

Fiscal Year 2008 Audit Reports

East Side Access Project-Labor Review
Audit Report Number 204-2007, 10/17/2007 Semiannual Report #37
Identified Costs, Savings, or Funds Put to Better Use: \$12,500

Between the period June through October 2006, Amtrak did not produce and/or distribute the support documentation needed to invoice all of the labor expenses recorded in Amtrak's Financial Information System (FIS). As a result, Amtrak failed to invoice \$41,874 in unbilled reimbursable labor expenses.

Recommendation: The OIG recommended management invoice all expenses and recover the unbilled funds.

Management Response: Management agreed but only \$12,500 was collected because the majority of the questioned funds were miscoded.

RailPlan International Change of Order
Audit Report Number 503-2006, 11/26/2007 Semiannual Report #37
Identified Costs, Savings, or Funds Put to Better Use: \$357,022

The OIG conducted an audit of change orders to a contract with RailPlan International, Inc. for the purchase of additional Amfleet I and II conversions and equipment. As a result of the audit, the OIG identified \$357,022 in questioned costs, which was primarily due to the contractor's inappropriate use of Producer's Price Index-escalation options and unallowable General and Administrative expenses.

Recommendation: The OIG recommended management recover the costs in accordance with the terms of the contract.

Management Response: Management agreed to recover the costs. In March 2008, management advised that an agreement had been reached with RailPlan to settle the audit findings for \$242,871.

Analysis of Overtime Wages
Audit Report Number 105-2007, 01/09/2008 Semiannual Report #37
Identified Costs, Savings, or Funds Put to Better Use: N/A

The OIG performed a review of the overtime wages paid in CY2006. The objective of the review was to analyze the overtime wages of agreement-covered employees who earned more than \$100,000 in total wages during CY 2006. This amounted to \$7.5 million out of the \$137 million in total overtime wages.

The OIG found that the top five job titles of agreement covered employees earning more than \$100,000 were Engineer, Foreman, ARASA Supervisor, Conductor, and Electric Tech/Specialist; and top five locations were New York, Philadelphia, New Haven, Boston, and Oakland districts.

Recommendation: The OIG recommended Management review policies, processes and practices for the assignment and distribution of overtime and enhance controls over the approval of overtime.

Management Response: Management agreed to review the findings and take necessary action as appropriate. A late 2008 follow-up review indicated that Management did make some changes in overtime policy.

Rocla Concrete Tie Inventory and Procurement
Audit Report Number 218-2005, 03/20/2008 Semiannual Report #37
Identified Costs, Savings, or Funds Put to Better Use: \$1.3 million

The OIG performed an audit on the inventory and procurement process associated with concrete ties procured from Rocla Concrete Tie, Inc. (Rocla). During FY2002 to FY2007 Amtrak issued purchase orders to Rocla totaling approximately \$46 million. The OIG examined seven purchase orders for the period October 2005 through December 2006. During the period reviewed, there was a June 2, 2003, Supplies Contract Agreement and a subsequent Agreement dated April 21, 2006, in place.

The OIG noted that unit prices for five of the seven purchase orders reviewed did not agree with the contract unit pricing set forth in the June 2, 2003, Supplies Contract Agreement. Based on the analysis, invoices were submitted that included surcharges that were applied to unit prices that already contained an annual Producer’s Price Index adjustment resulting in an over billing of approximately \$1.3 million.

Management indicated that although not documented, changes were made to the agreement. Reference was noted in the vendor files and in Amtrak staff summaries; however, Management was unable to provide documentation to support contract changes that were signed by both parties. Absent a formal contract change order or other documentation to support the changes the OIG relied on the signed agreement and viewed the over billing as extraordinary contract relief.

Recommendation: The OIG recommended Management adhere to Amtrak’s Procurement Manual by adequately documenting and formalizing changes to contract terms and conditions.

Management Response: Management agreed to implement the recommendations.

New England Flagmen
Audit Report Number 204-2006B, 03/26/2008 Semiannual Report # 37
Identified Costs, Savings, or Funds Put to Better Use: \$1,341,747

This report updates the results of an earlier report that found that Amtrak had not billed the State of Rhode Island Department of Transportation (RIDOT) for more than \$740,000 for conductor/flagman labor, and that Amtrak was not performing a thorough review of documentation to ensure that billings were accurate and complete.

Recommendation: The OIG recommend that Amtrak invoice RIDOT for the unbilled costs.

Management Response: Management disagreed with several of the OIG findings but Management did agree that there were unbilled costs. Management then conducted a comprehensive study and identified \$1,341,747 in unbilled labor expenses which RIDOT subsequently remitted.

Information Security Review
Audit Report Number 107-2004, 03/31/2008 Semiannual Report #37
Identified Costs, Savings, or Funds Put to Better Use: N/A

This OIG review was to determine whether Amtrak had effective network and operating system security to protect Amtrak’s information resources. Amtrak had improved security controls in some areas such as virus and spam control, and perimeter security including firewall and intrusion detection. However, Amtrak still lacked sufficient security controls in areas such as—documented policies, procedures, and processes to mitigate and manage security risks.

