AMTRAK Office of Inspector General
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OIG STATUS REPORT:

JANUARY 1 THROUGH MARCH 31, 2015

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OIG Status Report, January 1 through March 31, 2015

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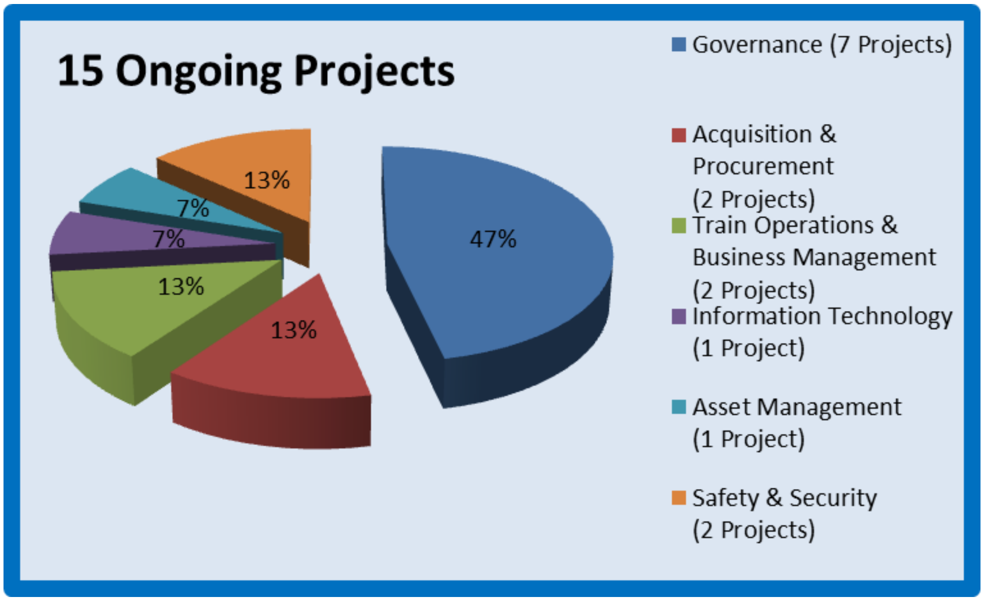
ONGOING AUDIT PROJECTS

We had 15 ongoing audits addressing 6 focus areas of our Annual Audit Plan as of March 31, 2015.

Project Inventory by Category



Governance

Best Practices for Establishing and Operating Project Management Office – The objective of this audit is to review the extent to which best practices are being adopted into the project management office's structure, as well as operation policies and practices. Survey Phase

Monitoring the Work of Amtrak's Independent Public Accountant Conducting the FY 2014 Financial Statement Audit – The objective of this audit is to determine whether the IPA performed the audit of Amtrak's Consolidated Financial Statements in accordance with generally accepted government auditing standards. Project Proposal Phase

Monitoring the Work of Amtrak's Independent Public Accountant Conducting the FY 2014 A-133 Audit – The objective of this audit is to determine whether the IPA performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133. Project Proposal Phase

Data Analytics – The objective of these audits is to assess the effectiveness of management controls in the corporation's business processes; identify opportunities to control risks and improve efficiency and effectiveness of business operations; and prevent, detect, and deter instances of fraud, waste, and abuse in the company. We have two data-analytics audits underway, addressing fraud and abuse indicators in the areas of medical health care claims for agreement employees and payroll processes. Final/Draft Report Phase

Accounting for Business Lines of Operation – The objective of this audit is to review the effectiveness and efficiency of the company's financial systems and data supporting the accumulation and allocation of costs for the company's business lines of operation. We will also assess whether the company has implemented prior recommendations made by the Department of Transportation, Office of Inspector General, in its March 27, 2013 report to improve the effectiveness of the company's cost accounting system. Survey Phase.

Accuracy of Host Railroad Performance Reporting Data – The objective of this audit is to review the reliability and accuracy of the company's reporting of host railroad on-time performance information. Survey Phase.

Acquisition and Procurement

Assessing the Efficiency and Effectiveness of Management Processes for Overseeing the Siemens Locomotive Technical Support Contract – The objective of this audit is to review the adequacy of contract oversight and administration, focusing on cost, schedule, and performance issues. Survey Phase

Assessing the Efficiency and Effectiveness of Management Processes for Utilizing Master Service Agreements – The objective of this audit is to determine the efficiency and effectiveness of the use and management of master service agreements to procure such services as information technology support and management consulting services. Survey Phase

Train Operations & Business Management

Review of Long-Distance Car Manufacturing Contractual Performance – The objective of this audit is to assess the adequacy of the Mechanical department's project oversight and administration of contractual requirements for the long-distance rail car purchase focusing on the areas of cost, schedule, and performance issues. Analysis Phase

Review of the New Jersey Raceway Project — The New Jersey High-Speed Rail Improvement project will upgrade 23 miles of right-of-way between Trenton and New Brunswick, NJ. The objective of this audit is to assess the adequacy of the Engineering department's project oversight of (1) contractual services focusing on the areas of cost, schedule, performance, and contract administration, and (2) services performed by Engineering department personnel. Draft Report Phase

Information Technology

Review of Reservation Ecosystem Next Generation Program – The objective of this audit is to assess the adequacy of planning, development, and oversight of the Reservation Ecosystem Next Generation Program, focusing on the areas of cost, schedule, and performance. Draft Report Phase.

