts to restore IT services after a disruption. The IT department developed and tested business continuity plans for one IT application environment, but it had not done so for the environments where most of the company's applications are hosted. Many of these applications were mission-critical—such as those used to sell tickets, maintain train equipment and railroad infrastructure, and pay employees and vendors. As a result, the company did not have assurance that it is prepared to restore service after a disruption. Over the next three years, additional service disruptions could result in an estimated \$3 million in revenue and potential productivity losses. To help mitigate these risks, the company is planning to move most of its applications to the cloud environment over the next several years. However, the company did not have comprehensive plans and timelines to guide this migration or the supporting analysis to prioritize the migration of the most critical applications, and it had not developed plans for testing its applications once they are moved to the cloud.

To improve the company's management of its IT recovery planning efforts, we recommended that the company's Chief Information Officer analyze how to mitigate the risks of continued service disruptions until these applications are moved to the cloud, and develop comprehensive plans and priorities for migrating the company's applications to the cloud environment. This includes plans for testing these applications once they are

Significant Activities

moved to the cloud. The Chief Information Officer agreed with our recommendations and identified specific actions and planned completion dates to address the risks identified in our report.

Ongoing Work—Information Technology

Audit of Train Control Systems Security. Our objective is to assess the status and effectiveness of company efforts to address identified security vulnerabilities in the train control systems.

Train Operations and Business Management

Train Operations: Opportunities to Reduce the Cost of Rebuilding and Manufacturing Components at Maintenance Facilities

(Report No. OIG-A-2018-006, April 16, 2018)

The company operates three major maintenance facilities in Wilmington, Delaware; Bear, Delaware; and Beech Grove, Indiana. Known as back shops, these three facilities are part of the Mechanical department; they employ more than 1,000 management and agreement personnel. In FY 2017, these back shops spent \$218.9 million on performing maintenance activities such as overhauling locomotives and passenger cars; reconditioning components, such as wheels; rebuilding components, such as air conditioners; and manufacturing components, such as metal brackets. Our past work has identified inefficiencies in the Mechanical department. This report (1) assessed opportunities for the Mechanical department to reduce costs by right-sizing its component workforce, and (2) identified potential cost-savings associated with opening its component rebuild workload to competition.

We found that additional opportunities exist to better align the Mechanical department's workforce and reduce the cost of rebuilding and manufacturing components. Specifically, we found that two of the three back shops had excess component rebuild employees, based on our analysis of their workload in FY 2017. Additionally, the department had not fully considered the extent to which it could achieve additional savings by competitively bidding some of its in-house component rebuild workload. We concluded that

the Mechanical department could put \$7.5 million to \$25.8 million in funds to better use by making further staffing reductions and considering contracting out some activities.

We recommended that the Chief Operating Officer direct the Chief Mechanical Officer to align the back shops' component workforce with their current and projected workloads to ensure that back shop staff are productively employed. Additionally, we recommended the Chief Mechanical Officer assess the cost-effectiveness of continuing to perform any of the component rebuild work in-house and determine which types of components, if any, should be competitively bid as part of the ongoing company effort to achieve greater back shop efficiencies. The Chief Mechanical Officer stated that the company agreed with our recommendations and identified efforts the company had initiated to address the intent of our recommendations. We are continuing to monitor progress at the back shops to implement these recommendations.

Ongoing Work—Train Operations and Business Management

Audit of Private Railcar Services. Our objective is to assess the extent to which the company is identifying and billing private rail car owners for the full costs associated with the movement, storage, and support services provided to private rail cars.

Audit of Mechanical Department Maintenance Activities. Our objective is to assess the extent to which the Mechanical department has opportunities to better manage and monitor maintenance activities, focusing on preventative maintenance and service and inspection activities.

Safety and Security

Safety and Security: Longstanding Physical Security Vulnerabilities in Philadelphia Pose Risks

(Report No. OIG-A-2018-007, April 24, 2018)

Philadelphia's 30th Street Station, the company's third-busiest station, served more than 4.4 million Amtrak riders and generated more than \$306 million in revenue in FY 2017.

