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Inspector General
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NATIONAL RAILROAD PASSENGER CORPORATION

BUDGET ESTIMATE: FISCAL YEAR 2016

SUBMITTED TO THE COMMITTEES ON APPROPRIATIONS,
U.S. SENATE AND U.S. HOUSE OF REPRESENTATIVES

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NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL

FY 2016 BUDGET REQUEST

INSPECTOR GENERAL'S OVERVIEW

We are committed to carrying out our mission under the *Inspector General Act of 1978* (as amended) as a high-performing OIG—delivering timely, high-quality, and value-added work to improve the economy, efficiency, and effectiveness of Amtrak programs and operations. We exercise independent oversight to provide the company, its customers, the public, and Congress with unbiased assessments—conducting audits and investigations.

Our FY 2016 budget request of \$24.5 million is consistent with guidance from the Office of Management and Budget. This funding level would allow us to continue and expand actions taken during FY 2014 to mitigate the impact of sequestration by replacing positions that were eliminated during FY 2013. This funding also would enhance our ability to identify opportunities for Amtrak to save money; improve programs and operations; reduce fraud, waste, and abuse; and realize savings by implementing our past recommendations.

We are committed to the highest standards of excellence in achieving our mission and in serving as good stewards of our resources. The steps we have taken to increase our skills and capabilities and our attention to issues that can have the largest positive impact on Amtrak's programs and operations have led to significant improvements in economy, efficiency, and effectiveness—and will continue to do so.

STRATEGIC PLAN

In October 2012, we completed a Strategic Plan for FY 2013–2017 that established goals, strategies, and performance indicators to fulfill our vision of operating as a model OIG. The plan supports Amtrak's Strategic Plan (FY 2014–2018), particularly the goal of attaining a standard of financial excellence.

To help us operate as a model OIG, we have established five strategic goals.

1. Add value by producing objective, accurate, relevant, timely, substantive, and sophisticated products that have impact.
2. Consistently follow efficient, disciplined processes for audits and investigations that meet the standards of the accountability community and are periodically refined and improved.
3. Employ a highly qualified, motivated, and diverse workforce.
4. Communicate openly and work professionally with, but independently from Amtrak management.
5. Create and maintain effective mission-support systems.

These goals provide a strategic framework that will allow us to continually improve our operations effectively and efficiently, while pursuing our strategic goals.

SIGNIFICANT ACCOMPLISHMENTS

We are charged with ensuring that the company spends its funds wisely and receives appropriate value for its expenditures. To carry out this charge, our audits and evaluations have centered on seven focus areas:

- governance
- acquisition and procurement
- information technology
- train operations and business management
- human capital management
- safety and security
- asset management

Since the beginning of FY 2014, we have issued 14 reports, identifying more than \$175 million in funds to be put to better use. The reports also included numerous recommendations to improve the efficiency and effectiveness of Amtrak's operations and programs.

Our investigations secured 14 indictments, 9 convictions, and over \$813,000 in cost savings and recoveries. We opened 41 investigative cases, closed 53 cases, processed 601 complaints from the OIG Hotline, and issued 22 management information reports identifying opportunities to improve the efficiency and effectiveness of Amtrak operations and programs.

Issues we have reported on since the beginning of FY 2014, include the following:

Opportunities Exist to Enhance Decision-Making Process for Utilization of Long-Distance Equipment The company is undertaking initiatives to improve the utilization of its long-distance equipment, but the benefits associated with those initiatives may be overstated because the processes used to support the decisions, although generally sound, have not been as analytically rigorous or disciplined as they should be to support strategic decision-making.

One initiative, led by the long-distance business line, has identified several actions to increase equipment utilization. The business line started implementing two of these actions although it has yet to fully analyze the potential costs and benefits or to fully address the risks associated with each action. These actions may likely improve the financial performance of the trains, but more rigorous analysis will increase the likelihood that actual benefits will meet expectations.

In another initiative, a cross-functional working group established a generally sound process for analyzing how best to utilize 130 new long-distance cars that the company is procuring. Recommendations made to senior leaders in April 2014 were not developed in accordance with this process, and the supporting analysis was flawed. If the plan based on those recommendations is followed, the long-distance business line's operating loss could increase; however, the company has time to reassess the plan.

