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Inspector General
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OFFICE OF INSPECTOR GENERAL, NATIONAL RAILROAD PASSENGER CORPORATION
10 G STREET, NE, SUITE 3W-300, WASHINGTON, DC 20002

ANNUAL AUDIT, INSPECTION, & EVALUATION PLAN

FISCAL YEAR 2012

FY 2012 AIE Plan | March 22, 2012





NATIONAL RAILROAD
PASSENGER CORPORATION



The Inspector General

INSPECTOR GENERAL'S MESSAGE

I am pleased to present the Amtrak Office of Inspector General *Fiscal Year 2012 Annual Audit, Inspection, and Evaluation Plan*. This year promises to be another challenging and demanding one as we work to accomplish our core mission of conducting independent and objective audits, inspections, and evaluations—to promote economy, efficiency, and effectiveness in Amtrak's programs and operations; and to prevent and detect fraud, waste, abuse, and mismanagement. This plan (1) outlines the areas in which we intend to undertake audit, inspection, and evaluation work during this fiscal year; (2) summarizes our most recent reports; (3) discusses our ongoing work, and (4) identifies future work focus areas.

We are working to improve our planning process and as part of that effort we are changing our planning period from a calendar to a fiscal year basis. As a result, this is a transitional plan and is being issued in mid-Fiscal Year 2012. Future plans will be issued early in the fiscal year. Please direct any questions or comments to me; Tom Howard, Deputy Inspector General; David Warren, Assistant Inspector General, Audits; or Calvin Evans, Assistant Inspector General, Inspections and Evaluations. We can all be reached at 202.906.4600.

Ted Alves





**Amtrak Office of Inspector General
Fiscal Year 2012
Annual Audit, Inspection, and Evaluation Plan**

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INTRODUCTION

During the remainder of Fiscal Year (FY) 2012, we will focus our audit, inspection, and evaluation efforts in the following areas:

- Governance
- Acquisition and Procurement
- Information Technology
- Train Operations and Business Management
- Human Capital Management
- Safety and Security
- American Recovery and Reinvestment Act of 2009
- Asset Management

We identified these areas based on their importance to Amtrak in (1) achieving operational and financial excellence and (2) reducing operational and financial risks. To do this, we obtained input from our staff, Amtrak's Board of Directors, and Amtrak management officials. We also considered areas of congressional interest based on discussion with congressional staff, hearings, and other congressional information sources. The overall goal of our work will be to identify specific recommendations to improve the economy, efficiency, and effectiveness of Amtrak's programs and operations; and to detect and prevent fraud, waste, and abuse.

For each of these areas, we provide a brief overview of

- its importance to Amtrak's operational and financial well-being,
- our recently issued reports,
- ongoing audits/inspections and evaluations,
- potential audits/inspections and evaluations topics for FY 2012, and
- potential areas of focus beyond FY 2012.

As resources become available to initiate new audits, inspections, and evaluations during FY 2012, we will select them based on the risk criteria discussed above.





GOVERNANCE

Over the past 10 years, the subject of corporate governance and risk management has received increased attention. Corporate governance is defined as a system of internal control encompassing policies, processes, and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability, and integrity. Effective governance and risk management processes are essential in helping to avoid an event that could prove catastrophic to an organization's financial and operational health. Our governance audit/evaluation focus will be on enhancing the stewardship of company resources by evaluating senior leadership's processes, policies, and activities to identify areas where corporate governance can be improved.

Recently Issued Reports (Governance)

- *Amtrak Invoice Review: Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process* (Audit Report OIG-A-2012-005, February 16, 2012)

We identified \$736,126 in net overbillings that CSX Transportation, Inc., invoiced to Amtrak for use of its tracks, facilities, and services. We sampled invoices over a 106-month audit period (June 1999 through March 2008) and found errors or unsupported claims in 7 of 12 cost components examined. The net overbillings represent approximately 1 percent of the more than \$66 million that Amtrak paid for services during these sample months. The invoice amounts contained errors because they were not calculated in accordance with the operating agreement between Amtrak and CSX Transportation, Inc., or were unsupported. Additionally, the overbillings went undetected because 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. In this report, we recommended that Amtrak's Chief Financial Officer take action to recover the \$736,126 that Amtrak overpaid CSX Transportation, Inc.

Amtrak agreed 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 Transportation, Inc.

- *On-Time Performance Incentives: Inaccurate Invoices Were Paid Due to Weaknesses in Amtrak's Invoice-Review Process* (Audit Report OIG-A-2012-004, February 15, 2012)

From May 2002 through June 2006, BNSF Railway overbilled Amtrak \$9,151,451, almost 17 percent of the nearly \$55 million in on-time-performance (OTP) incentives invoiced and paid. These funds could potentially be recovered and put to better use. The overbillings went undetected because 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. We recommended that Amtrak's Chief Financial Officer take action to recover the \$9,151,451 that Amtrak overpaid BNSF Railway in OTP incentives.

Amtrak agreed 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 BNSF Railway.