Significant Activities

Penn Coach Yard is a 63-acre complex adjacent to the station where the company services its trainsets and locomotives. The company has identified risks to employee and passenger security as a top threat facing the organization. Security incidents at the station or yard could put the safety and security of the company's passengers and more than 2,700 employees who work at these facilities at risk and disrupt operations along the Northeast Corridor and on the Keystone Service. Given these risks, this report assessed the company's efforts to enhance the physical security of 30th Street Station and Penn Coach Yard.

Our report found that longstanding unmitigated security weaknesses at Philadelphia's 30th Street Station and Penn Coach Yard were placing the security and safety of the company's passengers and employees at risk. Although the company had taken important steps to address some security vulnerabilities identified in its risk assessments, we found that other longstanding security weaknesses were unmitigated and warranted senior management attention to ensure they were addressed. These included the inability to secure the station's exterior and interior station doors, poor controls over badging, inadequate fencing and gates, a lack of parking enforcement in the yard, and nonoperational video surveillance cameras. The company estimated that it could cost about \$20 million to mitigate these weaknesses, but it had not established a plan for executing the various projects needed.

To help mitigate these security risks and facilitate the completion of security projects, we recommended that the company document and initiate a plan describing how it intends to mitigate these security weaknesses, including establishing roles and accountability for project implementation, developing performance measures for assessing progress, and creating business cases to help establish relative funding priorities. The Chief Administration Officer and Chief Operating Officer agreed with our recommendation to initiate such a plan.

Ongoing Work—Safety and Security

Audit of the Potential Effect of Drug and Alcohol Use on Company Operations.

Our objective is to assess the effectiveness of the company's efforts to deter, detect, and control the use of illegal and prescription drugs and alcohol by employees in safety-sensitive positions.

Audit of Amtrak’s Strategy and Planning for Physical Security in Washington, D.C.

Our objective is to assess efforts to improve physical security and access controls at Washington Union Station and Ivy City Yard, including company actions taken to mitigate any weaknesses identified in prior internal security risk assessments.

Audit of Background Checks. Our objectives are to assess (1) the effectiveness and efficiency of the company’s process for conducting background investigations to help ensure prospective employees and contractors are qualified, honest, and reliable, and do not pose a security threat; and (2) the company’s oversight of the contractors charged with conducting background investigations.

Asset Management

Asset Management: Better Schedules, Cost Estimates, and Project Management Could Help Mitigate Risks to Washington Union Station Projects

(Report No. OIG-A-2018-008, July 24, 2018)

Washington Union Station—the company’s second-busiest station, with annual ridership of about 5.2 million passengers—is operating at capacity, and peak passenger use is projected to triple over the next two decades. However, the station’s tracks and platforms do not meet modern design and safety standards, and they contribute to operational inefficiencies that limit the capacity and circulation of passengers. To begin addressing these and other shortcomings, the company began a set of 10 near-term improvements at an estimated cost of \$296 million to modernize the station’s concourse, rehabilitate its sub-basement, and improve the rail terminal. Our report assessed the effectiveness of the company’s scheduling, cost estimating, and management of these near-term improvement projects and the impacts on their completion.

We found that the nine ongoing Washington Union Station near-term improvement projects faced risks of delays and cost overruns due to weaknesses in the company’s scheduling, cost estimating, and project management practices. The company developed schedules for each project, but the schedules were missing key activities necessary to accomplish project objectives. It also did not develop an integrated master schedule of all projects to help provide greater management oversight. In addition, the company did not update its initial costs estimates for projects as it better defined the work to be

Significant Activities

accomplished. It also could not provide documented support showing the basis for its estimates of some cost categories. Further, the company did not have approved project charters identifying stakeholders' key roles and responsibilities and, although it identified project risks that could cause delays and overruns, it did not develop meaningful plans to mitigate them. In part, these weaknesses existed because the company did not fully implement its own project management standards and other commonly accepted standards for project management.

