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# AMTRAK INVOICE REVIEW:

## Internal Control Weaknesses Lead to Overpayments (BNSF)

Report No. OIG-A-2013-008 | March 26, 2013





# Memorandum

**To:** Gordon Hutchinson, Acting Chief Financial Officer  
David Nichols, Chief Transportation Officer

**From:** David R. Warren   
Assistant Inspector General, Audits

**Date:** March 26, 2013

**Subject:** *Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)* (Report No. OIG-A-2013-008)

The Amtrak Office of Inspector General (OIG) initiated this audit in light of previously identified invoice-review process-control weaknesses. This condition, coupled with the significant funds Amtrak spends for using BNSF Railway tracks and services, placed Amtrak at risk of making undetected overpayments. OIG audit reports of host railroads issued since 1995 have identified more than \$86 million in overpayments and potential recoveries. This does not include over \$1.4 million identified in this report, but does include over \$19 million in overpayments that have already been collected. This report is part of a series of OIG audits of Amtrak's payments to host railroads. (See Appendix I for a list of prior reports.)

The objective of this audit was to determine whether charges for services BNSF invoiced to Amtrak for trains operating over its tracks from October 1, 2001 through December 31, 2004, were accurate. For the station utility service category, we extended our audit period through December 31, 2011. Also, while on-time-performance (OTP) incentives are included on the same invoice, they are not the subject of this review. For a detailed discussion of our audit scope and methodology, see Appendix I.

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## **SUMMARY OF RESULTS**

BNSF invoice charges generally complied with those allowed by the operating agreement for use of tracks, facilities, and services provided to Amtrak. However, the amounts invoiced by BNSF were not always accurate and contained errors that were not detected by Amtrak. We identified approximately \$97,000 in overpayments for six service categories audited. For these service categories, invoice errors went undetected because Amtrak's host railroad invoice administration (HRIA) group did not have an adequate invoice-review process in place during the audit period. The details of these minor invoice errors are discussed in Appendices III through VI.

Additionally, for a seventh service category—station utility—Amtrak continued to pay BNSF for utility costs at as many as 16 stations while it was also directly paying the utility service providers for the same services. This occurred because Amtrak's host railroad contract management (HRCM) group did not have a timely process for identifying that Amtrak took over direct payment of utilities and revising the operating agreement to reflect the change. Because the operating agreements were not revised, the HRIA group did not have an accurate basis on which to review the invoice. We identified overpayments of more than \$1.3 million for station utilities costs.

We are recommending that Amtrak's Acting Chief Financial Officer take action to recover over \$1.4 million in overpayments identified in this report and that Amtrak's Chief Transportation Officer direct HRCM to develop and implement procedures to improve its controls over monitoring station utility operational changes.

## **OPERATING AGREEMENTS**

The Rail Passenger Service Act of 1970 created the National Railroad Passenger Corporation (Amtrak), to operate an intercity rail passenger system. The act allowed Amtrak to contract with host railroads "for the use of tracks and other facilities and the provision of services on such terms and conditions as the parties may agree."

Effective September 1, 1996, Amtrak entered into an operating agreement with Burlington Northern Railroad Company and the Atchison, Topeka and Santa Fe Railway Company. In January 2005, the company was renamed the BNSF Railway. The operating agreement was further amended through amendment agreement changes (AACs). The agreement authorizes BNSF to submit monthly invoices for services provided to Amtrak.

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Each month, BNSF submits a statement of charges to Amtrak. The operating agreement lists in summary form the authorized service category that make up the monthly invoices to Amtrak. These service categories could be periodically adjusted through amendments. Some service categories are based on a predetermined flat rate (such as per hour, per month, or per train mile). Others are based on actual expenses incurred.

Amtrak's HRCM group is responsible for negotiating, writing, and maintaining operating agreements with other railroads. The group monitors host railroad activity, and communicates with host railroads to assess the need for changes to the operating agreements. During the audit period, the Amtrak group responsible for reviewing, verifying, and approving payment of monthly BNSF invoices reported to the Vice President, Transportation. In October 2010, this group—now the HRIA group—was moved, and now reports to the Acting Chief Financial Officer.