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

We reported that Metro-North Commuter Railroad inconsistently or inappropriately applied provisions of its operating agreement with Amtrak, causing invoices to be overstated. Metro-North's billing errors went undetected because of longstanding weaknesses in Amtrak's invoice-review process. Consequently, Amtrak overpaid Metro-North by almost \$520,000 in on-time-performance incentive payments from October 2001 through December 2004. Over time, we have identified approximately \$27 million in overpayments and potential recoveries. Amtrak management is seeking recovery of overpayments and has stated that it plans to add resources, enhance controls, and implement a new billing review process for on-time-performance incentive payments. We are encouraged that management is aware of the significance of this matter and the need for improvement, and is working aggressively in accordance with an implementation schedule.

Ongoing Audits/Inspections and Evaluations (Governance)

- *Enterprise Risk Management.* A review to determine whether Amtrak's risk management framework and processes are effective in identifying and controlling financial, operational, and regulatory risks, and are consistent with private and public best practices.
- *Railroad Audits: On-time Performance.* A series of internal control audits reviewing Amtrak's payments to railroads for on-time-performance incentives, including Burlington Northern Santa Fe Railway (BNSF), Union Pacific Railroad Company, Southern Pacific Transportation Company, and Metro-North Commuter Railroad. The objectives are to evaluate the adequacy of Amtrak's controls and processes for reviewing on-time-performance incentive invoices and to identify any unsupported invoices.
- *Railroad Audits: Non-on-time Performance.* Review of monthly invoices (excluding on-time performance) from railroads including Southern Pacific, Union Pacific, and





BNSF. Our objectives are to evaluate the adequacy of Amtrak's controls and processes for reviewing monthly invoices and to identify any that are unsupported.

- *Claims Management.* Review of the adequacy of Amtrak's management controls over its claims program. The Law and General Counsel Department's tort claims and litigation group (Claims Office) manages the program for settling claims by employees, passengers, trespassers, and others against Amtrak; and claims by Amtrak for rolling stock and property damages by third parties. We are using best practices to conduct our review of management controls.
- *Financial Statement Oversight.* An ongoing financial statement oversight audit reviewing the administration and facilitation of the contract for the independent public accountant performing the FY 2011 financial statement audits. The audit will also review the contractor's performance to ensure compliance with professional and governmental auditing standards.

FY 2012 Potential Audits/Inspections and Evaluations (Governance)

Potential areas for review during FY 2012 include:

- *Financial Statement Oversight.* This audit will review Amtrak's administration and facilitation of the contract for the independent public accountant performing the FY 2012 financial statement audits. The audit will also review the contractor's performance to ensure compliance with professional and governmental auditing standards.
- *Business Case Development.* This evaluation will review several of Amtrak's recent major procurements and business initiatives. Specifically, we are planning to evaluate the process used to develop the business cases for these procurements and initiatives, comparing the process with best practices at other large companies when making major business decisions.
- *Capital Program Cost Management.* This audit will evaluate the adequacy of Amtrak's processes for estimating project costs and controlling the costs of ongoing projects. Amtrak spent over \$1 billion on capital projects during FY 2011.





Potential Focus Areas beyond FY 2012 (Governance)

Our forward-looking work in the governance area will focus on assessing Amtrak's progress in implementing our recommendation to establish a risk management framework for the company. We will identify processes that have been established by Amtrak management and the Board of Directors to identify and mitigate risks. We will also review the effectiveness and efficiency with which these processes are being implemented. In addition, we will continue our oversight of Amtrak's financial statement audit conducted by an independent public accountant, and review the effectiveness of Amtrak's organizational realignment.





ACQUISITION AND PROCUREMENT

Amtrak plans to make significant investments in infrastructure and fleet acquisitions over the next 5 years. To achieve its 15-year plan to achieve a “state of good repair,” Amtrak estimated that it will need to invest an average of \$700 million each year. OIG audits in this area seek to identify cost savings and opportunities for Amtrak to improve the use of its resources and reduce its reliance on federal subsidies.

Recently Issued Reports (Acquisition and Procurement)

- *Incurred-Cost Contract Audit: Contract Modification Charge for Extended Indirect Overhead Costs Not Supported* (Audit Report OIG-A-2012-006, February 17, 2012)

Our analysis of the documentation supporting the extended overhead claim showed that the claim was not adequately supported. The extended overhead modification allowed charges to be billed for extended indirect overhead costs resulting from the increase in the contract’s period of performance. However, the contractor claimed direct costs, general and administrative costs, and profit, instead of submitting extended indirect overhead costs. Therefore, we concluded that the contractor’s claimed costs were not allowable under the terms of the contract modification. As a result, Amtrak paid the contractor \$2,027,446 for charges that were not adequately supported. We recommended that Amtrak’s Chief Logistics Officer

1. work with the contractor to establish an appropriate claim amount for the extended indirect overhead that is supportable and verifiable; and
2. based on the results of that review, recover any unsupported portion of the \$2,027,446 paid to the contractor under the extended overhead contract modification.

Amtrak’s Chief Logistics Officer agreed with our finding and recommendations. He stated that Amtrak’s Procurement and Materials Management Department has entered into discussions with the contractor regarding this matter and expects closure by April 30, 2012.