To help ensure that the company completes the near-term improvement projects on schedule and within budget, we recommended that the company adopt its own and other commonly accepted project management standards with an emphasis on complete and integrated schedules, updated and well-supported cost estimates, approved project charters, and risk-mitigation plans. The Executive Vice President/Chief Administration Officer agreed with our recommendations and identified specific actions and planned completion dates for addressing each weakness we identified in our report.

Ongoing Work—Asset Management

Audit of Real Property Management. Our objective is to determine whether opportunities exist to increase cost-effectiveness by reducing, consolidating, and/or monetizing owned and leased properties.

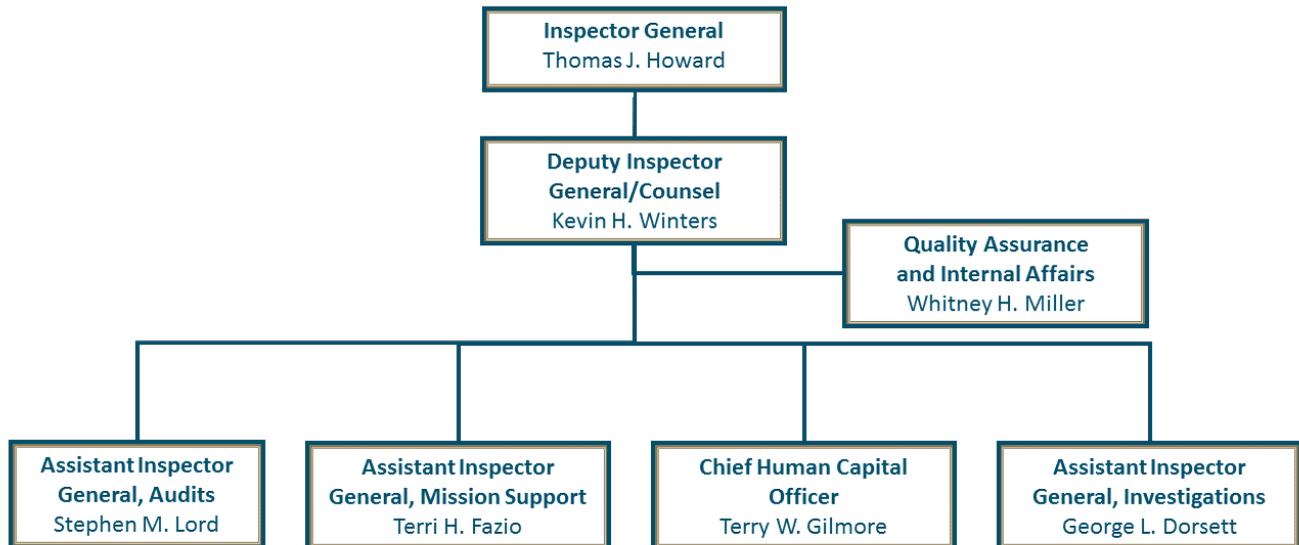
Audit of the Company's Management of the Maintenance-of-Way Equipment. Our objective is to assess the effectiveness of company policies, procedures, and controls to promote the efficient use of the equipment and to prevent and deter fraud, waste, and abuse.



OIG Organization

OIG Organization

The OIG headquarters is based in Washington D.C., with field offices in Boston, Chicago, Los Angeles, and Philadelphia.



The Inspector General provides policy direction and leadership for the OIG and serves as an independent and objective voice to management, the Board of Directors, and Congress by identifying opportunities and promoting solutions for improving the company's programs and operations, while preventing and detecting fraud, waste, and abuse.

The Deputy Inspector General/Counsel serves in the stead of the Inspector General, as required, and leads the Office of Counsel, which provides legal assistance and advice to OIG senior management and supports audits, investigations, and special reviews. The Office of Counsel also coordinates OIG legal matters with external entities, such as the Department of Justice, Federal and State law enforcement.

