




Memorandum

To: Gordon Hutchinson, Acting Chief Financial Officer

From: David R. Warren
Assistant Inspector General, Audits 

Date: February 16, 2012

Subject: *Amtrak Invoice Review: Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process* (Audit Report No. OIG-A-2012-005)

Enclosed is our final report entitled, *Amtrak Invoice Review: Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process*. This report provides the results of our audit of charges incurred by CSX Transportation, Inc. for Amtrak trains operating over its tracks. CSX billed approximately \$118 million for operating Amtrak trains over its rail lines from June 1999 through March 2008. This report contains a recommendation that you collect the \$736,126 in overpayments we identified. We conducted this audit because of previously identified control weaknesses and the significant amount of money Amtrak expends to use CSX tracks. This report is part of a series of Office of Inspector General (OIG) audits of Amtrak's payments to host railroads.

The objectives of this audit were to (1) determine whether CSX complied with the operating agreement when invoicing Amtrak for charges incurred for Amtrak trains operating over its tracks from June 1999 through March 2008, and (2) provide an update on Amtrak's progress in improving its controls and processes in its review of monthly invoices. While on-time-performance incentives are included on the same invoice, they are not the subject of this review.

Your response to our draft report can be found in Appendix III in the report.

We appreciate the courtesies and cooperation of Amtrak representatives during the course of this review. If you or your staff have any questions, please contact me (David.Warren@amtrakoig.gov, 202.906.4742) or Dan Krueger, Senior Director (Daniel.Krueger@amtrakoig.gov, 312.382.5303).

cc: DJ Stadtler, Acting Vice President, Operations
Paul Vilter, Assistant Vice President, Host Railroads
William Herrmann, Managing Deputy General Counsel
Jessica Scritchfield, Senior Director, Internal Controls/Audit
Enclosure



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AMTRAK INVOICE REVIEW:

Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process

Audit Report No. OIG-A-2012-005 | February 16, 2012





Office of Inspector General



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The Amtrak Office of Inspector General (OIG) conducted this audit because of previously identified control weaknesses and the significant amount of money Amtrak expends to use CSX tracks. Under an operating agreement with CSX Transportation, Inc., Amtrak pays CSX for charges incurred by CSX when Amtrak trains operate over its tracks. This report is part of a series of OIG audits of Amtrak's payments to host railroads.

The objectives of this audit were to (1) determine whether CSX complied with the operating agreement when invoicing Amtrak for charges incurred for Amtrak trains operating over its tracks from June 1999 through March 2008, and (2) provide an update on Amtrak's progress in improving its controls and processes in its review of monthly invoices. For a detailed discussion of our audit scope and methodology, see Appendix I.

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SUMMARY OF RESULTS

CSX invoice charges generally complied with the operating agreement for use of tracks and facilities and the provision of services provided to Amtrak. However, in seven of the 13 cost components selected for review, we found that invoice amounts contained errors because they were not calculated in accordance with the operating agreement or were unsupported. Sample CSX invoices for the 106-month audit period (June 1999 through March 2008) disclosed CSX overbilling of \$736,126, approximately 1 percent¹ of the more than \$66 million paid for services during the sample months.

The billing errors went undetected because, as previously reported,² Amtrak did not have in place an adequate review process during that period. Amtrak is, however, making progress in developing its capabilities for reviewing host railroad invoices and addressing our prior recommendations. For example, Amtrak established the Host Railroad Invoice Administration group, which is reviewing select invoices using a limited set of factors. The Law Department is also working to negotiate settlements on overpayments that we previously identified. Amtrak plans to further improve the invoice review process through several initiatives, including developing policies and procedures for reviewing all invoices, creating job aids to facilitate invoice processing, and collecting outstanding overpayments identified in prior audit reports. While Amtrak continues to make progress in developing policies and procedures, training, and invoice reviews, the company has not yet implemented all of our recommendations.

Over time, our office has identified approximately \$37 million in overpayments and potential recoveries for audit periods ranging between 1993 and 2008, including over \$700,000 identified in this report. The \$37 million includes at least \$5.7 million in overpayments that have already been collected.

¹ The 1 percent is a net amount. While errors in favor of Amtrak and CSX resulted in a net amount due Amtrak of \$736,126, we identified over \$1.4 million in total invoice errors. For example, invoice errors in the calculation of incremental track maintenance and other train costs resulted in overpayments of \$139,124; however, this amount includes an overstated amount of \$462,500 and an understated amount of \$323,376 (almost \$800,000 in total errors).

² *On-Time-Performance Incentives: Inaccurate Invoices were Paid Due to Longstanding Weaknesses in Amtrak's Invoice-Review Process* (OIG Audit Report 403-2010, April 21, 2011).

