
**Union Pacific Railroad
Diesel Fuel and Fuel Handling
June 1995 through December 1999**

Final Report



Memo



Date August 24, 2009

To Richard Phelps

From *Gary E. Glowacki*
Gary E. Glowacki, Deputy IG,
Audits

Department Office of Inspector General -
Audits

Subject UP Diesel Fuel and Fuel Handling,
June 1995 through December 1999
– Final Report

cc Lorraine A. Greene, IG

The Office of Inspector General has completed a review of Union Pacific Railroad - Diesel Fuel and Fuel Handling costs. The objectives of this review were to determine whether the monthly billings for diesel fuel and fuel handling items submitted by the UP were accurate, valid, reasonable, and in compliance with the operating agreement and contract amendments between Amtrak and the UP. The audit covered the period from June 1, 1995 through December 31, 1999.

The results of the audit were presented to you in the draft report along with supplementary audit schedules. Since your response was incorporated into this report, no formal response to the final report is required.

Amtrak OIG is required to make this report available to the public under the Inspector General Reform Act of 2008, 110 P.L.409; 122 Stat.4302. To the extent that you believe this report contains confidential or proprietary information that should be withheld from public release, you must take the following actions no later than September 7, 2009: 1) highlight any words or phrases recommended for redaction; and, 2) provide a written detailed justification for each of your recommendations. If you do not provide written recommendations by September 7, 2009, the report will be made publicly available without your redaction on the date specified on the report.

Distribution:
Lois Cunning
S. Young
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**Union Pacific Railroad
Diesel Fuel and Fuel Handling
June 1995 through December 1999**

Final Report

Report Addressed To:

**Richard Phelps
Vice President, Transportation
60 Massachusetts Avenue, N.E
Washington, DC 20002**

This report is prepared for the above addressee(s) and includes privileged and confidential information. As such, this report may not be released to any organization outside Amtrak or to any internal department without the approval of the Office of Inspector General.

Report Issued By:

**NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL - AUDITS
10 G STREET, N.E.
WASHINGTON, DC 20002**

**DATE OF REPORT: August 24, 2009
REPORT NUMBER: 506-2009**

This document shall become available to the public on September 21, 2009.

Union Pacific Railroad

Diesel Fuel and Fuel Handling

June 1995 through December 1999

Executive Summary

This report summarizes the audit results of costs billed by the Union Pacific Railroad Company (UP) for diesel fuel and fuel handling for the period June 1, 1995 through December 31, 1999. The objective of this review was to determine whether the monthly billings submitted by the UP for diesel fuel and fuel handling were accurate, valid, reasonable and in compliance with the operating agreement and contract amendments between Amtrak and the UP.

Based upon the fieldwork completed, we identified and presented to the UP a total of \$65,878 in questioned costs related to inappropriate labor costs that were billed under diesel fuel (Item 2). We questioned UP's billing of labor costs because such costs represent intermediate point servicing costs (Item 4) that was discontinued, effective March 1, 1993, per Amendment Agreement Change (ACC) UP-15R. However, the UP continued to inappropriately bill Amtrak for the labor charges from June 1, 1995 through June 30, 1997.

The UP agreed with our finding, and we concurred with the railroad's offer of \$65,878 as settlement for the audit finding.

Amtrak Transportation Operations Management indicated that it will proceed with collection of the settlement amount of \$65,878 once the settlement language is agreed upon by the UP.

**Union Pacific Railroad
Diesel Fuel and Fuel Handling
June 1995 through December 1999**

Final Report # 506-2009

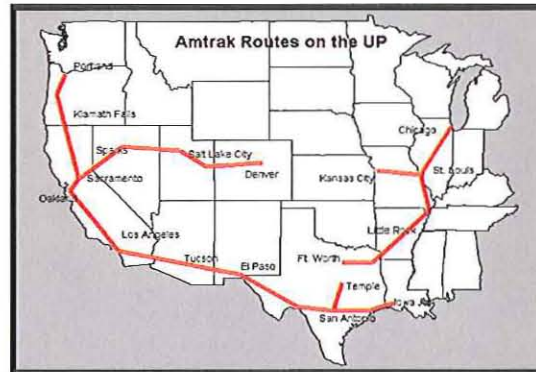
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I. BACKGROUND

The National Railroad Passenger Corporation (Amtrak) and the Union Pacific Railroad Company (UP) entered into their Third Amendment Agreement, effective March 1, 1990, to incorporate the applicable provisions with respect to the services and use of facilities provided by Railroad (UP) to Amtrak. The agreement between the UP and Amtrak states that the Railroad agrees to provide Amtrak with the use of facilities and requested services for or in conjunction with the operation of Amtrak's services over Rail Lines of the Railroad, and sets out certain standards for operations, including the requirement that UP provide services in an economic and efficient manner.