## **STATION SERVICE COST OVERPAYMENTS**

We found one service category, station utilities, had a significant number of invoice errors that totaled over \$1.3 million. These errors went undetected because Amtrak's HRCM group did not actively monitor station utility operational changes affecting the BNSF agreement and did not have written procedures for overseeing station utility costs.

Amtrak is required to pay BNSF each month the amounts shown in the operating agreement for utilities supplied to stations used by Amtrak. The agreement also states that the amount of the payment shall be appropriately adjusted when Amtrak

Amtrak made payments to both BNSF and local utility providers for services at 16 stations on Amtrak train routes operating over BNSF tracks.<sup>1</sup> For these 16 stations, we questioned utility costs totaling \$1,340,484 of \$3,590,282 (37 percent) paid from October 2001 through December 2011.<sup>2</sup>

<sup>1</sup> Station utilities include payments for electricity, water, heat, gas, and trash. Amtrak may be responsible for monthly payment of some or all of these services, depending on their use and station ownership. The stations are:

<sup>2</sup>For the station utility service category, we found that errors continued beyond the audit period. Accordingly, we extended our review to include January 1, 2005 through December 31, 2011, in addition to the audit period of October 1, 2001 through December 31, 2004.

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For six other service categories, invoice errors of approximately \$97,000 went undetected because Amtrak's HRIA group did not have an adequate invoice-review process in place. Details of these other service costs are discussed in Appendices III through VI. Table 1 summarizes the overpayments for the seven service categories audited.

**Table 1. OIG Review of BNSF Invoices, October 2001–December 2011**

Service Category	October 2001 through December 2004	January 2005 through December 2011	Total Overpayments
1. Station Utilities	\$301,265.00	\$1,039,219.00	\$1,340,484.00 <sup>c</sup>
2. ██████████			
3. ██████████	43,900.00	0	43,900.00
4. ██████████	41,600.38	0	41,600.38
5. ██████████	7,188.00	0	7,188.00
6. Diesel Fuel and			
7. ██████████	4,138.31	0	4,138.31
<b>Total</b>	<b>\$398,091.69</b>	<b>\$1,039,219.00</b>	<b>\$1,437,310.69</b>

<sup>a</sup> ██████████ and ██████████ were reviewed together and the results were combined for these two service categories.

<sup>b</sup> Diesel fuel and ██████████ were reviewed together and the results were combined for these two service categories.

<sup>c</sup> Includes a \$27,051 credit for the Riverbank, CA, station.

Source: OIG analysis of BNSF and Amtrak data

As Table 1 indicates, invoice errors for station utilities far surpassed those of any other service category.

### **Utility Service Charges Were Paid to Both BNSF and Utility Service Providers**

Amtrak paid BNSF and utility service providers for the same station utility costs at ten stations and may be making duplicate payments at six additional stations. These payments occurred because the HRCM group did not have a timely process to identify changes in the payment process and to update operating agreements to effect those changes. As a result, Amtrak overpaid BNSF by \$1,340,484 for the period October 1, 2001 through December 31, 2011.

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For example, BNSF invoiced Amtrak for electricity, water, and trash removal at the Albuquerque station and at the same time that Amtrak was directly paying utility vendors for those services. The costs of dual payments for utility services, in Albuquerque in February 2003, are shown in Table 2.

**Table 2. Albuquerque, NM, Station Utility Payments, February 2003**

Paid To:	Host Railroad	Vendors			Totals
	BNSF	PNM Electric	City of Albuquerque	Waste Management	
Electricity		\$428			
Water			\$59		
Trash				\$1,247	
<b>Totals</b>		<b>\$428</b>	<b>\$59</b>	<b>\$1,247</b>	
<b>Total Amtrak Paid for Services at Albuquerque</b>					

<sup>a</sup> Unadjusted amount that is subject to annual adjustment per the Association of American Railroads index  
 Source: OIG analysis of BNSF and Amtrak data, February 2003

A senior director in the Host Railroad group stated that subsequent to a joint review of Albuquerque station costs by HRCM and BNSF, Amtrak stopped paying BNSF for station utility costs in November 2010, resulting in monthly savings of approximately \$10,000.<sup>3</sup> In total, from October 2001 through October 2010, Amtrak paid BNSF \$789,498 for Albuquerque utility costs while also directly paying \$213,180 to other utility vendors.