- *Incurred-Cost Contract Audit: Bridge Construction Modification Settlement Agreement Cost is Adequately Supported* (Audit Report OIG-A-2012-002, November 7, 2011)

Our analysis of the documentation supporting the original \$5.3-million claim showed that a \$3.6-million settlement agreement amount was adequately supported. We questioned \$1,082,043 of the \$5,268,581 claim, but the resulting supported amount exceeded the \$3.6-million settlement amount. We made no recommendations in this report and Amtrak management agreed with the report conclusion.

- *Acela Car Purchase Draft Request for Proposal: Additional Requirements and Pre-Award Audit Clause Needed to Help Assess Proposed Cost and Price* (Audit Report 009-2011, September 21, 2011)

While the draft request for proposal (RFP) required the offeror to submit a price proposal that included necessary costs, there are two areas in the draft RFP that, if improved, would enhance Amtrak's ability to assess the reasonableness of the price proposal. These improvements represent acquisition best practices that are based on the Federal Acquisition Regulation. First, the draft RFP did not require that the offeror provide certified cost and pricing data sufficient for a detailed assessment of the reasonableness of the price proposal. Second, the draft RFP did not include a pre-award audit and inspection clause providing Amtrak access to the offeror's supporting documentation. These gaps occurred because Amtrak's standard contracting policies for sole-source RFPs do not contain specific guidance on requirements for certified cost and pricing data or a pre-award audit clause. Without these elements, Amtrak will potentially not have sufficient information with which to assess the reasonableness of the offeror's proposal and negotiate a fair and reasonable firm, fixed price.

We recommended that Amtrak revise the Acela request for proposal and amend its procurement policy to require the same revisions in all sole-source RFPs in excess of its small dollar threshold (\$100,000). Amtrak management agreed with our recommendations and implemented them in its issuance of the Acela coach car RFP on August 30, 2011. Amtrak's corrective action to amend its procurement policy is still pending.



- *Amtrak Should Negotiate a Price Adjustment to a Major Acquisition Contract* (Audit Report 219-2010, January 12, 2011)

We identified more than \$16.6 million in costs for which Amtrak should seek a price adjustment. Although we found no basis to question the vast majority of costs in the contractor's price proposal, we determined that the contractor did not reasonably apply its estimating system to several cost categories in which Amtrak could realize cost reductions through negotiations. Specifically, the contractor duplicated profit, misapplied labor and training rates, overstated general and administrative costs, and included warranty and risk costs that we found to be unreasonable. Amtrak agreed with our recommendation to use the information we developed as a basis for negotiating a price adjustment to this contract and to support future negotiations regarding contract options and modifications.

Ongoing Audits/Inspections and Evaluations (Acquisition and Procurement)

- *Acela Car Purchase.* A review of a proposal to manufacture 40 additional coach cars for the Acela trainsets and determine whether the offeror's proposal is responsive to the RFP and represents a fair and reasonable price.

FY 2012 Potential Audits/Inspections and Evaluations Topics (Acquisition and Procurement)

- *Pre- and Post-award Reviews.* During FY 2012, we plan to review the efficiency and effectiveness of Amtrak's acquisition and procurement processes. Our planned work includes pre- and post-award reviews of significant contracts, with the goal of identifying cost savings and performance audits of procurement processes, practices, and policies to identify systemic risks and make recommendations for organizational improvement.
- *Contract Oversight.* We will review the skills and training Amtrak provided to its contracting workforce to ensure sufficient pre-award reviews and contract oversight.



- *Materials Management Performance.* We plan to review the efficiency and effectiveness of Amtrak's processes and practices over receipts, issuances, inventory, and distribution of material parts and supplies.
- *Competitive Procurement.* We will review the percentage of competitive contracts Amtrak awarded during FY 2011 and assess whether the level at which Amtrak awards contracts competitively is within industry standards, and examine the company's use of noncompetitive procurements.

Potential Focus Areas beyond FY 2012 (Acquisition and Procurement)

In FY 2013 we plan to conduct additional performance audits of Amtrak's acquisition and procurement policies, processes, and practices to identify systemic risks and make recommendations for improvement. Our efforts will include pre-award and post-award reviews of large contracts, with the goal of identifying cost savings and determining whether costs are being properly controlled, desired outcomes are being achieved, and appropriate oversight is occurring. Other potential audits include reviews of Amtrak's fuel purchase program and its cost-effectiveness, and use of strategic sourcing practices.



INFORMATION TECHNOLOGY

Passenger railroad businesses are labor- and capital-intensive. These businesses rely increasingly on modern information technology (IT) to improve labor and asset productivity and deliver safe and reliable customer service. Amtrak recognizes that many of its existing information systems and IT infrastructure in the areas of reservations and ticketing, supply chain, and operations are outdated, inefficient, and increasingly prone to failure. The increasing risk of failure in business-critical systems must be addressed to ensure the resiliency and continuity of operations. At the same time, addressing these issues will be costly. Amtrak is making large investments to fix its information systems.