The OIG found the following issues that required management attention:

- Amtrak had not implemented a consistent, comprehensive, end-to-end information risk management security program and framework to protect its information resources.
- Data and security classification had not been implemented to protect sensitive and critical resources from loss, misuse, and unauthorized access or modification.
- There were servers which did not comply with Amtrak’s information security policies, guidelines, and best practices, and therefore are vulnerable to attacks.
- Outdated software, the latest service packs/security patches missing, unnecessary open ports and services, open shares containing sensitive and confidential information, weak passwords, and an excessive number of administrator and shared accounts.
- Weaknesses in compliance monitoring, log review, and security policies.
- Effective technology controls had not been implemented to protect business data stored on laptops and other roaming devices.
- Amtrak did not require comprehensive background checks for IT contractors and employees.
- Current physical security controls at Washington, DC, offices did not provide adequate safeguards.

- Employees and contractors were not provided comprehensive information security orientation, training, and periodic refresher education that effectively communicates Amtrak’s information security policies and practices.

Recommendation: The OIG recommended that management address these issues.

Management Response: Management agreed with the findings and recommendations.

OIG Comment: Amtrak has shown a commitment to appropriately address the long outstanding security weaknesses, and significantly improve its security posture.

Fuel Supply - Gas City Contract
Audit Report Number 403-2008, 05/28/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$423,224

The OIG found Amtrak overpaid Gas City Ltd. \$423,223.86 for fuel delivered to Chicago and New Orleans. This occurred because internal controls for fuel purchases were inadequate.

Recommendation: The OIG recommended Management recover the overpaid amount and revise existing policies and procedures for purchasing fuel.

Management Response: Management agreed to recover the funds.

Review of FLS East River Tunnel Grant Agreement
Audit Report Number 219-2006, 06/03/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: N/A

The OIG conducted an audit of the New York Fire and Life Safety’s (FLS) East River Tunnel (ERT) Ventilation-Penn Station Project to determine whether:

- Amtrak adhered to and complied with all the terms and conditions of the Grant Agreement;
- the expenditures were reasonably related to the project;
- if Amtrak has in place an accounting system capable of accurately tracking the allowable project funds; and,
- if the Long Island Railroad (LIRR) reimbursements were received in accordance with prescribed cost-sharing agreements.

Although the OIG found that Amtrak complied with the terms and condition of the Grant Agreement, the audit did disclose that the cost-sharing percentages used to allocate ERT project expenses were outdated and obsolete. This resulted in Amtrak paying an estimated \$4.1 million more than its required share.

Recommendation: The OIG recommended that Amtrak and LIRR revise the existing agreement to reflect current tunnel usage.

Management Response: Management agreed to review the tunnel usage.

Host Railroad Contract Administration and Operations Management Controls
Audit Report Number 401-2008, 08/21/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$341,000 per annum

The OIG completed a review of the Host Railroad Contract Administration and Operations Management departments' internal controls. The OIG objectives were to identify management controls for the railroad contract administration and negotiation as it relates to the administration, and to evaluate the adequacy and effectiveness of these controls. The audit covered the period from January 1, 2007 through December 31, 2007 and prior years for some areas.

The OIG found that Management's controls were inadequate and ineffective. The current billing review process before approving payment to host railroads was not sufficient to detect material errors. The OIG found that:

- railroad monthly billings are not thoroughly and completely reviewed before payment;
- the current on time performance (OTP) billing process consistently allowed and results in significant over-billing;
- the adoption of a delay avoidance incentive (DAI) could result in a cost saving of \$341,000 per year;
- the organizational structure did not maximize operational efficiencies and effectiveness;
- responsibilities and functions were not clearly defined and separated; HRG and CA departments did have formal written procedures;
- CSX, Norfolk Southern, and Union Pacific amendment agreement changes were not current;
- HRG did not actively monitor operational changes that affect host railroad agreements and billings; and,
- generally, the bases for flat rated costs were not documented.

Recommendation: The OIG recommended fundamental changes in the way Amtrak handles host railroad contracts including: an internal reorganization for the groups dealing with host railroads; a change in the billing review process from untimely back-end audits to a timely front-end thorough and complete review; and, a contractual change in OTP incentives to adopt a DAI or similar process.

Management Response: Although Management agreed to take responsibility for the billing review, nearly 2 years later management had not implemented the OIG recommendations.

OIG Comment: In response to a OIG March 30, 2010 Report (No. 406-2005) on CSX On-Time Performance Incentives, Amtrak agreed that a through review to verify OTP incentives billed by host railroads should be performed by Amtrak prior to approval and payment of invoices. Amtrak Management stated it would develop an action plan with milestone dates by May 2010 to implement the recommendations made in the 2008 report.

Drainage Improvement Project: Overbrook to Merion, PA
Audit Report Number 209-2008, 09/04/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$122,697

The OIG audit included a review of supporting documentation for the contractor’s incurred costs and relied on a technical review by Amtrak’s Engineering Department. The OIG identified \$122,697 in questioned costs. These costs were primarily the result of the contractor’s failure to use an appropriate method for calculating general and administrative (G&A) expense.