As another example, from October 2001 through December 2011, Amtrak made payments of \$123,420 to BNSF for utility services at the Centralia, WA, station, and as of February 2011, continues to make duplicate payments of about [REDACTED] per year to the City of Centralia. Beginning in 2008, Amtrak and BNSF amended the operating agreement by [REDACTED] utility costs at 10 of the 16 stations identified in this report. Not recognizing changes in payment process and changing operating agreements in a timely manner resulted in station utility service overpayments totaling \$1,313,432.

In an August 2008 OIG report<sup>4</sup> we recommended that HRCM develop and implement written procedures. To date, Amtrak has not implemented our recommendation. On April 17, 2012, HRCM issued draft operating procedures that are being followed by HRCM staff. The draft procedures state, “The Host Railroad Group monitors Host

<sup>3</sup> The [REDACTED] rate adjusted for inflation July through December 2008 made the rate [REDACTED]. The savings calculation for this month is [REDACTED] minus [REDACTED], = \$9,725; or about \$10,000 for the month.

<sup>4</sup> *Host RRCA & Operations Management Controls* (OIG Audit Report No. 401-2008, August 21, 2008).

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Railroad activity...” However, specific guidelines for updating station utility payments place the responsibility on the utilities management group or other Amtrak departments, or on the host railroad, to notify HRCM if there is a change in utility billing or station usage. HRCM’s guidelines do not include specific monitoring actions for HRCM. The station utility guidelines should require HRCM to be proactive in identifying changes instead of relying on notification from others.

The inadequate invoice-review process was previously reported by the OIG in 2008 and 2011.<sup>5</sup> In these reports we recommended improvements to that process, including new invoice-review policies and procedures. Amtrak in the last 6 months has completed implementing these recommendations. (See Appendix II for details). We believe that the actions Amtrak has taken, if sustained, should improve the review process and help ensure that invoice errors are detected before payments are made.

## **CONCLUSION**

Dual payments were made to BNSF and vendors for station utility services. This occurred because Amtrak’s HRCM group did not have a timely process for identifying that Amtrak took over direct payment of utilities and revising the operating agreements to reflect the change. Further, other errors were not detected due to now-corrected weaknesses in the invoice review. In total, these conditions led to about \$1,437,311 in overpayments to BNSF.

## **RECOMMENDATIONS**

We recommend that Amtrak’s:

1. Acting Chief Financial Officer take action to recover the approximately \$1,437,311 in overpayments made to BNSF.
2. Chief Transportation Officer direct HRCM to develop and implement monitoring procedures that provide clear direction for coordinating efforts between it and other departments that will ensure that any changes affecting host railroad stations or utilities service charges are identified and operating agreements amended to reflect those changes.

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<sup>5</sup> OIG Audit Report 401-2008, August 21, 2008 and OIG Audit Report 403-2010, April 21, 2011.

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## **MANAGEMENT COMMENTS AND OIG ANALYSIS**

In commenting on a draft of this report, management stated that the report provides useful information on which Amtrak management can take action. Management also indicated its intent to enter into appropriate conversations with BNSF once this report is issued. Specifically, management stated that the Managing Deputy General Counsel, on behalf of Amtrak's Transportation and Finance departments, will pursue any amounts that are recoverable under the law and within the terms of the applicable operating agreement between Amtrak and BNSF. Additionally, the Assistant Vice President, Host Railroads, will work with the Assistant Controller, Capital and Costing, to implement improved procedures that provide better internal communications for changes affecting host railroads' station utilities. Management's comments meet the intent of our recommendation.