To improve decisions about the utilization of long-distance equipment, we recommend several actions, including implementing a consistent process that assigns clear accountability for decisions and relies on sound analysis. The company generally agreed with our recommendations.

Assessing Progress Implementing the 2008 Passenger Rail Investment and Improvement Act (PRIIA). Our work showed that Amtrak has made significant progress implementing PRIIA by addressing 24 of the 29 assigned provisions. The company continues to work on incorporating eight categories of information that were not fully addressed in the last five-year financial plan, and on developing new agreements for allocating costs, revenues, and compensation for Northeast Corridor commuter facilities and services. Amtrak has not had to react to three provisions because the events that trigger a response have not yet occurred. We recommended that Amtrak fully address the requirements for the annual five-year financial plan. Also, we suggested that Congress may want to consider three areas that present opportunities for savings and improved performance and service quality in future authorization legislation. These areas include

the provisions related to early buyout options for capital leases, performance metrics and standards, and reporting for plans that require additional time to complete.

Reviewing Business Case for Procuring High-Speed Trainsets. The company generally followed sound business practices in developing a preliminary business case to support its request for proposals for next-generation high-speed trainsets. After receiving additional information from bidders, the company plans to develop a more detailed business case prior to seeking approval to purchase new equipment. We have identified several opportunities to enhance the final business case, which the company has agreed to address, including:

- Opportunities to improve the company's forecasts of projected ridership,
- The facility modifications and scheduling issues associated with adding trips during peak hours; and
- How aging regional equipment needs will be addressed and the impact on future maintenance costs and revenue growth.

Determining Progress Implementing Americans with Disabilities Act (ADA) requirements. Over the last two years, the company's ADA program made limited progress achieving its goals, largely because of the lack of an effective program management structure and the absence of a written strategic plan establishing a vision, goals, and objectives, including estimates of costs and a timeframe for program completion. During FY 2012 and FY 2013, Amtrak spent about \$100 million of ADA program funds. We noted the following:

- Program accomplishments included completing numerous property surveys and facility assessments, and making three more stations compliant.
- More than \$46 million of program funds (more than 46 percent) was spent on program management activities; however, best practices suggest that 30 percent is typically spent on such activities.
- Approximately \$6.5 million was spent on designs for projects that are not included in current construction plans.
- An undetermined amount of ADA funds was spent on state-of-good-repair work, not ADA-compliance work.

If the weaknesses persist, the program is likely to continue to see only limited progress in achieving its goals. We made recommendations to address these issues and the company agreed.

Reviewing the Capital Planning Process. Our analysis shows that the process could be further improved and management agrees in the areas of (1) developing business cases, (2) selecting projects for funding, and (3) evaluating project outcomes. To assist management's ongoing efforts to improve the company's capital planning process, we recommend that Amtrak take a number of actions to build the capability to fully implement the sound business practices described in this report. In these recommendations, we have included steps to develop sound business cases, review and rank proposals according to sound practices, tighten controls over the contract approval process, and implement current policy to evaluate the outcome of capital projects. Amtrak's President and Chief Executive Officer concurred with our recommendations.

Determining the Adequacy of the Policies, Procedures and Practices used to Manage Capital Projects. Overall, the company's management controls for project implementation are weak. This has contributed to ineffective and inefficient project implementation in the Engineering and Mechanical departments and creates a similar risk in other departments. There is an absence of policies, procedures, and training for project management. This condition, coupled with weaknesses we previously noted in justifying the need for capital investments, creates a high-risk environment for the effective stewardship over capital project resources. These weaknesses could ultimately affect the company's ability to meet its strategic goals – particularly the financial excellence goal.

We recommend that the President and Chief Executive Officer take actions to improve the company's capital project management practices including the development of company-wide policies and procedures for project management and a training program in project management. The President and Chief Executive Officer agreed to the recommended actions.

Reviewing Management of the Concrete Casing Project. In June 2013, the Federal Railroad Administration provided Amtrak a \$185 million grant to construct the concrete casing, which is scheduled to be completed in October 2015. Amtrak has established an effective project management framework for managing the concrete casing it's building under New York's Hudson Yards. We did not identify any significant risks related to the project's scheduled completion or the contractor's performance. We did note, however, that project costs are exceeding initial estimates. Amtrak is aware of this increase and is monitoring the potential for further cost escalation.