Recommendation: The OIG recommended management recover the questioned costs in accordance with the terms of the contract.

Management Response: Management agreed with the OIG findings and negotiated a settlement with the contractor to recover \$60,160 of the questioned costs.

DMJM Harris Inc. – East River Tunnel Ventilation
Audit Report Number 208-2008, 09/05/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$102,112

At Amtrak’s request the OIG reviewed a second modification of a contract with DMJM Harris Inc. for additional hours and costs regarding their Construction Management Services of the Rehabilitation of the East River Tunnel Ventilation Facility at Long Island City, New York. Based upon the OIG review of the supporting payroll documentation, the OIG questioned \$102,112 of the proposed amount. The OIG analysis of the fully burdened labor rates determined that a sample of the contract employees tested were over billed a total of \$36,497 from April 7, 2007 through December 28, 2007, and for the period of December 29, 2007 thru May 23, 2008 the project was over billed an additional \$65,615.

Recommendation: The OIG recommended management consider the OIG findings during negotiations.

Management Response: A formal management response was not required since the results were discussed with the Chief Logistic Officer and his staff.

Thames River Bridge Project, Grouting Program: Audit of Subcontractor Judy Company Incorporated
Audit Report Number 306-2007, 09/10/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$230,733

The OIG completed an audit of the \$5,053,134 of costs submitted by Judy Company for work performed on the grouting program. The objective of the audit was to determine whether the cost or pricing data

submitted by Judy Company was accurate, complete, and current. The results of the audit disclosed that Judy Company's submitted costs were not accurate, complete, or current. Specifically, the OIG questioned a total of \$230,733 which resulted from: duplicate billing of material costs; equipment costs which were not computed in agreement with contract provisions; and, corresponding reductions for overhead and profit.

Recommendation: The OIG recommended that management pursue a price reduction for the grouting modifications in the amount of \$230,733.

Management Response: Management agreed with the initial findings and recommendation and collected \$144,699 of the questioned costs. The remaining \$86,034 in questioned cost were determined to be appropriate and not subject to recovery.

Delaware Car Company Acela Refinishing Project
Audit Report Number 216-2008, 09/18/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: \$126,566

The OIG conducted an audit of the cost proposal from Delaware Car Company for the refinishing of 40 Acela power cars. The total proposed cost was \$1,283,113. Based upon the review of supporting documentation, the OIG questioned \$126,566 of the proposed amount.

The OIG analysis showed that material requirement costs were duplicated in the calculation of the straight time labor overhead rate.

Recommendation: The OIG recommended that the audit results be used for a downward adjustment of the final cost.

Management Response: Management disagreed with the OIG position concerning the duplication of direct costs in the calculation of the direct labor overhead rate. Amtrak concurred with Delaware Car Company and concluded that the costs incurred for such items as tack rags, cleaners, solvents, masking materials, would be greater than the normal expense for these items and that the increases are specific to the Acela refinishing project. Consequently the costs should be allowed as direct costs.

Procurement Card Review
Audit Report Number 206-2008, 9/30/2008 Semiannual Report #38
Identified Costs, Savings, or Funds Put to Better Use: N/A

The OIG reviewed the controls over procurement card utilization and the adherence to compliance with Amtrak's Procurement Card Policy. The review disclosed that procurement cards were used for purchases of office equipment, furniture, fuel, printing, entertainment purposes, memberships and dues and hotel parking. The audit found that cardholders split transactions and exceeded the maximum transaction dollar limit. The OIG also identified that Amtrak paid state sales tax on purchases in states where Amtrak is tax exempt.

Recommendation: The OIG recommended management instruct procurement cardholders and their supervisors to comply with Amtrak's Procurement Card Policy and the Procurement Card Manual.

Management Response: Management agreed to the recommendation and stated an email would be prepared reminding all cardholders of their responsibilities to comply with Procurement Card policy. This reminder was also sent to the supervisors of these cardholders.

Internal Use Computer Software Costs
Audit Report Number 101-2008, 12/03/2008 Semiannual Report #39
Identified Costs, Savings, or Funds Put to Better Use: N/A

The OIG performed an audit of the accounting for internal use computer software. The objectives of this audit were to determine if costs incurred from January 2005 through September 2007 for new or upgraded computer software developed or obtained for internal use were properly classified, if actual software expenditures were being reviewed by management, and if project managers were timely in preparing and submitting project completion forms to Capital Accounting when the project was completed.

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

Recommendation: The OIG recommended that departmental management monitor the financial activity of the respective departments' project managers by reviewing the monthly detailed project cost transaction reports. Management should also update the closeout process as currently documented on the Amtrak Intranet, the Capital Project Manager Financial Management Requirements Manual and Amtrak Policy and Instruction Manual Policy Instruction 8.3.1.

Management Response: Management agreed to address the various control points between project authorization, completion and close out during the SAP blue print process. Additionally, Finance agreed to work with the appropriate personnel to update existing work flow information on the Intranet and in the Capital Project Manager Financial Management Requirements Manual.