Amtrak's memorandum commenting on the draft report is reprinted as Appendix VII.

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**Appendix I**

**SCOPE AND METHODOLOGY**

This report provides the results of an Amtrak OIG review to determine whether charges for services invoiced to Amtrak for trains operating over BNSF tracks from October 2001 through December 2004 were accurate. While on-time-performance incentives are included on the same invoice, they are not the subject of this review. We conducted this audit in Chicago between February 2005 and March 2013. Certain information in this report has been redacted due to the sensitive nature of the information.

The authority to perform an audit of BNSF's invoices is established in Section 5.2(b) of the agreement with Amtrak. This section allows Amtrak to audit and evaluate any payment relating to either financial or operational issues. Under Section 5.2(c), the host railroad is required to maintain supporting accounting, operating, and mechanical department records and any other data related to the performance of services for Amtrak, and those records are to be made available for inspection and copying.

To determine whether BNSF complied with the operating agreement when invoicing Amtrak for charges incurred for Amtrak trains operating over its tracks, we (1) conducted a risk analysis of the 23 categories of services and selected 8 for review, along with other items; (2) reviewed the operating agreement and its amendments, focusing on sections relating to the billable service categories of each item selected for audit; (3) obtained and reviewed the monthly invoices for payments related to the items and the documentation to support the invoices submitted to Amtrak; (4) compared the amounts invoiced with all available supporting documentation; (5) reviewed all relevant invoice adjustments; (6) communicated with Amtrak's management to obtain supporting documentation; (7) communicated with BNSF to obtain clarification on invoice items and supporting documentation; (8) calculated the over-billed and/or under-billed amounts resulting from inaccurate invoices; and (9) reviewed our prior audit reports regarding weaknesses in Amtrak's invoice-review process.

We completed a risk assessment of the 23 service categories included in BNSF's monthly invoices to Amtrak. This assessment considered risk factors such as the amount billed the potential for recovery, management interest, and operational changes. The level of risk determined for each service category was based on information from the BNSF invoices and auditor judgment. This selection design was chosen because it incorporates the high dollar amounts billed and other factors, such as potential recovery, management interest, and operational changes. The selection results

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are not projectable to the population. The service categories selected for review were as follows:

1. [REDACTED]
2. [REDACTED]
3. General Administration (business expense and travel)
4. [REDACTED]
5. Station Utilities
6. [REDACTED]
7. Diesel Fuel
8. [REDACTED]

In addition to these items, we reviewed authorization notices,<sup>6</sup> which are not part of the 23 service categories but are included on the monthly invoices from BNSF to Amtrak. Prior period adjustments and exception notices<sup>7</sup> were also reviewed. BNSF billed Amtrak over \$127 million for the audit period, including on-time-performance incentives. We did not review over \$52 million of on-time-performance incentives as part of this audit. We audited over \$71 million of the about \$75 million, which is 95.4 percent, billed to Amtrak by BNSF between October 1, 2001 through December 31, 2004 for service categories. For the station utility service category, we found that errors continued beyond the audit period. Accordingly, we expanded our scope to include January 2005 through December 31, 2011.

For the [REDACTED], general administration, [REDACTED] service categories we reviewed invoiced amounts for the entire audit period. [REDACTED]

[REDACTED]. Our testing under this item included 100% of the billings for [REDACTED] and excluded the other four categories.

For the station utility service category, we originally selected and reviewed all 39 BNSF invoices for the audit period. For station utilities we selected 17 of 57 stations for review. We selected them by using an average of the total station utilities payment per month. For example, the average cost for BNSF station utilities in October 2001 was

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<sup>6</sup> Authorization notices are pre-authorized payments to BNSF for Amtrak requested work or services performed along the route. Examples [REDACTED].

<sup>7</sup> Exception notices are adjustments made to the current-period invoice amounts by Amtrak management prior to payment.