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We are encouraged by the progress that has been made and the plans that are in place for further action. Accordingly, we are not making any new recommendations for improving invoice-review capabilities at this time. However, we do recommend that Amtrak's Chief Financial Officer take action to recover the \$736,126 that Amtrak overpaid CSX.

In commenting on a draft of this report, Amtrak's Acting Chief Financial Officer stated that management concurred with the recommendation to take action to recover amounts with respect to overpayments made to CSX. He stated the company will review and analyze our records on which the findings were based, and have the Managing Deputy General Counsel, on behalf of Amtrak's Transportation and Finance departments, pursue any amounts that are recoverable under the law and within the terms of the agreement.

OPERATING AGREEMENTS

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

Operating agreements were developed between Amtrak and host railroads to serve as a basis for determining costs associated with the services, equipment, and facilities provided to Amtrak. Effective June 1, 1999, Amtrak entered into an operating agreement with CSX. The agreement was further amended through amendment agreement changes. The agreement authorizes CSX to submit monthly invoices for the services provided to Amtrak. Each month, CSX submits a statement of charges to Amtrak. The operating agreement lists in summary form the authorized cost components that make up the monthly invoices to Amtrak (see Appendix II).

These cost components could be periodically adjusted through amendments. Some cost components are based on a predetermined flat rate (such as per hour, per month, or per train mile). Others are based on actual expenses incurred. One cost component is for monthly invoice preparation and supporting documentation. Amtrak paid CSX an average of about \$100,000 per month (over \$10 million) for general administration,

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accounting, and transportation supervision services during the audit period. A portion of this was for preparing monthly invoices. During the audit period, the Amtrak group responsible for reviewing and approving payment of monthly CSX invoices reported to the Vice President for Transportation. In October 2010, this group—now called the Host Railroad Invoice Administration group—was moved, and now reports to the Chief Financial Officer.

INVOICE CHARGES GENERALLY COMPLIED WITH OPERATING AGREEMENT, BUT ERRORS FOUND IN OVER HALF OF COST COMPONENTS REVIEWED

CSX invoice charges to Amtrak generally complied with the operating agreement for use of tracks and facilities and the provision of services provided to Amtrak. We reviewed 13 of the 32 cost components in the operating agreements and found errors in the charges associated with seven, as shown in Table 1. The highest dollar amounts associated with the errors were in the components of special trains, additional light density line costs, incremental track maintenance, and other train costs. The other components had only minor error amounts.

**Table 1. OIG Analysis of Sample CSX Invoices,
June 1999–March 2008**

Cost Component	Number of Months Sampled	Amtrak-paid Amount for Sample Months	Overpaid Amount	Percentage of Total Paid Amount
1. Special Trains	54	\$1,674,284	\$360,560	22
2. Additional Light Density Line Costs	72	2,108,090	151,007	7
3. Incremental Track Maintenance and 4. Other Train Costs^a	106	58,155,465	139,124	0
5. Station Utilities	106	1,638,805	52,535	3
6. Business Expense and Travel	6	73,742	28,006	38
7. Transportation of CSX Employees	81	2,905,000	4,894	0
Total		\$66,555,386	\$736,126	1

^a Incremental track maintenance and other train costs were reviewed together and the results were combined for these two cost components.

Source: OIG analysis of CSX and Amtrak data, June 1999 through March 2008

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The following sections discuss the errors found in these seven components in more detail.

Special Trains

CSX invoices contained errors of \$179,636 and unsupported charges of \$180,924 for special trains operating over CSX tracks for a total questioned amount of \$360,560. A special train is a non-regularly-scheduled Amtrak train. An example is a passenger train

Special Trains

\$ [REDACTED] per train mile

Amtrak shall pay CSX for each mile a non-regularly-scheduled Amtrak train is operated on rail lines.

Source: Amtrak/CSX Operating Agreement

run added for a sporting event such as the Super Bowl. According to the operating agreement, Amtrak shall pay CSX \$ [REDACTED] per train mile for each mile an Amtrak special train is operated.

Amtrak paid over \$2 million to CSX during this period for special trains. We selected a sample of 54 months during which CSX invoices included charges of \$1,674,284 (70 percent of the total paid) for special trains. Some invoices were overstated due to the use of incorrect train miles traveled and rates other than those permitted by the operating agreement.

For example, CSX used an incorrect number of train miles traveled to calculate the invoice amount due for a special train trip between Albany, NY, and Springfield, MA. For the audit period, CSX's invoices included 28 special train trips between these two points, originating in Albany. CSX calculated the invoice amount based on 264 train miles. We used the Amtrak system timetable to determine that the actual distance for round-trip travel between these two points is 202 train miles. The invoices also included 45 special train trips between Albany and Boston. CSX calculated the invoice amount based on 231 train miles, while our calculated amount was based on 199 train miles. These two mileage errors resulted in overpayments of approximately \$16,000.