Recently Issued Reports (Information Technology)

- *Wireless Network Security: Internal Controls Can be Improved* (Audit Report OIG-A-2012-003, December 7, 2011)

Amtrak has installed wireless networks to allow its employees and contractors to connect their laptop computers to Amtrak networks where wired networks are difficult and costly to implement. Our office conducted an audit of Amtrak's wireless network security program with the objectives to assess the adequacy of Amtrak's internal controls for wireless network security and its wireless network security policies. We found that while Amtrak has generally taken adequate measures to ensure that the company's wireless networks are secure and protect company information, some internal control weaknesses related to the wireless security program exist, along with some gaps in wireless security policies. These conditions occurred mainly due to weaknesses in oversight, policy enforcement, and the original security system design, as well as lack of routine policy updates. The security control weaknesses related to encryption, passwords, and naming convention leave Amtrak information at risk of unauthorized access, modification, or destruction. Management agreed with all of our findings and recommendations, and has started taking corrective action.



- *Strategic Asset Management Program: Further Actions Should be Taken to Reduce Business Disruption Risk* (Audit Report 001-2011, June 2, 2011)

Amtrak's Strategic Asset Management (SAM) program is estimated to cost as much as \$401 million. The goal of the program is to transform key business operations such as finance and logistics by replacing or enhancing many manual and automated systems. We reviewed the program, given its cost and importance to business operations. Our audit objective was to determine whether the implementation approach of the first segment, referred to as R1a, effectively addressed business disruption risks. We identified several gaps in the testing and contingency plans. Left unaddressed, these gaps leave Amtrak vulnerable to business disruptions that could reduce revenues, increase costs, and negatively affect customer service. We recommended that Amtrak conduct additional testing; resolve issues with interfaces, data conversion, network infrastructure, and contingency plans; and involve Process Leadership Team members in making a go/no-go decision to move forward with the R1a deployment. While management agreed with most of our recommendations and added some tests, it decided to deploy the system and correct problems as they arose, rather than delay deployment to complete the testing.

Ongoing Audits/Inspections and Evaluations (Information Technology)

- *Strategic Asset Management: R1a Post Go-live Review*. In June 2011, Amtrak implemented its Strategic Asset Management (SAM) program's first segment, referred to as R1a. This program is expected to help Amtrak transform key areas of the company, implement best practices, integrate business processes, and provide timely information for financial reporting, management decision-making, and optimum operational performance. After going live in June 2011, the SAM R1a implementation experienced a significant number of problems, causing business inefficiencies—including negative impact on daily business operations. Therefore, our office initiated this review to provide the status of ongoing efforts to resolve SAM post-go-live issues; identify the causes of these issues; and provide recommendations based on lessons learned to help improve future IT system implementations.



FY 2012 Potential Audits/Inspections and Evaluations Topics (Information Technology)

- *Information Technology Infrastructure Initiative.* In FY 2012, our work will focus on assessing the performance of Amtrak's Information Technology Infrastructure Initiative. This initiative focuses on upgrading Amtrak's IT infrastructure to improve service levels and reduce costs.
- *Data Analytics.* Our office will focus on building a robust data analytics capacity and capabilities to assess the control effectiveness of Amtrak's business processes such as purchase to payment and healthcare benefits.

Potential Focus Areas beyond FY 2012 (Information Technology)

Our forward-looking work will focus on assessing the economy, efficiency, and effectiveness of Amtrak's key IT programs and systems, such as Centralized Electrification and Traffic Control System, eTicketing and Next Generation Reservation System, Food and Beverage and Point of Sale System, Strategic Asset Management, Enterprise Architecture, Infrastructure Management System, the Amtrak.com web application, and the Amtrak Information Management. By leveraging data analytics capabilities, we also plan to assess the control effectiveness of Amtrak's business processes such as purchase to payment, materials management/supply chain, payroll, injury/disability claims, healthcare benefits, and order to cash.



TRAIN OPERATIONS AND BUSINESS MANAGEMENT

Amtrak operates over 300 daily trains on over 21,000 miles of rails. It serves 528 stations in 46 states, 3 Canadian provinces, and the District of Columbia. In 2011, Amtrak moved more than 30 million intercity passengers. In addition to evaluating Amtrak's compliance with laws and federal regulations, we are continually looking for opportunities for Amtrak to improve the effectiveness and efficiency of its train operations and business management.

Recently Issued Reports/Testimony (Train Operations and Business Management)

- *Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions* (Audit Report A-2012-001, October 26, 2011)

This report examined Amtrak's progress in addressing the PRIIA provisions assigned to it. Amtrak has embraced PRIIA and has made significant strides in meeting the act's provisions. This was a significant accomplishment, given the magnitude of the issues addressed under PRIIA. While most of the provisions have been met or are in the process of being met, opportunities remain, consistent with PRIIA, to increase revenues, minimize federal subsidies, and improve performance. For example:

- Placing greater emphasis on reducing more of Amtrak's debt, specifically long-term leases with early buyout options, is one such key opportunity.
- Amtrak's initial set of performance improvement plans for its long-distance routes is too focused on initiatives that are out of its control or depend on significant investment of federal subsidies during a time of austere budgets.
- Amtrak does not have a specific process for submitting requests to the Surface Transportation Board to investigate substandard rates of on-time performance. Such a process is a prerequisite for determining if and when to request an investigation, and would enhance the likelihood of success if Amtrak pursued this option.