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█████ (total payment = █████ divided by 57 stations = █████). Therefore, we judgmentally selected all stations that exceeded █████. The original sample size was 17 out of 57 (30 percent) stations or █████ of the █████ (77 percent) billed per month. Due to the fact that we questioned utility costs for 9 of 17 stations (over 50 percent) of the original sample, the audit was expanded to include all 57 stations listed in the operating agreement.

For █████, we judgmentally selected the two highest monthly amounts paid in 2001 and the three highest monthly amounts paid for 2002, 2003, and 2004, respectively, for detailed review. In addition, we selected June 2002, May 2003, and August 2004 due to issues identified in our preliminary review. Fourteen out of thirty-nine months were selected for detailed review. Sample months amounted to █████, (57 percent) of the paid amount for the audit period.

For diesel fuel and █████, we judgmentally selected a total of four months -- two months in 2003 and two months in 2004, for which we traced the number of gallons billed either to the fuel tickets or fuel log sheet. The selection was based on an unusually large number of gallons for one locomotive.

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

**Internal Controls**

In conducting this audit, we assessed controls only for the station utility service category, but not management's overall system of controls for all other items over its monthly invoice reviews. As discussed in the report, we updated Amtrak's progress in improving its controls and processes in its review of monthly invoices.

**Computer-Processed Data**

To achieve our assignment's objective, we used computer-processed data contained in Amtrak's electronic records of BNSF invoices. To test the validity of the data, we compared Amtrak's electronic data with the BNSF hard copy invoices. In addition, we compared the total amount paid on the electronic invoices against the total amount paid in Amtrak's Financial Information System (FIS) or eTrax System for all 39 months in the audit period and 84 months in the extended period. The data in FIS and eTrax were not

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verified, but we considered the data sufficiently reliable for purpose of our audit objective. Based on these tests, we concluded that the data were sufficiently reliable to be used in meeting the assignment's objectives. We did not verify computer-processed data provided by Amtrak.

### **Prior Audit Reports**

Our review of prior OIG reports found previously identified control weaknesses and significant dollar amounts associated with Amtrak's payments to host railroads including BNSF. This report is part of a series of OIG audits of Amtrak's host railroad payments. We reviewed the following Amtrak OIG audit reports and used information from them in conducting our audit:

*Amtrak Invoice Review: Internal Control Weakness Lead to Overpayments (Southern Pacific) (OIG Audit Report No. OIG-A-2013-007, March 13, 2013). Over \$1.2 million in over payments found.*

*Amtrak Invoice Review: Undetected Inaccuracies Resulted in Overpayments (OIG Audit Report No. OIG-A-2013-006, February 15, 2013). Over \$2 million in overpayments found.*

*Amtrak Invoice Review: Undetected Errors Resulted in Overpayments (OIG Audit Report No. OIG-A-2012-019, September 5, 2012). Over \$3.4 million in overpayments found.*

*On-Time-Performance Incentives: Inaccurate Invoices Were Paid (OIG Audit Report No. OIG-A-2012-013, June 29, 2012). Over \$1.4 million in overpayments found.*

*Amtrak Invoice Review: Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process (OIG Audit Report No. OIG-A-2012-005, February 16, 2012). Over \$700,000 in overpayments found.*

*On-Time-Performance Incentives: Inaccurate Invoices Were Paid, Due to Weakness in Amtrak's Invoice-Review Process. (OIG Audit Report No. OIG-A-2012-004, February 15, 2012). Over \$9 million in overpayments found.*

*On-Time-Performance Incentives: Inaccurate Invoices were Paid Due to Long-standing Weaknesses in Amtrak's Invoice-Review Process (OIG Audit Report No. 403-2010, April 21, 2011). Over \$500,000 in overpayments found.*

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*BNSF [Burlington Northern Santa Fe Railway] On-Time-Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments (OIG Audit Report No. 407-2003, September 24, 2010). Over \$1 million in overpayments found.*

*CSX On-Time-Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments (OIG Audit Report No. 406-2005, March 30, 2010). Over \$20 million in overpayments found.*

*Host RRCA & Operations Management Controls (OIG Audit Report No. 401-2008, August 21, 2008).*

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**Appendix II**

**AMTRAK'S ACTIONS TO IMPROVE ITS  
INVOICE-REVIEW PROCESS**

Since 2008, we have made recommendations aimed at helping Amtrak improve its invoice-review process. A summary of our recommendations and the company's responses are detailed below.