Further, CSX did not provide sufficient documentation to support over \$180,000 in charges for the sample invoices. For example, CSX did not provide scheduled and

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actual departure and arrival times for special train incentive charges.³ Without this information, we could not verify the on-time-performance incentives claimed for the special trains. In September 2010, we requested the supporting documentation from CSX for the amount invoiced; however, CSX officials stated that the information requested was voluminous, complex to retrieve, and may not be available at all due to its age. To date, CSX has not provided us with all documents necessary for us to evaluate these charges.

Additional Light Density Line Costs

CSX invoices contained errors of \$151,007 for additional light density line costs. According to the operating agreement, these are additional costs the railroad would not have incurred had Amtrak not used this track; for example, signal costs, required additional track inspections, and all other costs associated with three specific segments along CSX routes. The three route segments are detailed in appendix IV of the operating agreement and include the routes detailed in the box below. According to the agreement, Amtrak shall pay CSX \$ [REDACTED] per train mile for Amtrak trains operated on these three route segments.

Amtrak paid over \$3 million for the 106-month audit period for additional light density line costs. We selected a sample of 72 months of additional light density line charges totaling \$2,108,090 (68 percent of the total paid). CSX invoices were overstated due to an apparent oversight error and the use of incorrect numbers of train miles.

Additional Light Density Line Costs

\$ [REDACTED] *per train mile*

Additional signal costs, track inspections, and all other costs associated with the following routes:

- Raleigh, NC–Columbia, SC (203 miles)
- Maynard, IN–Ames, IN (123 miles)
- Clifton Forge, VA–Orange, VA (126 miles)

Source: Amtrak/CSX Operating Agreement

Specifically, from December 2004 through January 2006, CSX billed Amtrak in error for the segment between Clifton Forge and Orange. An agreement among Amtrak, Buckingham Branch Railroad and CSX dated December 21, 2004, directed CSX to stop

³ Appendix V of the operating agreement—Performance Payments and Penalties—states “if a special train arrives at its scheduled final destination on or before its scheduled arrival time, plus a [REDACTED] minute tolerance and the amount of time the train departed late from origin on [CSX], Amtrak will pay [CSX] \$ [REDACTED] for each train mile operated by the special train on Rail Lines of [CSX].”

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billing Amtrak for this segment because the segment was leased by CSX to Buckingham, and Amtrak paid the costs directly to Buckingham. However, CSX continued to include these costs on its monthly invoices for more than 1 year, and Amtrak's review process did not detect the error. As a result, Amtrak made duplicate payments to CSX for this segment.

Additionally, CSX used the incorrect number of train miles traveled to calculate the invoice amount due. During this period, CSX used 246.5 train miles to calculate the amount due for the trip from Raleigh to Columbia. We used the operating agreement information and determined that the invoice should have been based on 203 train miles.

These two errors caused an overpayment of \$122,449 to CSX.

Incremental Track Maintenance and Other System Train Costs

CSX invoices contained errors in the calculation of incremental track maintenance (ITM) and other system train costs (OTC), both overstated and understated errors, resulting in a net overpayment of \$139,124. ITM is an agreed-upon rate paid to CSX to maintain its rail lines in a reasonable condition to allow the operation of Amtrak passenger trains. According to the operating agreement, these costs are incurred based on the actual number of train miles Amtrak trains travel over CSX tracks. Amtrak agreed to pay CSX \$ [REDACTED] per train mile for ITM.

Incremental Track Maintenance

\$ [REDACTED] *per train mile*

Amtrak shall pay CSX for the incremental cost of maintaining rail lines of CSX in connection with the operation of Amtrak passenger service.

Other System Train Costs

\$ [REDACTED] *per train mile*

Amtrak shall pay CSX in lieu of all CSX claims for all categories or amounts of incremental system costs not specifically included herein.

Source: Amtrak/CSX Operating Agreement

In addition, Amtrak agreed to pay CSX a flat rate of \$ [REDACTED] per train mile for incremental costs not specifically included in the agreement.

These rates remained in effect throughout the audit period.

Amtrak paid almost \$53 million for ITM and over \$5 million for OTC, for

a total payment of \$58 million during the audit period. As mentioned, CSX invoices were overstated by a net amount of \$139,124. Both ITM and OTC were reviewed together and the net amount due Amtrak includes an overstated amount of \$462,500

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and an understated amount of \$323,376. While the error rate of less than 1 percent is minimal, invoices for 105 of the 106 months contained ITM and OTC billing errors.