Audits. This office conducts independent and objective performance and financial audits across the spectrum of the company's programs and operational activities. It produces reports aimed at improving the company's economy, efficiency, and effectiveness, while seeking to detect and prevent fraud, waste, and abuse.

Investigations. This office pursues allegations of fraud, waste, abuse, and misconduct that could affect the company's programs, operations, assets, and other resources. It refers investigative findings to the Department of Justice for criminal prosecution or civil litigation, or to management for administrative action. It also develops recommendations to reduce vulnerability to abuse and criminal activity.

Mission Support. This office provides expertise in financial management, procurement, administration, and IT to support OIG operations.

Human Capital. This office ensures that the best qualified people are hired, developed, retained, and rewarded appropriately in accordance with the OIG's mission and values and applicable laws, rules, and regulations. It also ensures that an effective and efficient performance management system is implemented to provide employees with timely and meaningful feedback and coaching on performance.



Appendix 1 Fiscal Year 2018 Performance Measures (4/1/2018 – 9/30/2018)

Audit Results	
Products Issued	6
Questioned Costs	\$—
Funds Put to Better Use	\$22,800,000

Advisory Functions	
FOIA ^a Requests Received	14
FOIA Requests Processed	14
Referred to Amtrak	7
Response Pending	—
FOIA Appeals Received	—
FOIA Appeals Processed	—
Legislation Reviewed	—
Regulations Reviewed	9
Outside Agency Consultation	—

Note:

^a Freedom of Information Act

Appendix 1

Investigative Results	
Financial Impact	
Recoveries/Restitution	\$4,778,299.41 ^a
Cases Opened	
Major Misconduct and General Crimes	31
Contract and Procurement Fraud	2
Health Care Fraud	11
Judicial and Administrative Actions	
Criminal Referrals to Department of Justice ^b	33
Criminal Referrals to State and Local Prosecuting Authorities ^c	1
Criminal Referrals Declined	10
Arrests	26
Indictments/Informations ^d	32
Convictions	16
Investigative Reports Issued ^e	8
Administrative Actions	20
Investigative Workload	
Investigations Opened	44
Investigations Closed	51
Investigations of Senior Employees Closed and Not Disclosed to the Public	—
Hotline Contacts/Referrals	
Referred to Amtrak Management	111
Referred to Customer Service	56
Referred to Other Agency	—
Referred for Investigation	8
No Action Warranted	28
Referred to Amtrak Police Department	5
Request from Other Agency	1

Notes:

^a This includes approximately \$4 million in restitution to numerous health care providers impacted by fraud identified by a joint health care fraud investigation we conducted in conjunction with the FBI, Department of Labor, Internal Revenue Service, Office of Personnel Management, and the United States Attorney's Office, Southern District of Florida. Of that amount, Amtrak's health care provider paid more than \$219,000 for insurance claims related to the case.

^b These referrals include individual subjects that are referred for federal prosecution to the Department of Justice.

^c These referrals include individual subjects that are referred for prosecution to state and local prosecutors.

^d Indictments/Informations include all indictments and informations, sealed and unsealed, of individuals who were charged during this reporting period by federal, state, and local prosecutors. Of the 32 indictments/informations reported during this reporting period, three were referred for prosecution this reporting period and nine were referred for prosecution in a prior reporting period.

^e Investigative Reports Issued is the number of investigative reports issued to the company that detail our investigative findings.