In August 2008, we reported<sup>8</sup> that management controls over Amtrak's invoice-review process were inadequate and ineffective. The host railroad invoices consistently contained errors that went undetected and the invoices were paid. As a result Amtrak in many cases over paid for incentives and services. We recommended improvements to the invoice-review process; in the last 6 months, Amtrak has completed implementing these recommendations.

Specifically, we made recommendations with regard to the functions, responsibilities, and organizational structure of the two groups responsible for host railroad activities. Amtrak took action and has restructured the organization. The group responsible for reviewing and approving payment of monthly host railroad invoices previously reported to the Vice President, Transportation. In October 2010, this group—now called the Host Railroad Invoice Administration (HRIA) group—began reporting to the Chief Financial Officer.

We also recommended that Amtrak develop and implement formal procedures that clearly define the invoice review group's objectives and responsibilities. In response to our recommendation, Amtrak has implemented detailed procedures that clearly define the group's objectives and responsibilities.

We further recommended that Amtrak perform a real time, thorough and complete review of railroad invoices prior to approving payment and automate the invoice-review process. Amtrak has now begun performing real-time, thorough and complete reviews of railroad invoices prior to payment. HRIA has increased its staff by three positions. Amtrak has also developed and implemented an HRIA checklist for the invoice review process which holds employees accountable for performing complete invoice reviews. It also provides managers with an understanding of the steps taken to review the invoice and any issues that prevent a full review from being conducted.

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<sup>8</sup> OIG Audit Report 401-2008, August 21, 2008.

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Additionally, group officers certify, by signing the checklist, that they have reviewed the appropriate documentation and recalculated the invoice prior to approving it for payment. Finally, HRIA has worked with the Information Technology Department to develop reports to facilitate a thorough and complete review of invoices prior to payment.

We believe that the actions Amtrak has taken, if sustained, should improve the review process and help ensure that invoice errors are detected before payments are made. At some future point, we plan to perform a follow-up review of the Amtrak's invoice-review process.

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**Appendix III**

[REDACTED]

Amtrak paid more than \$21 million for [REDACTED] and over \$6 million for [REDACTED]—a total payment of over \$27 million during the 39-month audit period. BNSF invoices contained errors in the calculation of [REDACTED] and [REDACTED] resulting in an overpayment of \$43,900.

Under appendix IV, items 10 and 20 of the operating agreement, [REDACTED] and other miscellaneous costs associated with train operations are reimbursable through [REDACTED] and [REDACTED]. These costs are calculated using three factors: (1) [REDACTED] traveled, (2) number of [REDACTED], and (3) rates per [REDACTED].

We calculated [REDACTED] and [REDACTED] invoice amounts based on the agreement [REDACTED] and rates and train operating data. We compared our results with those invoiced by BNSF. Our analysis found that BNSF's invoices were overstated for the following reasons:

- BNSF claimed [REDACTED] and [REDACTED] for scheduled trains that were annulled or terminated<sup>9</sup> or that would have run on routes that were eliminated. This happened because BNSF billed for the full month and did not take into account certain days of the month that train did not run.
- BNSF used the incorrect number of days of operation to calculate [REDACTED] and [REDACTED]. For example, in January 2004, Train 6 from Denver to Chicago did not operate on January 31, yet, BNSF invoiced Amtrak for operating this train for 31 days instead of 30 days.
- BNSF used the incorrect number of [REDACTED] to calculate [REDACTED] and [REDACTED]. For example, in November 2001, Trains 5 and 6 detoured between Chicago and Omaha and BNSF invoiced Amtrak for these miles, although these trains were operated over another railroad.