- Amtrak has not analyzed the costs or benefits that could be realized by operating more special trains. Amtrak may be missing an opportunity to generate additional profit by operating more special trains, which could reduce the need for federal subsidies.

We made recommendations in each of these areas. In commenting on a draft of this report, Amtrak's Chief Financial Officer stated that the report provided useful information upon which Amtrak management can take action and agreed with the report's recommendations.

- *Americans with Disabilities Act [ADA]: Leadership Needed to Help Ensure That Stations Served by Amtrak Are Compliant* (Audit Report 109-2010, September 29, 2011)

Since 1990 Amtrak has made very limited progress in making its stations ADA-compliant, only 10 percent of served stations required to be compliant were reported as compliant. During the last 2 years, Amtrak has laid the groundwork to help ensure that all stations it serves that are required to be compliant are compliant by Amtrak's goal date of September 30, 2015. The key steps in laying the foundation include (1) determining who has ADA responsibility for the stations Amtrak serves; (2) refocusing its compliance plan on stations at which Amtrak has sole or shared ADA responsibility; and (3) most importantly developing a multi-year program, called the Accessible Station Development Program, to identify and complete the work required to make stations ADA-compliant. While these are important steps, progress in implementing the Accessible Station Development program has been limited. For example, while facility assessments have been completed for some stations, no construction contracts have been awarded.

- *Progress and Opportunities in Amtrak's Implementation of the Passenger Rail Investment and Improvement Act of 2008* (Testimony TM-11-01, September 14, 2011)

In testimony before the Senate Committee on Commerce, Science, and Transportation, Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety, and Security, the Amtrak Inspector General discussed the progress Amtrak has made in implementing provisions of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). He pointed out that Amtrak has



made good progress in addressing the 29 PRIIA provisions assigned to it and also highlighted opportunities for further improvements under the act.

- *Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps* (Evaluation Report E-11-03, June 23, 2011)

This report examined the causes of revenue losses associated with Amtrak's onboard food and beverage service. While Amtrak has taken some action to address the internal control weaknesses that have led to and continue to make these revenues and inventories vulnerable to fraud, waste, and abuse, such weaknesses and gaps remain. These weaknesses allow certain employees to carry out schemes in which they falsify documents to conceal stolen cash or inventory. The fraudulent nature of these schemes makes it difficult to measure onboard losses. Still, restaurant-industry sources estimate that losses for a typical independent restaurant due to theft range from 4 percent to 7 percent of sales. On the basis of these estimates, \$4 million to \$7 million of Amtrak's onboard food and beverage sales could be at risk of theft every year. These losses also damage Amtrak's reputation as a steward of federal funds and as a provider of high-quality customer service.

We made the following recommendations, all of which were agreed to by Amtrak management:

1. Establish a pilot project of cashless food and beverage sales on selected routes and trains to determine the short- and long-term effects on operations loss prevention, revenues, costs, customer satisfaction, and the onboard work environment.
2. Provide the resources needed to establish a loss-prevention unit with dedicated staff to manage loss prevention, investigate losses, and provide a visible deterrent to fraud, waste, and abuse.
3. Have the loss-prevention unit implement an internal control action plan to address weaknesses and gaps in the onboard food and beverage service. The plan should include goals, milestones, and procedures to establish



- a fraud-awareness program for onboard food and beverage employees;
- internal controls and processes to randomly search lead service attendants and other service employees to detect possible unauthorized items coming on board;
- internal controls and processes to randomly review lead service attendants' inventories of deliveries, en route transfers, and end-of-trip stocks to minimize fraud, waste, and abuse; and
- internal controls and processes to randomly search lead service attendants and other service employees when departing the train to detect possible stolen items.

Ongoing Audits/Inspections and Evaluations (Train Operations and Business Management)

- *Mechanical Maintenance Operations Follow-up Evaluation.* In our September 2005 report on Amtrak's mechanical maintenance operations (E-05-04), we made 34 recommendations to improve the effectiveness and efficiency of Amtrak's mechanical maintenance program. One of our major recommendations was that Amtrak adopt a more modern maintenance philosophy based on reliability-centered maintenance (RCM). Since then, Amtrak has made considerable progress in adopting RCM and implementing our other recommendations. This follow-up evaluation is intended to document the progress that has been made over the last 6 years and identify continued opportunities to improve the efficiency and effectiveness of Amtrak's mechanical maintenance operations.
- *Food and Beverage Service.* The objective of food and beverage survey are as follows:
 - To what extent have Amtrak's actions reduced direct operating losses for food and beverage service?
 - What plans does Amtrak have to reduce direct operating losses for its food and beverage service?
 - What progress has Amtrak made in implementing OIG's prior recommendations?





FY 2012 Potential Audits/Inspections and Evaluations Topics (Train Operations and Business Management)

- *PRIIA Compliance Readiness.* During FY 2012, we plan to start an evaluation of Amtrak's plans to achieve the 2014 targets for passenger service set by the Federal Railroad Administration (FRA) pursuant to Section 207 of PRIIA. Achieving these standards will require considerable effort and funding by Amtrak. Our evaluation will assess whether Amtrak has developed reasonable plans to achieve these targets and attempt to identify the major risks and obstacles to achieving them.