Appendix 2 Audit Products

(4/1/2018 – 9/30/2018)

Audit Products						
Date Issued	Report Number	Report Title	Focus Area	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
4/16/18	OIG-A-2018-006	Opportunities to Reduce the Cost of Rebuilding and Manufacturing Components at Maintenance Facilities	Train Operations and Business Management	\$—	\$—	\$22,800,000
4/24/18	OIG-A-2018-007	Longstanding Physical Security Vulnerabilities in Philadelphia Pose Risks	Safety and Security	—	—	—
7/24/18	OIG-A-2018-008	Better Schedules, Cost Estimates, and Project Management Could Help Mitigate Risks to Washington Union Station Projects	Asset Management	—	—	—
7/25/18	OIG-A-2018-009	Quality Control Review of the Independent Audit of Amtrak's Single Audit for Fiscal Year 2017	Governance	—	—	—
9/10/18	OIG-A-2018-010	Opportunities Exist to Improve the Company's Ability to Restore IT Services After Disruption	Information Technology	—	—	—
9/28/18	OIG-SP-2018-011	Top Management and Performance Challenges— Fiscal Year 2019 and 2020		—	—	—
Total (\$)				\$—	\$—	\$22,800,000

Appendix 2

<i>Ongoing Audit Projects</i>	
Project Status	Number of Projects
Audit Projects In-process, as of 3/31/2018	12
Audit Projects Canceled	—
Canceled Audit Projects Not Disclosed to the Public	—
Audit Projects Started Since 3/31/2018	5
Audit Products Issued Since 3/31/2018	6
Audit Projects In-process, as of 9/30/2018	11

Appendix 3 Questioned Costs

(4/1/2018 – 9/30/2018)

<i>Audit Reports Issued with Questioned Costs</i>			
Category	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	—	\$—	\$—
B. Reports issued during the reporting period	—	—	—
Subtotals (A+B)	—	—	—
Less			
C. For which a management decision was made during the reporting period	—	—	—
(i) dollar value of recommendations agreed to by management	—	—	—
(ii) dollar value of recommendations not agreed to by management	—	—	—
D. For which no management decision has been made by the end of the reporting period	—	—	—

Appendix 4

Appendix 4 Funds Put To Better Use (4/1/2018 – 9/30/2018)

<i>Audit Reports Issued with Funds to be Put to Better Use</i>		
Category	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	—	\$—
B. Reports issued during the reporting period	1	22,800,000
Subtotals (A+B)	1	22,800,000
Less		
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	1	22,800,000
(ii) dollar value of recommendations that were not agreed to by management	—	—
D. For which no management decision has been made by the end of the reporting period	—	—

Appendix 5 Audit Reports Described in Previous Semiannual Reports for Which Corrective Actions Are Not Complete

Reports Described in Previous Semiannual Reports for Which Corrective Actions Are Not Complete

Report ^{a,b}	Report Number/Date	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps	E-11-03 June 23, 2011	\$—	\$—	\$—
Americans with Disabilities Act: Leadership Needed to Help Ensure That Stations Served By Amtrak Are Compliant	109-2010 September 29, 2011	—	—	—
Management of Overtime: Best Practice Control Can Help in Developing Needed Policies and Procedures	OIG-A-2013-009 March 26, 2013	—	—	—
Food and Beverage Service: Potential Opportunities to Reduce Losses	OIG-A-2014-001 October 31, 2013	—	—	154,200,000 ^c
Acquisition and Procurement: Adequate Competition for Most Contracts Awarded Under Americans with Disabilities Act Program but Procurement Policies Could be Improved	OIG-A-2016-008 June 8, 2016	—	—	—
Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience	OIG-A-2016-011 September 7, 2016	—	—	—
Acquisition and Procurement: Opportunities Exist to Improve Management of Technical Support Services Contracts	OIG-A-2016-013 September 30, 2016	—	—	—
Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks	OIG-A-2017-002 December 14, 2016	—	—	—

Appendix 5

Reports Described in Previous Semiannual Reports for Which Corrective Actions Are Not Complete