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<sup>9</sup> An annulled train refers to a train scheduled to operate as listed in Amtrak's public timetable, but that did not operate at all, being canceled/annulled prior to its scheduled departure time. A terminated train refers to a train that is unable to reach its final destination as listed in Amtrak's public timetable, after departing as scheduled. Trains may be annulled or terminated [REDACTED], such as, inclement weather (mudslide, rockslide, or heavy rains) that affect the railroad's track and operations.

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**Appendix IV**



Amtrak paid over \$1.1 million to BNSF during the 39-month audit period for [REDACTED] [REDACTED],<sup>10</sup> of which \$121,703 was not adequately supported. For example, BNSF did not provide scheduled and actual departure and arrival times [REDACTED] [REDACTED].<sup>11</sup> Without this information, we could not verify the on-time performance incentives claimed for the [REDACTED]. In the previous audit, Amtrak and BNSF agreed to use a 35-percent error rate to settle this service category because both parties failed to maintain sufficient records to support [REDACTED] charges. They also agreed that this same error rate would be used until a new AAC was signed. Therefore, based upon the 35-percent error rate, the \$121,703 unsupported charges for [REDACTED] [REDACTED], and an invoice error, Amtrak overpaid BNSF \$41,600.

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<sup>10</sup> [REDACTED] are those not regularly scheduled and not included in Amtrak's national time table. For example, American Orient Express (AOE) is a revenue train because it pays Amtrak to coordinate with the host railroad to help it operate its train over host railroad tracks. A non-revenue train could be empty Amtrak equipment that needs to be moved from one location to another and must use a host railroad's tracks.

<sup>11</sup> For [REDACTED], Amtrak is required to pay BNSF the rate specified in Appendix V of the operating agreement [REDACTED] a non-regularly-scheduled Amtrak train is operated on BNSF rail lines. This payment is in lieu of payments otherwise payable in items 10 and 20 of Appendix IV of the agreement.

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**Appendix V**

[REDACTED]

Occasionally, Amtrak locomotives will malfunction during a trip. When this occurs, the operating agreement states that Amtrak can [REDACTED] to complete the trip to minimize the delay to passengers. Amtrak paid BNSF \$531,696 for [REDACTED] for the audit period.<sup>12</sup> We identified invoice overstatements of \$7,188 due to BNSF's using incorrect horse-power or layover hours in calculating locomotive rental time costs. For example:

- For a train that operated on April 25, 2002 from Spokane, WA, to Minneapolis, MN, BNSF invoiced Amtrak for 4400-horsepower locomotive rather than a 3800-horsepower locomotive, as it should have per *The Official 2007 Edition Locomotive Rosters and News* for rental unit #EMD9037. This horsepower error resulted in an overpayment of \$1,096.
- BNSF used an incorrect number of layover hours when calculating [REDACTED]. For a train operated from Bakersfield to Oakland, CA, in January 2003, BNSF invoiced Amtrak 157.769 instead of 19.417 layover hours. This error resulted in an overpayment of \$4,862.

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<sup>12</sup> Appendix IV, item 21, stipulates the terms for [REDACTED], which includes [REDACTED]. BNSF rental [REDACTED]. Occasionally, Amtrak rents a freight locomotive (such as from BNSF) to complete a trip due to the mechanical failure of an Amtrak locomotive.

*Amtrak Office of Inspector General*  
**Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)**  
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**Appendix VI**

**DIESEL FUEL AND [REDACTED]**

Amtrak paid over \$23 million during the 39-month audit period for diesel fuel [REDACTED] [REDACTED] charges. BNSF invoices contained overstatements amounting to approximately \$4,138.

When BNSF supplies diesel fuel to Amtrak locomotives, it is entitled to reimbursement for the fuel and [REDACTED] costs. However, fuel costs for rental locomotives are not reimbursable because [REDACTED]. However, BNSF include fuel charges for non-Amtrak units and billed twice for the same unit. Specifically:

- On October 2, 2001, BNSF invoiced for non-Amtrak unit #7021 that was fueled at Argentine Yard (Kansas City). This resulted in an overpayment of approximately \$1,179.
- On November 21, 2001, BNSF invoiced for 1,800 gallons of diesel fuel supplied to Amtrak unit #93. The invoice shows two charges for 900 gallons on the same date. This duplicate billing resulted in an overpayment of \$633.