The invoices were overstated for the following reasons:

- CSX claimed ITM and OTC for scheduled trains that were annulled or terminated⁴ or that would have run on routes that were eliminated. This happened because CSX billed for the full month and did not take into account certain days of the month that the train did not run.
- CSX used the trip performance rate⁵ instead of the number of train miles to calculate ITM and OTC from October through December 2000 for Trains 268, 295, and 297.
- CSX claimed erroneous dollar amounts with no justification or details to support the charges. For example, CSX invoices contained erroneous amounts for Train 91 from August 2004 through April 2005, resulting in overpayments.
- CSX used the incorrect number of train miles to calculate ITM and OTC. For example, according to the operating agreement, the invoice for ITM for train routes between Orlando and Jacksonville should have been calculated based on 148 miles as of October 2002 and 169 miles as of December 2004. CSX used 195 miles to calculate the invoice from November 2002 through November 2004 and January 2005, 181 miles in December 2004 and February 2005, and 188 miles from April 2005 through August 2005.

Station Utilities

Amtrak made duplicate payments for the same service, including payments to both CSX and other utility providers for some station utility-related invoices.⁶ Duplicate

⁴ An *annulled* train refers to a scheduled train that did not run on a scheduled date and was canceled prior to its scheduled departure. A *terminated* train refers to a train that is terminated short of its final destination after departing as scheduled. Trains are annulled and terminated for reasons such as train crews not being available, inclement weather, and track-related issues.

⁵ The trip performance rate is the rate used to calculate the on-time-performance incentives only; it has no relevance to ITM or OTC.

⁶ Station utilities include payments for electricity, water, heat, and telephone. Amtrak may be responsible for monthly payment of some or all of these services, depending on their use and the ownership of the individual station.

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payments in addition to incorrect invoice amounts resulted in net overpayments of \$52,535. According to the operating agreement, Amtrak shall pay CSX a certain amount per month, as detailed in appendix IV of the agreement, for utilities supplied to stations used in Amtrak service. The agreement also states that the amount of the payment shall be appropriately adjusted when Amtrak takes over direct payment of utility charges.

During the audit period, CSX billed Amtrak for station utilities at 25 stations. Of these, there were two at which Amtrak had taken over direct payment of utility charges; however, the invoice from CSX was not adjusted.

Specifically, CSX's invoices for the audit period included charges for electricity at the Sebring, FL, station. Amtrak started paying Progress Energy for the same electric services at Sebring in 1993. Sebring should not have been included in the June 1999 operating agreement under the station utilities cost component. This error resulted in overpayments totaling \$56,445 during the audit period. Table 2 provides details of the duplicate payments.

**Table 2. Station Utilities: Duplicate Payments,
June 1999–March 2008**

	Sebring, FL	Birmingham, AL
Monthly Payment to CSX	\$417 ^a	\$500 ^a
Services	Electricity	Electricity and Water
Dates of Duplicate Payments	June 1999–March 2008 ^b	June 1999–October 2004
QUESTIONED COSTS	\$56,445	\$14,119

^a Adjusted annually based on the most recent Association of American Railroads index.

^b The audit period ended in March 2008; however, it is possible that this error extended beyond this date.

Source: OIG analysis of CSX and Amtrak data, June 1999 through March 2008

Further, CSX's invoices included charges for both electric and water services at the Birmingham station. Amtrak took over direct payment of these charges in December 2002, but Birmingham was not removed from CSX's invoice until November 2004. No adjustments were made to credit Amtrak for the 2 years of overpayments, which totaled \$14,119. The errors were not detected by Amtrak's invoice-review process.

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Along with these overpayments, CSX's flat-rate invoice amounts for station utilities were not always billed in accordance with the most recent amendment. The flat-rate cost components on the amendments are adjusted annually for inflation based on an index.⁷ CSX used incorrect station utility amounts because it did not invoice Amtrak for utilities based on properly indexed amounts shown in the amendments. The errors resulted in underpayments of \$18,029.

Business Expense and Travel

CSX invoices contained \$28,006 in questionable and unsupported business and travel expenses. In accordance with appendix IV of the operating agreement, Amtrak pays CSX an agreed-upon amount per month for the wages and fringe benefits of general administration, accounting, and transportation supervision personnel. In addition, Amtrak pays CSX for its supplies, materials, and other related business expenses. The business expenses are billed based on actual costs incurred.

In July 2010, a senior director from Amtrak's Host Railroads Department provided an interpretation of the agreement, stating that the intent of the parties is that business and travel expenses would be reimbursed only for those employees who hold one of the positions listed in appendix IV of the operating agreement (see box).

**General Administration, Accounting, and
 Transportation Supervision Personnel**

Director, Passenger Services
 Assistant Director, Passenger Services
 Assistant Director, Passenger Operations
 Manager, Passenger Operations
 Assistant Manager, Passenger Operations (4 positions)
 Manager, Administration
 Manager, Accounting

Source: Operating Agreement Appendix IV, Amendment Agreement Change CSX-028 effective April 1, 2004.