To enhance Amtrak's management of the concrete casing project, we recommend that the Vice President, Northeast Corridor Infrastructure and Investment Development, take two actions:

- Finalize and adopt the draft charter for the executive steering committee.
- Develop a risk mitigation plan to address potential cost increases and funding sources.

In commenting on a draft of this report, the Vice President, Northeast Corridor Infrastructure and Investment Development, agreed with our recommendations.

Comparing Procurement Department Processes with Best Practices. When comparing Procurement department processes and best practices, we identified 16 opportunities for improvement in 4 major areas. Some high-level examples are: organizational alignment and leadership, policies and processes, human capital, and knowledge and information management.

These opportunities for improvement exist because Amtrak has used the Procurement department in a support function, has not provided the department with strategic direction, and has not focused on a company-wide approach to strategic procurement. As a result, the Procurement department's capabilities have been limited, and the company may not be acquiring the highest quality goods at the best prices. The company developed a plan to address these issues.

Reviewing Food and Beverage Service. Our work showed that Amtrak had reduced food and beverage service losses from a reported \$105 million in FY 2006 to \$72 million in FY 2012 by making incremental changes to the food and beverage business model. We estimate that losses could be further reduced by about \$10.5 million annually by making additional incremental changes to the business model. For example, aligning onboard staffing on long-distance routes with seasonal changes in ridership could have reduced FY 2012 labor costs by an estimated \$6.9 million.

The option of outsourcing food and beverage services could reduce labor costs by an estimated \$175 million over 3 years. This option would have significant impacts on the workforce of about 1,200 personnel. Also, some costs of implementing this option, such as contributions to railroad retirement and insurance, could reduce savings.

Qualitative factors, such as the safety and security responsibilities of onboard personnel, would also need to be assessed.

Detecting and Deterring Fraud. We have continued to work with management and federal, state, and local prosecutors to address potential fraud activity in the following areas:

- Insurance fraud involving a requested reimbursement of \$6,380 for medical bills as a result of a staged accident, extensive disability insurance fraud, and false claims submitted to the Railroad Retirement Board.
- Contract and procurement fraud involving kickbacks, bribes, and gratuities, labor and cost mischarging, falsified credentials, and product substitution by contractors.
- Employee misconduct involving theft, embezzlement, ethics violations, misuse of purchase cards and GSA fuel cards, and computers for accessing sensitive passenger information, pornography and social media, and violations of federal, state, and local criminal or civil laws.
- We developed a customizable briefing to help Amtrak executives, staff and outside stakeholders understand our mission and operations, and we delivered fraud awareness briefings to more than 500 Amtrak employees in FY 2014.

SUMMARY OF FY 2016 BUDGET REQUEST

For FY 2016, we are requesting \$24.5 million, consistent with the Office of Management and Budget guidance. This level of funding would allow us to continue and expand efforts to replace positions in audit and investigations that were eliminated during FY 2013. This funding would mitigate the impact of sequestration and ensure that we have adequate resources for travel, training, and other mission-support activities. Figure 1 shows our budget requests for FY 2014, FY 2015, and FY 2016.

Figure 1. Amtrak OIG Budget Requests, FY 2014 to FY 2016

(dollars in millions)

	FY 2014	FY 2015	FY 2016
President's Request	\$25,300	\$24,499	\$24,499
Appropriation	23,499	\$23,999	TBD

We entered FY 2014 operating under a continuing resolution funding level of \$19.4 million—the same level of funding available during FY 2013. In January 2014, the Omnibus Appropriations Bill provided us \$23,499 million for FY 2014. We are implementing plans to use the additional funds to recover from the impact of staffing cutbacks that we made during FY 2013 and to take other actions to enhance our operations. For example, we have expanded our contracting activities to quickly increase our capabilities in audit and investigation. At the same time we started the hiring process to add permanent positions in those offices. We began FY 2014 with an onboard staff of 74 and are now at onboard staff of 80. By March 2015, we project that 12 additional staff will be onboard. We will continue to add to our staffing levels based on our FY 2015 budget.