Section 5.2B of the agreement contains provisions allowing Amtrak to review and evaluate UP's operations, performance and costs. UP is required under Section 5.2.C to maintain supporting accounting, operating, and mechanical records which are to be available for inspection and/or copying. Such records are to be maintained and accumulated on a location-by-location basis with retention periods of no less than 36-months¹.



Diesel fuel and fuel handling are reimbursable costs that are subject to review under Section 5.2.B. Appendix IV of the agreement details the basis of how diesel fuel (Item 2) and fuel handling (Item 3) costs should be charged. These costs remain the same until a change is agreed upon between the UP and Amtrak, which is usually accomplished under an Amendment Agreement Change (AAC).

For the period from June 1995 through June 1997, Amtrak paid UP a total of \$1,997,364² billed under the diesel fuel and fuel handling accounts.

II. OBJECTIVE

Our objectives were to determine whether the monthly billings submitted by the UP for diesel fuel and fuel handling were accurate, valid, reasonable, and in compliance with the operating agreement and contract amendments between Amtrak and the UP.

¹ Per Section 5.2.C of the agreement, the specification of the retention period shall not limit NRPC's right to review. The Office Inspector General's ability to audit and responsibility may not be limited by the specific terms of the contract.

² For the audit period from June 1995 through December 1999, we did not observe any UP diesel fuel billings after June 1997.

III. SCOPE

The scope of our audit encompassed the UP billing period from June 1, 1995 through December 31, 1999 and included the examination of UP and Amtrak records, such as operating agreements, billing statements (Greenbills), fuel records, and other records that impact the billing of diesel fuel costs.

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

IV. METHODOLOGY

The methodology used to meet the objectives included the following:

- Reviewed Operating Agreement and Agreement Amendment Changes (AACs) and noted the pertinent sections related to diesel fuel costs and the billing of the subject accounts;
- Recalculated UP diesel fuel billings and Amtrak payments of the subject charges to determine accuracy;
- Reviewed all supporting documents provided by the UP related to diesel fuel to determine accuracy and validity of the UP billings;
- Calculated the amounts of over or under-billing of SP diesel fuel charges and categorized the result totals as unsupported or questioned cost where appropriate; and
- Performed additional audit steps as deemed appropriate.

V. EVALUATION OF INTERNAL CONTROLS

Audit did not rely on UP's internal control structure as substantive tests were performed to determine the amount of any erroneous and/or excessive billings by the UP.

VI. PRIOR AUDIT COVERAGE

The prior audit report (Report 97-401) issued on April 7, 1997 by OIG – CHI covered the period from March 1, 1990 through May 31, 1995. Among other findings reported, the final audit report identified a minor finding related to diesel fuel. The UP over billed Amtrak \$1,534 for diesel fuel in April and June 1994 related to fueling of locomotive rentals and non-Amtrak locomotives.

VII. FINDINGS AND RECOMMENDATIONS

Audit identified \$65,878 in inappropriate labor costs billed under Item 2- Diesel Fuel

Per AAC UP-15R, intermediate point servicing (Item 4)³ costs were discontinued effective March 1, 1993.

Discussion

For the billing periods from June 1, 1995 through June 30, 1997, the UP provided diesel fuel at Hinkle, Pocatello, Rawlins, and Yermo for Amtrak locomotives and billed Amtrak for its services. As part of our audit work, we reviewed UP's monthly billings to determine whether diesel fuel charges billed to Amtrak were accurate, valid, reasonable, and in accordance with contract provisions. Based on the results of our review, we noted that the UP had included in the monthly billings for diesel fuel (Item 2) labor costs that were once billed under Item 4 – Intermediate Point Servicing. The labor costs were billed at a fixed rate per train (multiplied by the number of trains fueled) for each of the four fueling location.

We determined that the UP continued to bill Amtrak labor charges even after Item 4 was discontinued effective March 1, 1993. Therefore, we questioned UP's inappropriate billing of labor costs under Item 2 that totaled \$65,878 from June 1995 through June 1997.

UP Response

The UP agreed with our finding and offered \$65,878 as settlement for the inappropriate labor costs identified.

Audit Comment

We concurred with the UP's settlement offer in the amount of \$65,878.

Recommendation

We recommend that Transportation Operations Management proceeds with the recovery of the settlement amount of \$65,878 once the process of reaching an agreement with the UP on the settlement letter language is finalized.

Management Response

³ Per agreement, the purpose of Item 4 – Intermediate Point Servicing was to cover all costs (including but not limited to labor, travel time, supervision, and equipment) necessary to perform routine servicing at certain stations.

Amtrak Transportation Operations Management agreed with the finding and settlement offer of \$65,878. When the final settlement language is agreed upon by the UP, Transportation Operations Management indicated that it would proceed with the collection of the settlement amount.

This concludes our report.

Audit Staff:

Trig Alonso, Senior Auditor
Anil Gunaratne, Audit Project Supervisor

See See Young
Senior Director – Audits