We selected a sample of business and travel expenses for 6 separate months, ranging from August 2005 through April 2007, and totaling \$73,742. Upon request, CSX provided documentation to support the business and travel expenses.

⁷ Certain cost components are subject to annual price-level adjustments. Components are adjusted beginning April 1 of each year based on the relationship of the most recent quarter's Association of American Railroads Quarterly Indices of Chargeout Prices and Wage rates.

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Of the total \$73,742 paid for the sample months, \$28,006 (38 percent) constituted overpayments and unsupported charges, for the following reasons:

- insufficient documentation to support the claims in 77 percent of the charges;
- business and travel expenses reimbursed to employees not listed as occupying one of the positions for which billing is allowed under the agreement, in addition to other questionable purchases in 18 percent of the charges; and
- insufficient evidence to support the business purpose of the expense in 5 percent of the charges. For example, in July 2005, CSX purchased a stalker sport radar gun for \$1,083 and charged it to Amtrak under business and travel expenses. A receipt was provided, but no justification was given for the Amtrak-related business purpose of this expense; therefore, we questioned the purchase.

Transportation of CSX Employees

Amtrak did not collect \$4,894 in costs attributable to the transportation of CSX employees. Additionally, we determined that Amtrak was not properly capturing all of the transportation charges due to a system error. The operating agreement directs CSX to pay Amtrak for the actual expenses of transporting CSX employees on Amtrak trains while engaged in CSX company business. These payments are shown on the invoices submitted to Amtrak as credits.

CSX credited Amtrak almost \$4 million during the audit period for the transportation of CSX employees. We reviewed 81 months in which CSX invoices included credits of \$2,905,000 (76 percent of the total paid). CSX credited the invoice a flat-rate amount each month and then in June of each year made an adjustment based on actual transportation expenses. During our comparison of flat-rate credits and annual adjustments for transportation of CSX employees, we identified three errors, both favorable and unfavorable to Amtrak. For the months reviewed, discrepancies between the flat-rate amount credited and the actual expenses resulted in a net amount due Amtrak of \$4,894.

Our sample of actual tickets for 2 months revealed that CSX did not reimburse Amtrak for all transportation incurred. In response to our inquiries, Amtrak's Finance and

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Information Technology (IT) departments determined that there was a system error⁸ and that the proper charges were not allocated for all transportation of CSX employees. According to a manager in accounts receivables in July 2009, the process had been corrected for all future railroad orders. We recommended that Finance expand its analysis back to December 2007 to determine if additional monies are due Amtrak. The Finance Department identified \$17,421 that was due Amtrak, and Amtrak submitted a supplemental invoice to CSX for this amount on July 14, 2009. CSX credited Amtrak the full amount.

Status of Overpayment Amounts Identified

During the course of this review, we presented the results and corresponded with CSX employees to obtain additional information relating to the audit exceptions identified. Table 3 presents a summary of their general agreement with our audit results based on e-mail correspondence.

⁸ The system error identified by the IT Department involved multi-rider reservations. According to a systems developer in the department, when upgrades were made to multi-rider reservations, the system would pick up the first fare for the first rider and allocate the amount of the upgrade to the second rider. The system should have added the two total fares together. This error did not occur for transportation of employees of other host railroads.

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**Table 3. Progress Report of CSX Agreement with Overpaid Amounts,
June 1999–March 2008**

Cost Component	Overpaid Amount	CSX Agreed Amount	Outstanding	Status/Comments
Special Trains	\$360,560	\$ 0	\$ 360,560	This finding was not presented to CSX. In September 2010 we requested additional supporting documentation to complete our review. In May 2011, CSX provided some, but not all, supporting documents requested. Based on our review, \$360,560 was overpaid.
Additional Light Density Line Costs	151,007	151,007	0	Agreed per 5/5/2011 e-mail
Incremental Track Maintenance and Other Train Costs	139,124	139,124	0	Agreed per 5/5/2011 e-mail
Station Utilities	52,535	52,535	0	Agreed per 5/5/2011 e-mail
Business Expense and Travel	28,006	21,783	6,223	Agreed per 5/5/2011 e-mail
Transportation of CSX Employees	4,894	4,894	0	Agreed per 5/5/2011 e-mail
Total	\$736,126	\$369,343	\$366,783	

Source: OIG analysis of CSX and Amtrak data, June 1999 through March 2008, and e-mail correspondence between Amtrak OIG and CSX during the review period, covering April 2008 through May 2011

PROGRESS BEING MADE TO DEVELOP A PROCESS FOR THOROUGHLY REVIEWING INVOICES

Weaknesses in the invoice-review process have been long-standing, but over the last year, Amtrak has made progress in addressing the issue. Weaknesses in oversight and controls for reviewing invoices were the main cause of overpayments to CSX. In August 2008, we pointed out⁹ that Amtrak's management controls over the review of invoices were inadequate and ineffective, and that host railroads had consistently overbilled Amtrak. We made recommendations to improve Amtrak's invoice-review process. Since March 2010, we have issued three additional reports that found that Amtrak

⁹ *Host Railroad Contract Administration and Operations Management Controls* (OIG Audit Report 401-2008, August 21, 2008).