Potential Focus Areas beyond FY 2012 (Train Operations and Business Management)

Section 221 of PRIIA requires the Inspector General to complete an assessment of the progress made by Amtrak management in implementing PRIIA every 2 years after its first assessment, which was first performed and the report issued on October 26, 2011. Therefore, we will be conducting this audit in FY 2013. In future years, as resources become available, we are considering audits or evaluations of Amtrak's high-speed rail plans for the Northeast Corridor, Amtrak's customer service initiatives, its crew-scheduling procedures, and its new fleet-fielding plans and procedures.



HUMAN CAPITAL MANAGEMENT

Amtrak employs approximately 18,000 agreement-covered (union) employees and approximately 3,000 non-agreement-covered (management) employees, located throughout the United States. The company faces many of the same challenges and opportunities faced by most other companies of its size in efficiently and effectively managing this large, diverse workforce. Being a service organization and the only intercity passenger rail operator in the United States, the effective development and management of its talented employees are critical to its success. Our work will focus on identifying opportunities for Amtrak to improve the efficiency and effectiveness of its human capital management policies and practices.

Recently Issued Reports (Human Capital Management)

- *Human Capital Management: Lack of Priority Has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices* (Evaluation Report E-11-04, July 8, 2011)

This report presented the results of a follow-up review of our 2009 evaluations of human capital management (E-09-03, May 15, 2009) and training and employee development (E-09-06, October 26, 2009). We found that 2 years after we issued 24 recommendations for improving Amtrak's human capital management practices and 19 months after issuing 27 recommendations to improve training and employee development practices, Amtrak had made only limited progress in implementing the recommendations. Further, in several cases, the planned actions identified to correct significant deficiencies were not responsive to the recommendations and would not address the underlying problems; and in some cases, progress was exaggerated. As a result, Amtrak continued to suffer from outdated human capital management, training, and employee development processes that hindered its ability to perform effectively. In addition, Amtrak is increasingly at risk of encountering skills shortages, as highly experienced, long-time employees retire.

To address this situation, we recommended that the President and CEO (1) make improved human capital management, training, and employee development a clearly articulated priority for the Chief Human Capital Officer, as well as for all



executives and managers at Amtrak; and (2) direct the Chief Human Capital Officer to revise the Human Capital Action Plan to include actions that are responsive to our recommendations and with reasonable implementation time frames. Amtrak's President and CEO agreed with our recommendations and has tasked the new Chief Human Capital Officer with developing an action plan to address our findings and recommendations.

- *Operation RedBlock: Actions Needed to Improve Program Effectiveness* (Evaluation Report E-11-01, March 15, 2011)

Operation RedBlock is a labor-developed, management-supported drug and alcohol abuse prevention and intervention program through union-led volunteer-prevention committees. We initially issued a report in March 2008 that identified significant deficiencies in the program and made 14 recommendations to improve its operational and organizational efficiency and effectiveness. Amtrak disagreed with many of the recommendations and asserted that the program was operating effectively (but did not provide additional information). In July 2009 FRA conducted an audit of Amtrak's compliance with its drug and alcohol regulations, including the RedBlock program, and expressed significant concerns with how covered-service employees are processed through the RedBlock program, including whether RedBlock management was using the program to bypass federally-mandated drug and alcohol requirements and standards. We then performed a follow-up evaluation to determine the progress made in implementing our previous recommendations, and whether the concerns raised in that report had been addressed.

The results of our follow-up echoed FRA's concerns and identified many of the same issues we had identified in our previous evaluation. Our report made five recommendations to address these concerns and improve the effectiveness of the program. This time, Amtrak management agreed with our recommendations and committed to addressing them through the RedBlock Executive Steering Committee.

Ongoing Audits/Inspections and Evaluations (Human Capital Management)

- *Management of Background Investigations.* The objectives are to review Amtrak's policies, processes, and practices used to conduct new employee background investigations. We are focusing on assessing Amtrak's oversight of contractors



- performing background investigations, and whether contactor-provided data support the hiring process in a timely manner.
- *Management of Temporary Management Employees.* In response to an employee complaint, this evaluation is examining whether Amtrak is following its policy that governs assignment and management of employees promoted to temporary management positions. The complaint alleged that failure to follow the policy has resulted in disparate pay practices.
- *Management of Overtime.* We are conducting a survey of Amtrak's management control processes for the use of overtime.

FY 2012 Potential Audits/Inspections and Evaluations Topics (Human Capital Management)

During FY 2012, we plan to continue to focus on the following areas:

- *Management of Overtime.* Based on the results of our ongoing survey of Amtrak's management control processes for the use of overtime, we plan to select areas for further review.
- *Drug and Alcohol Program.* The objective of this evaluation will be to determine if Amtrak is exercising proper due diligence in detecting employees who may be misusing drugs or alcohol.