The FY 2016 funding request would help us sustain the improvements we made to operate as a mainstream OIG and to continue delivering high-quality work that identifies cost savings and improves Amtrak operations and programs. Specifically, \$24.5 million will allow us to again support 99 full-time equivalents and help ensure effective oversight of Amtrak’s programs and operations.

In particular, it would allow us to continue a very successful forensic auditing effort initiated at the end of FY 2012 using data analytics tools. We are using, and plan to continue to use, our data analytics capabilities to audit and monitor internal control effectiveness of critical business processes. Since April 2014, we have issued four reports using data analytics techniques to assess controls and data in procurement card, travel card, employee injury claims, and time and attendance programs. We have also used data analytics to help support a number of other audit reports such as our review of the Americans with Disabilities Act program. We have ongoing and planned data analytics efforts that will support FY 2015 and 2016 audit work in the areas of material pricing, vendor discounts, and payment terms; police department workforce planning; spare part support for the Acela fleet; healthcare payments, and payroll administration. We also are providing, and plan to continue providing, data analytic support to our investigative work.

Our FY 2016 budget request is broken down as follows:

- \$19.5 million for personnel and related costs.
- \$2.0 million for operational and equipment expenses, including funding for office space, special equipment for criminal investigators, staff training, and information technology equipment and support services.
- \$3.0 million for consultants and contracted services.

The request includes \$440,000 for staff training requirements, and \$66,000 to support the Council of Inspectors General on Integrity and Efficiency. The IG certifies that the \$440,000 for staff training satisfies all known training requirements for FY 2016, in accordance with Public Law 110-409, the Inspector General Reform Act of 2008.

KEY FOCUS AREAS FOR FY 2016

During FY 2016 we will continue to focus our audit and investigation efforts in the areas of Governance, Acquisition and Procurement, Information Technology, Train Operations and Business Management, Human Capital Management, Safety and Security, and Asset Management, subject to available resources. Our overall goal will be to identify ways to improve the economy, efficiency, and effectiveness of Amtrak's programs and operations, while continuing to detect and prevent fraud, waste, and abuse. Our work will build on our FY 2015 Audit Plan.

Investigative Focus

In FY 2016, we will continue to actively identify areas of investigative interest that closely align with the strategic goals and mission of Amtrak and our office. To earn the greatest return on investment for Amtrak and our office—and increase our investigative capability, efficiency and effectiveness—we will continue to emphasize innovative and proactive investigative tools such as digital forensics, data analysis, and surveillance technology.

BUDGET TABLES

BUDGET REQUEST BY SOURCE OF FUNDS NATIONAL RAILROAD PASSENGER CORPORATION OFFICE OF INSPECTOR GENERAL

	APPROPRIATION (dollars in millions)		
	FY 2014	FY 2015	FY 2016
ACCOUNT NAME	ACTUAL	ACTUAL	REQUEST
Salaries and Expenses	23,499	23,999	24,499

OBJECT CLASSIFICATION - FY 2014 TO FY 2016
NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL
SALARIES & EXPENSES
(\$000)

OMB ACCOUNT ID: 575-00-2996	FY 2014 ACTUAL	FY 2015 BUDGET	FY 2016 REQUEST
Personnel Compensation:			
11.1 Full-time permanent	9,735	11,744	12,992
11.5 Other personnel compensation	3	-	-
11.9 Total Personnel Compensation	9,739	11,744	12,992
12.1 Personnel benefits	4,592	5,662	6,465
21.0 Travel and transportation (persons)	302	359	379
22.0 Transportation (things)	3	5	5
23.2 Rental payments to others	679	699	734
23.3 Communications, utilities, and miscellaneous charges	290	167	181
24.0 Printing and reproduction	8	9	3
25.1 Advisory and assistance services	2,459	4,615	3,034
25.3 Other purchases of goods and services from government accounts	625	469	476
26.0 Supplies and materials	149	157	117
31.0 Equipment	246	113	113
99.0 Subtotal, direct obligations	19,092	23,999	24,499
99.9 Total obligations	19,092	23,999	24,499

NATIONAL RAILROAD PASSENGER CORPORATION

OFFICE OF INSPECTOR GENERAL

PERSONNEL RESOURCES—SUMMARY

AUTHORIZED

	FY 2014	FY 2015	FY 2016
ACCOUNT NAME	Actual	Budget	Request
Full-Time Equivalents	79	97	99