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overpaid three host railroads for on-time-performance (OTP) incentives.¹⁰ In all three reports, we concluded that the company had not taken adequate steps to improve its management controls and review process for these invoices. In response to the March 2010 report, Amtrak agreed to apply additional resources and establish a process to thoroughly review invoices for OTP incentives and other costs before making payments. It also provided us with a plan showing tasks to be completed, with milestone dates. The invoice-review process was to be completed by December 31, 2010, but the original milestone dates were not met. Amtrak revised its goal and expected improvements to the invoice-review process to be complete by the end of December 2011. However, that goal was also not met.

These missed milestones are not without other progress. Over the last year, Amtrak has made progress in addressing our recommendations. The Law Department is actively working to negotiate settlements on overpayments we identified. The Host Railroad Invoice Administration group was established and has started reviewing selected invoices using a limited set of factors, which are documented in eTrax.¹¹ In at least one case, the group has withheld payment on an invoice where errors were identified. Also, according to a senior director in the Finance Department, a policy and procedures manual for the Host Railroad Invoice Administration group is currently being drafted. Further, Finance Department officials continue to work with the IT Department to develop reports to facilitate the review and have met with us to discuss business practices for reviewing invoices. Additional activities include creating an e-mail box for streamlined routing of communications, invoices, and supporting documentation; and developing a monthly invoice-review checklist detailing invoice-review procedures.

To fully address our prior recommendations, Amtrak has committed to improving its process to perform complete and thorough reviews of all host railroad invoices prior to approving them for payment. Specifically, Amtrak plans to develop policies and procedures for reviewing all invoices, create job aids detailing audit procedures and required supporting documentation to facilitate invoice processing, level out

¹⁰ *CSX On-Time-Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayment* (OIG Audit Report 406-2005, March 30, 2010); *BNSF On-Time-Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments* (OIG Audit Report 407-2003, September 24, 2010); and *On-Time-Performance Incentives: Inaccurate Invoices were Paid Due to Longstanding Weaknesses in Amtrak's Invoice-Review Process* (OIG Audit Report 403-2010, April 21, 2011).

¹¹ eTrax is a software system, used by Amtrak, to document the receipt, approval, and payment of invoices.

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responsibilities among Host Railroad Invoice Administration officers, cross-train officers, develop a training program, and take action to collect the outstanding overpayments identified in prior audit reports. The senior director informed us that a major hurdle that Amtrak deals with is that the contract agreement and amendment agreement changes are not up to date.

Over time, we have identified approximately \$37 million in overpayments and potential recoveries for audit periods ranging between 1993 and 2008, including over \$700,000 in this report. The \$37 million includes at least \$5.7 million in overpayments that have already been collected. This significant amount of overpayments affects Amtrak's cash flow and ability to effectively manage its activities. Further, these funds, had they been available, might have been used in other areas or to reduce reliance on federal subsidies.

CONCLUSIONS

Amtrak made over \$700,000 in overpayments on invoices reviewed during this audit. This occurred due to weaknesses in the invoice-review process. However, over the last year, Amtrak has made progress in improving its capabilities for reviewing host railroad invoices. Until these process improvements are completed and successfully implemented, the company remains at risk of making overpayments that negatively impact its cash flow and that cause the company time and resources to recover. Consequently, Amtrak's continued focus on improving and developing its full capabilities remains key. We are encouraged by the progress that has been made and the plans that are in place for further actions. Accordingly, we are not making any new recommendations for improving invoice-review capabilities at this time. We will continue to monitor Amtrak's progress in this area.

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RECOMMENDATION

We recommend that Amtrak's Chief Financial Officer take action to recover the \$736,126 that Amtrak overpaid CSX Transportation, Inc.

MANAGEMENT COMMENTS AND OIG RESPONSE

In commenting on a draft of this report, Amtrak's Acting Chief Financial Officer concurred with our recommendation and committed to tasking the Managing Deputy General Counsel, on behalf of Amtrak's Transportation and Finance departments, with pursuing any amounts that are recoverable under the law and within the terms of the operating agreement between Amtrak and CSX. We support this approach.

Amtrak's letter commenting on the draft report is reprinted as Appendix III.