*Amtrak Office of Inspector General*  
**Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)**  
 Report No. OIG-A-2013-008, March 26, 2013

**Appendix VII**

**COMMENTS FROM AMTRAK'S  
 ACTING CHIEF FINANCIAL OFFICER**

NATIONAL RAILROAD PASSENGER CORPORATION  
 40 Massachusetts Ave., N.E., Washington DC 20002

# Memo



Date	February 13, 2013	From	<i>G. T. Hutchinson</i> Gordon Hutchinson, Acting Chief Financial Officer
To	David Warren, Assistant Inspector General, Audits	Department	Finance
		Subject	OIG Service Costs Audit 401-2007 - BNSF Railway
		cc	<i>William Herrmann, Managing Deputy General Counsel, Litigation</i> <i>Jean Dober, Associate General Counsel Litigation</i> <i>Paul Vilter, Assistant Vice President Host Railroads</i> <i>Bob Thomas, Assistant Controller</i> <i>Bill Auve, Assistant Controller</i> <i>Melantha Paige, Senior Audit Liaison</i>

This letter is in response to the Office of Inspector General's ("OIG") draft audit report number 401-2007 "Amtrak Invoice Review: Disclosed Control Weaknesses Lead to Overpayments," dated January 16, 2013. The subject of the audit is BNSF Railway's ("BNSF") service costs invoiced in the period October 1, 2001 through December 31, 2004 pursuant to the September 1, 1996 Operating Agreement between Amtrak and BNSF, as amended. This audit also covered station utility service costs during the said audit period, which period was extended through December 31, 2011 for station utility service costs only.

The OIG's draft audit report provides useful information on which Amtrak Management can take action. With the information from the OIG's report, the Managing Deputy General Counsel, on behalf of Amtrak's Transportation and Finance Departments, will pursue any amounts that are recoverable under the law and within the terms of the applicable Operating Agreement between Amtrak and BNSF. In addition, the Assistant Vice President of Host Railroads will work with the Assistant Controller Capital and Costing to implement improved procedures which provide better internal communications for changes affecting host railroad stations utilities.

As soon as the final version of this report is issued, we will initiate appropriate discussions with BNSF and will keep the OIG apprised of our progress.

*Amtrak Office of Inspector General*  
**Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)**  
Report No. OIG-A-2013-008, March 26, 2013

**Appendix VIII**

**ABBREVIATIONS**

AAC	amendment agreement change
FIS	financial information system
HRCM	host railroad contract management
HRIA	host railroad invoice administration
■	■
OIG	Office of Inspector General
■	■
OTP	on-time performance

*Amtrak Office of Inspector General*  
**Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)**  
Report No. OIG-A-2013-008, March 26, 2013

**Appendix IX**

**OIG TEAM MEMBERS**

Dan Krueger	Senior Director, Audits
Satish Parikh	Senior Auditor, Auditor in Charge
Jana Brodsky	Senior Auditor
Raymond Zhang	Senior Auditor
Michael P. Fruitman	Principal Communications Officer

*Amtrak Office of Inspector General*  
**Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (BNSF)**  
 Report No. OIG-A-2013-008, March 26, 2013

## OIG MISSION AND CONTACT INFORMATION

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<b>Amtrak OIG's Mission</b>	The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits, inspections, evaluations, 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.
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<b>Obtaining Copies of OIG Reports and Testimony</b>	Available at our website: <a href="http://www.amtrakoig.gov">www.amtrakoig.gov</a>
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<b>To Report Waste, Fraud, and Abuse</b>	Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):
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Web: [www.amtrakoig.gov/hotline](http://www.amtrakoig.gov/hotline)  
 Phone: 800.468.5469

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<b>Congressional and Public Affairs</b>	David R. Warren Assistant Inspector General, Audits
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