Report^{a,b}	Report Number/Date	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings	OIG-A-2017-005 February 3, 2017	—	—	5,300,000
Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved	OIG-A-2017-006 February 22, 2017	—	—	14,200,000
Governance: Better Adherence to Leading Practices for Ethics Programs Could Reduce Company Risks	OIG-A-2017-012 June 26, 2017	—	—	—
Acquisition and Procurement: Improved Management of Diesel Fuel Program Could Lead to Cost Savings	OIG-A-2017-013 August 14, 2017	—	—	27,600,000
Information Technology: Improving Security of Publicly Accessible Websites Could Help Limit Cyber Risk	OIG-A-2018-001 October 23, 2017	—	—	—
Train Operations: The Acela Express 2021 Program Faces Oversight Weaknesses and Schedule Risks	OIG-A-2018-002 November 16, 2017	—	—	—
Governance: Opportunities to Improve Controls over Medical Claim Payments	OIG-A-2018-005 March 14, 2018	23,400,000	—	—
TOTAL		\$23,400,000	\$—	\$201,300,000

Notes:

^a We received comments for all audit reports within 60 days.

^b Please visit <https://www.amtrakoig.gov/reports/audits> for a copy of the reports listed in this table.

^c \$51.4 million annually, projected over three years.

Appendix 6 Review of Legislation, Regulations, and Major Policies

Section 4(a)(2) of the Inspector General Act of 1978, as amended, provides that the Inspector General shall review existing and proposed legislation and regulations relating to programs and operations of such establishment. Also, the Inspector General shall make recommendations in the semiannual reports concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment—or the prevention and detection of fraud and abuse in such programs and operations.

During this reporting period, we reviewed and provided comments on nine Amtrak corporate policies to ensure the American taxpayers' dollars entrusted to Amtrak were protected.

Appendix 7

Appendix 7 Peer Review Results

The *Dodd-Frank Wall Street Reform and Consumer Protection Act* (P. L. 111–203, July 21, 2010) requires that OIGs include in semiannual reports to Congress the results of any peer review conducted by another OIG during the reporting period, or—if no peer review was conducted—a statement identifying the date of the last peer review. Also required is a list of all peer reviews conducted during the period by the OIG of another OIG, and the status of any recommendations made to or by the OIG.

During fiscal year 2016, our Office of Audits was the subject of a Council of the Inspectors General on Integrity and Efficiency (CIGIE) peer review by the Office of Personnel Management OIG. The Office of Personnel Management OIG determined that the system of quality control for our audit function has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Accordingly, the Office of Personnel Management OIG provided a “pass” rating and made no recommendations. The report was released on January 29, 2016.

Also during fiscal year 2016, our Office of Investigations was the subject of a CIGIE peer review by the Department of the Interior OIG. The Department of the Interior OIG concluded that the system of internal safeguards and management procedures for our investigative function was in compliance with the quality standards established by CIGIE and the Attorney General’s Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority. Department of the Interior OIG identified a number of best practices in the investigative operations that they believed warranted acknowledgement.

Our office did not complete any peer reviews of any other OIG during the reporting period.

Appendix 8 Glossary of Terms, Acronyms, and Abbreviations¹

Management Decision. The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions that management concludes are necessary.

Questioned Cost. A cost that is questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Recommendation that Funds Be Put to Better Use. A recommendation by the OIG that funds could be more efficiently used if management took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (6) any other savings that are specifically identified. (*Note:* Dollar amounts identified in this category may not always allow for direct budgetary actions but generally allow the agency to use the amounts more effectively in the accomplishment of program objectives.)

Unsupported Cost. An unsupported cost is a cost that is questioned by the OIG because the OIG found that, at the time of the audit, the cost was not supported by adequate documentation.

¹ All definitions are from the Inspector General Act of 1978, as amended.

Appendix 8

Acronyms and Abbreviations

APD	Amtrak Police Department
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DBE	Disadvantaged Business Enterprise Program
FBI	Federal Bureau of Investigation
FY	Fiscal Year
IT	Information Technology
OIG	Office of Inspector General

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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.amtrakoig.gov

Reporting Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline

www.amtrakoig.gov/hotline

or

800-468-5469

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