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Appendix I

SCOPE AND METHODOLOGY

This report provides the results of an Amtrak OIG review to (1) determine whether CSX Transportation, Inc. complied with its operating agreement with Amtrak when invoicing Amtrak for charges incurred for Amtrak trains operating over its tracks from June 1999 through March 2008; and (2) provide an update on Amtrak's progress in improving its controls and processes in its review of monthly invoices. We conducted this audit between April 2008 and December 2011 in Chicago and Washington, D.C.

To determine whether CSX complied with the operating agreement when invoicing Amtrak for charges incurred for Amtrak trains operating over its tracks, we conducted a risk analysis of the 32 contract cost components and selected 13 for review, along with other items, and reviewed the operating agreement and its amendments, focusing on sections relating to the billable cost components of each item selected for audit. We also obtained and reviewed the relevant monthly invoices for payments related to the items and the documentation to support the invoices submitted to Amtrak, compared the amounts invoiced with relevant supporting documentation, reviewed relevant invoice adjustments, and calculated the overbilled and/or underbilled amounts resulting from inaccurate invoices. Further, we communicated with Amtrak's Host Railroad Contract groups for interpretation of agreement provisions, communicated with CSX to obtain clarification on invoice items and supporting documentation, and reviewed our prior audit reports regarding weaknesses in Amtrak's invoice-review process.

We completed a risk assessment of the 32 cost components included in CSX's monthly invoices to Amtrak. In designing the judgmental sample for review, we considered risk factors including the amount billed, the potential for recovery, management interest, and operational changes. The level of risk determined for each cost component was based on information from the CSX invoices and auditor judgment. This sample design was chosen because it incorporates the high dollar amounts billed and other factors, such as potential recovery, management interest, and operational changes. The sample results are not projectable to the population as a whole.

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The cost components included in our sample were the following:

1. Train and engine crews
2. Diesel fuel¹²
3. Train bulletin printers
4. Routine (yard) switching
5. Station utilities
6. Incremental track maintenance
7. General administration (business expense and travel)
8. Clearing wrecks
9. Other system train costs
10. Light density line costs
11. Special trains
12. Transportation of CSX employees
13. Livingston Avenue Bridge

For 8 of the 13 cost components selected, we reviewed invoiced amounts for the entire audit period. For the general administration component, we reviewed flat-rate general administration costs for the entire audit period; however, we judgmentally selected 2 months from each year from 2005 to 2007 for a total sample size of 6 months. These months were selected to ensure availability of supporting documentation. For the other four cost components, we judgmentally selected sample months for detailed testing based on the amount billed and the time period to ensure coverage of the audit period.

In addition to these items, we reviewed authorization notices,¹³ which are not part of the 32 cost components but are included on the monthly invoices from CSX to Amtrak. Prior-period adjustments and exception notices¹⁴ were also reviewed. The audited amount totaled over \$85 million, which is 72 percent of the approximately \$118 million billed to Amtrak by CSX between June 1, 1999 and March 31, 2008. We did not review on-time-performance incentives as part of this audit.

¹² Diesel fuel invoices included charges for fuel at Hialeah, Russell, and other locations.

¹³ Authorization notices are pre-authorized payments to CSX for Amtrak-requested work or services performed along the route. Examples include station maintenance, flagging, train re-fueling, track work, and other engineering projects.

¹⁴ Exception notices are adjustments made to the current-period invoice amounts by Amtrak management prior to payment.

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To update Amtrak's progress in improving its controls and process for performing its monthly invoice reviews, we (1) reviewed Amtrak's responses to our prior audit report recommendations regarding its invoice-review process, and (2) communicated with a senior director in the Finance Department to obtain an update on progress made in reviewing the bills before payment.

Our work was performed 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

As discussed in the report, we updated Amtrak's progress in improving its controls and processes in its review of monthly invoices. However, we did not review CSX's internal control structure; rather, we performed and relied on substantive testing to determine the dollar amount attributable to errors invoiced by CSX. In addition, we did not assess Amtrak's internal controls in its monthly invoice reviews; however, our analysis indicated that weaknesses still exist.

Computer-Processed Data

To achieve the assignment's objective, we used computer-processed data contained in Amtrak's electronic records of CSX invoices. To test the validity of the data, we compared Amtrak's electronic data to CSX's hard-copy invoices. We then compared the total amount paid on the electronic invoices against the total amount paid in Amtrak's accounts-payable system for all 106 sample months. The data in the accounts payable system were not verified, but we consider the data sufficiently reliable for purposes of the audit objectives. Based on these tests, we conclude that the data are sufficiently reliable to be used in meeting the assignment's objectives.