Potential Focus Areas beyond FY 2012 (Human Capital Management)

In future years, we plan to continue to focus on areas related to Amtrak's management of overtime and employee absenteeism. In addition, as resources become available, we are considering audits or evaluations of Amtrak's healthcare programs, looking to identify areas susceptible to fraud, waste, or abuse, and reviewing whether controls are adequate to limit the risks.



SAFETY AND SECURITY

Since 2004, the need to protect rail infrastructure from terrorist attack has been critical because of the bombings of the Madrid and Mumbai rail systems. Further recent information has shown that Amtrak was a target being considered by terrorist organizations. Since 2005, the Department of Homeland Security (DHS) Transit Security Grant Program has provided more than \$97 million in grant funding to Amtrak to protect critical infrastructure. Amtrak's Police Department has used this grant funding for planning and assessments, infrastructure protection, training and public awareness, and exercises. Our work in FY 2012 and beyond will focus on Amtrak's use of grant funds to improve the efficiency and effectiveness of Amtrak's safety and security policies and practices.

Recently Issued Reports (Safety and Security)

See *American Recovery and Reinvestment Act of 2009 (ARRA)* section below for a recently-issued report in the area of security.

Ongoing Audits/Inspections and Evaluations (Safety and Security)

- *Positive Train Control Evaluation.* The Rail Safety Improvement Act of 2008 requires the implementation of positive train control (PTC) systems by December 31, 2015, on all routes that carry passenger rail traffic. PTC systems are designed to prevent accidents, including train-to-train collisions, derailments resulting from trains exceeding safe speeds, unauthorized incursions into work zones, and movement of trains through switches left in the wrong position. The objective of this evaluation is to assess Amtrak's efforts to implement positive train control across the national system by the end of 2015. To accomplish this, we will identify and analyze the risks and challenges associated with implementing three different PTC systems, focusing on cost, schedule, performance, and sustainment issues.





FY 2012 Potential Audits/Inspections and Evaluations Topics (Safety and Security)

- *Security Improvements.* During FY 2012, we plan to start an audit of Amtrak's use of Department of Homeland Security funding for security improvements. Since 2005, the Department of Homeland Security has provided more than \$103 million in grant funding to Amtrak to protect critical infrastructure. Our audit will review Amtrak's management of projects funded with DHS funds with a focus on improving the efficiency and effectiveness of project implementation.

Potential Focus Areas beyond FY 2012 (Safety and Security)

Our forward-looking work will continue to focus on the effective and efficient use of grant funds and the adequacy of security policies and procedures. In addition, we intend to look at the *Safe-2-Safer* program — Amtrak's primary effort to reduce risk by involving every level of management and front-line employees in safety.





AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA) authorized FRA to provide \$1.3 billion to Amtrak through a grant agreement. This agreement allocated about \$850 million for capital projects for the repair, rehabilitation, or upgrade of railroad assets or infrastructure, and about \$450 million for capital security projects, including life safety improvements. Our work is aimed at providing Congress with information on Amtrak's use of ARRA funds, to include validating costs incurred and the associated benefit to Amtrak. In addition, our work will review Amtrak's management of projects, with a focus on improving project economy, efficiency, and effectiveness.

Recently Issued Reports (American Recovery and Reinvestment Act of 2009):

- *American Recovery and Reinvestment Act: Infrastructure Improvements Achieved but Less than Planned* (Audit Report 908-2010, June 22, 2011)

Although ARRA funding enabled Amtrak's Engineering Department to make some infrastructure improvements, they will be fewer in number than originally planned and budgeted. Between March 2009 and November 2010, ARRA funding was reprogrammed nine times; resulting in the Engineering Department's removing 34 projects, leaving 37 assigned to a contractor. Specifically, 21 projects (with an estimated budget of \$55.7 million) were canceled, and 13 projects (with an estimated budget of \$19.5 million) were transferred to the capital budget. These changes occurred primarily because the original grant language drove project selection toward projects that could be completed by February 17, 2011, and the substitution of higher-priority projects by Amtrak senior management and the Engineering Department. Amtrak spent about \$1.4 million on canceled contractor projects. We recommended that the Chief Engineer give canceled ARRA projects priority when making future infrastructure-improvement-project-selection decisions, and provide written justification to support the funding of higher-priority projects. In commenting on a draft of this report, the Chief Engineer stated that he intends to give priority to canceled projects.



- *Fewer Security Improvements than Anticipated Will Be Made and Majority of Projects Are Not Complete* (Audit Report 914-2010, June 16, 2011)

ARRA funding enabled the Amtrak Police Department (APD) to make some security improvements, but the improvements will be fewer than originally planned and budgeted. Between April 2009 and November 2010, ARRA funding for police and security projects was cut by more than half, from \$196 million to \$95 million. This decrease caused 33 projects to be canceled, and the budget and scope of work for 16 additional projects was reduced. Funding was reduced primarily because the grant language drove project selection toward those that could be completed by the February 17, 2011, deadline, and in some cases bids were significantly higher than budgeted amounts. Amtrak spent about \$1.7 million on canceled APD projects. To the extent that these projects are not funded in the future, these funds are at risk of being wasted. To avoid wasting \$1.7 million spent on canceled projects, we recommended that the Vice President/Chief of Police give canceled ARRA projects priority when making future security improvement project-selection decisions. The Vice President/Chief of Police has implemented our recommendation.