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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. This report is part of a series of OIG audits of Amtrak's host railroad payments. Since 2010, we have issued the following related audit reports:

*On-Time-Performance Incentives: Inaccurate Invoices were Paid Due to Longstanding Weaknesses in Amtrak's Invoice-Review Process (Amtrak OIG Audit Report 403-2010, April 21, 2011). **Over \$500,000 in overpayments found.***

*BNSF [Burlington Northern Santa Fe Railway] On-Time-Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments (Amtrak OIG Audit Report 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 (Amtrak OIG Audit Report 406-2005, March 30, 2010). **Over \$20 million in overpayments found.***

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Appendix II

**COST COMPONENTS FROM APPENDICES III AND IV
OF THE AMTRAK/CSX OPERATING AGREEMENT
EFFECTIVE JUNE 1, 1999**

Appendix III Item #	Description	Price Method
1	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]
7	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]
9	[REDACTED]	[REDACTED]
10	[REDACTED]	[REDACTED]
11	[REDACTED]	[REDACTED]
12	[REDACTED]	[REDACTED]
13	[REDACTED]	[REDACTED]
14	[REDACTED]	[REDACTED]
15	[REDACTED]	[REDACTED]
16	[REDACTED]	[REDACTED]
17	[REDACTED]	[REDACTED]
18	[REDACTED]	[REDACTED]
19	[REDACTED]	[REDACTED]
20	[REDACTED]	[REDACTED]
21	[REDACTED]	[REDACTED]
22	[REDACTED]	[REDACTED]
23	[REDACTED]	[REDACTED]
24	[REDACTED]	[REDACTED]
25	[REDACTED]	[REDACTED]
26	[REDACTED]	[REDACTED]
27	[REDACTED]	[REDACTED]
28	[REDACTED]	[REDACTED]
29	[REDACTED]	[REDACTED]
30	[REDACTED]	[REDACTED]
31	[REDACTED]	[REDACTED]
32	[REDACTED]	[REDACTED]

Source: June 1999 Amtrak/CSX Operating Agreement

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Appendix III

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

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

Memo



Date	January 18, 2012	From	Gordon Hutchinson, Acting Chief Financial Officer <i>G. Z. Hutchinson</i>
To	David Warren, Assistant Inspector General, Audits	Department	Finance
		Subject	Office of Inspector General's (OIG) Audit Report Number 404-2008
		cc	Paul Vilter, Assistant Vice President, Host Railroads William Herrmann, Managing Deputy General Counsel Jessica Scritchfield, Senior Director, Audit / Internal Controls

This letter is in response to the Office of Inspector General's ("OIG") draft audit report number 404-2008 "Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process," dated December 23, 2011.

In response to the draft report, Management concurs with the OIG's recommendation to take action to recover amounts with respect to overpayments made to CSX and will review and analyze OIG's records on which the findings of the draft report are based. With this information, 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 CSX. We will begin immediately by initiating appropriate conversations with CSX and will keep the OIG apprised of our progress.

Amtrak has made good progress in addressing prior recommendations made by the OIG to recover overpaid amounts from Host Railroad entities, specifically with respect to overpaid on-time performance payment incentives. Amtrak has successfully settled its claim as against one host railroad, and is actively pursuing and making progress toward reaching resolutions on overpayment claims with two additional host railroads.

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Appendix IV

ABBREVIATIONS

AL	Alabama
CSX	CSX Transportation, Inc.
FL	Florida
IN	Indiana
IT	Information Technology
ITM	incremental track maintenance
MA	Massachusetts
NC	North Carolina
NY	New York
OIG	Office of Inspector General
OTC	other system train costs
OTP	on time performance
VA	Virginia

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Appendix V

OIG TEAM MEMBERS

David Warren	Assistant Inspector General, Audits
Dan Krueger	Senior Director, Audits
Jana Brodsky	Senior Auditor
Satish Parikh	Senior Auditor
Raymond Zhang	Senior Auditor

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OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission	<p>The Amtrak OIG's mission is to</p> <ul style="list-style-type: none"> ▪ conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations; ▪ promote economy, effectiveness, and efficiency within Amtrak; ▪ prevent and detect fraud, waste, and abuse in Amtrak's programs and operations; ▪ review security and safety policies and programs; and ▪ review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.
Obtaining Copies of OIG Reports and Testimony	Available at our website: www.amtrakoig.gov .
To Report Fraud, Waste, and Abuse	<p>Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):</p> <p>Web: www.amtrakoig.gov/hotline Phone: 800-468-5469</p>
Congressional and Public Affairs	<p>E. Bret Coulson, Senior Director Congressional and Public Affairs</p> <p>Mail: Amtrak OIG 10 G Street, N.E., 3W-300 Washington, D.C. 20002</p> <p>Phone: 202.906.4134 Email: bret.coulson@amtrakoig.gov</p>