Ongoing Audits/Inspections and Evaluations (American Recovery and Reinvestment Act of 2009)

- *Incurred Costs on Design/Build Contracts.* Our objective is to determine if invoiced costs are reasonable and allowable. To accomplish this objective, we are reviewing a sample of contracts to ensure that costs are in accordance with contractual terms, general and supplemental contractual provisions, and the Federal Acquisition Regulation, as well as Amtrak's policies and procedures.

FY 2012 Potential Audit Topics (American Recovery and Reinvestment Act of 2009)

We plan on continuing audits of selected major contracts awarded with ARRA funds to ensure that the costs incurred were reasonable and allowable under the contract.



Potential Focus Areas beyond FY 2012 (American Recovery and Reinvestment Act of 2009)

Our forward-looking work will focus on selected major contracts awarded with ARRA funds to ensure that costs incurred were reasonable and allowable under the contract. We expect all work related to ARRA to be finished in FY 2013.





ASSET MANAGEMENT

Amtrak owns over 2,000 pieces of rail equipment, with a replacement value of over \$12 billion. In addition, the company owns over 1,300 facilities; 1,186 bridges; 17 tunnels; and over 600 miles of right-of-way; along with the associated signals, catenary, and track, valued at a total of over \$17 billion. Optimizing the utilization of these assets will help Amtrak achieve its corporate goals and improve its overall financial health. Our work will focus on identifying opportunities for Amtrak to improve the utilization and management of its physical assets.

Recently Issued Reports (Asset Management)

- *Evaluation of Amtrak's FY 2010 Fleet Strategy: A Commendable High-Level Plan That Needs Deeper Analysis and Planning Integration* (Evaluation Report E-11-02, March 31, 2011)

In February 2010, as part of its FY 2011 Grant and Legislative Request, Amtrak published a fleet strategy outlining the need to spend \$23 billion over the next 30 years to replace aging equipment and to provide the fleet necessary to meet future ridership demand. In May 2010, the former Ranking Member of the Senate Appropriations Committee, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, requested that we conduct a comprehensive review of the strategy.

We found that Amtrak did a commendable job of using a holistic approach to create a comprehensive fleet strategy that was greatly needed. Its approach is a reasonable first step and may be appropriate for determining a high-level estimate of future equipment needs. However, our evaluation identified seven areas in which Amtrak could improve the reasonableness or validity of its data and assumptions by conducting additional and more detailed analyses.

This additional analysis may support decisions that could reduce the funding requirements by hundreds of millions, if not billions, of dollars. For example, we estimate that if Amtrak were able to replace all of its single-level cars with a seat-equivalent number of multi-level cars, the benefits could amount to \$679 million over the economic life of the equipment.





Amtrak's President and CEO stated that management agreed with all of our recommendations. He noted that Amtrak addressed some of our recommendations in the recently published FY 2011 Fleet Strategy Plan and planned to address the remaining recommendations in future strategy updates.

Ongoing Audits/Inspections and Evaluations (Asset Management)

- *Amtrak's Plans to Expand Acela Capacity.* In February 2011, Amtrak published a revised Fleet Strategy outlining a plan to purchase 40 new cars to augment the capacity of the Acela trainsets. The objective of this evaluation is to assess whether the projected future revenues in the business case are supported by reasonable estimates and assumptions.

FY 2012 Potential Audits/Inspections and Evaluations Topics (Asset Management)

- *Fleet Strategy.* During FY 2012, we plan to continue our oversight of Amtrak's fleet procurement plans by reviewing the revised fleet strategy to be published in February 2012 to assess the degree to which the recommendations from our previous report were incorporated.
- *Fleet Utilization.* We plan to start an evaluation of the utilization of Amtrak's rolling stock fleet, looking to identify opportunities where Amtrak can improve the utilization and return from its rolling stock assets.
- *Real Estate Management.* We plan to audit Amtrak's management of its real estate assets. Amtrak's total commercial development revenue generated in FY 2010 was \$74.8 million.

Potential Focus Areas beyond FY 2012 (Asset Management)

Our forward-looking work will continue to focus on opportunities to improve the return from Amtrak's infrastructure assets, including an evaluation of the utilization and management of Amtrak's maintenance and construction equipment.



OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission	<p>The Amtrak OIG goals and perceptions of how best it can affect Amtrak's mission, as spelled out in the Inspector General Act of 1978, as amended:</p> <ul style="list-style-type: none">• Conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to Amtrak programs and operations• Promote economy, effectiveness, and efficiency within Amtrak and the OIG• Prevent and detect fraud, waste, and abuse in Amtrak programs and operations• Review Amtrak security and safety policies and programs• Make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations• Keep Amtrak and Congress fully and currently informed of problems in company 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: 10 G Street, N.E., Suite 3W-300 Washington, DC 20002</p> <p>Phone: 202.906.4134</p> <p>E-mail: bret.coulson@amtrakoig.gov</p>