Asset Management

Review of the Management of Construction and Specialized Equipment – The objective of this audit is to assess the adequacy of the company's management and oversight of its construction and specialized equipment and vehicles. Survey Phase

Safety and Security

Review of Efforts to Implement Positive Train Control – The objective of this audit is to assess the company's progress in implementing Positive Train Control (PTC), focusing on challenges identified in our prior report *Railroad Safety: Amtrak Has Made Progress in Implementing Positive Train Control, but Significant Challenges Remain* (Report No. OIG-E-2013-003, December 20, 2012). In addition, we will review implementation of PTC on the Amtrak owned and operated track in Michigan. Analysis Phase

***Video Surveillance Systems* –** The objective of this audit is to assess the company's efforts to implement and utilize video surveillance systems.

OFFICE OF AUDITS REPORTS ISSUED

We issued 7 reports since January 1, 2015 addressing 4 focus areas in our Annual Audit Plan.

Safety and Security

OIG-A-2015-007
February 12, 2015, Opportunities to Improve Controls Over Police Department Workforce Planning

Opportunities exist to improve management controls over the Amtrak Police Department's (APD's) workforce planning practices. APD does not have a formal workforce planning process to determine the number and type of police officers needed to support its mission. Best practices show that successful organizations use strategic, formal processes for workforce planning to help meet current and future mission requirements, make staffing decisions, and ensure that resources are used efficiently.

Opportunities also exist to improve the department's practices in areas such as establishing goals and performance metrics; identifying risks and allocating resources to mitigate them; using crime and workload data to allocate resources; and using video surveillance systems to supplement the existing workforce.

The Chief of Police is aware of these weaknesses and has taken a number of actions, and also plans other actions to address them. To complement and facilitate APD's actions to improve its workforce planning, we recommended, and the Chief of Police agreed to develop, a formal process for workforce planning. The APD also agreed to work collaboratively with Emergency Management and Corporate Security (EMCS) on security issues, stating that within 60 days they will discuss the creation of a joint working group to leverage Amtrak's risk assessments to optimize the effectiveness and efficiency of security risk management.

OIG-A-2015-007
February 19, 2015, Opportunities Exist to Improve the Safe-2-Safer Program

Although the company has demonstrated a strong commitment to the Safe-2-Safer program, investing about $70 million in the program since 2009, results have been mixed and opportunities for improvement exist. Specifically:

- The company's safety culture and working conditions have improved, as demonstrated by a net positive change in the safety culture since 2009 and the elimination of more than 2,700 reported unsafe working conditions.

- The goal to reduce employee injuries has not been achieved. The number of injuries reported by employees increased each year, with 695 employee injuries reported in 2009 and 1,301 injuries reported in 2013. This trend continued in 2014.
- The goal of reducing injury-claim costs has not been achieved. Employee injury claims increased by about 80 percent from 2009 through 2013, and the payments on these claims have cost the company about $79.6 million, which could increase by an additional $48.8 million.

Complementary to the company's efforts to understand why reported injuries have increased, our work identified areas that have likely contributed to the lack of progress in achieving program goals. Addressing these areas could help optimize the use of resources and enhance overall program results:

- Enhancing employee engagement could improve accountability for safe practices, peer-to-peer observations, and the effectiveness of steering committees.
- Clarifying the roles of front-line supervisors could help ensure that they understand how to support the program properly.
- Increasing the involvement of senior leaders and defining accountability for outcomes could improve their effectiveness in leading the company toward its safety goals.
- Improving corporate metrics to include employee injuries, along with the safety observation contact rate, and setting targets for reducing injuries and timeframes for achieving goals, could help measure progress and increase accountability.
- Developing and implementing incentives could reinforce the importance of desired safety outcomes.

We recommended several actions to improve the effectiveness of the program, including ensuring that employees are fully engaged in achieving program goals and are accountable for reducing injuries at all levels, and that the Safe-2-Safer program is fully integrated into the company's overall safety plans and programs. The company agreed with our recommendations and established timelines for implementing them.

Acquisition and Procurement

OIG-A-2015-008
March 10, 2015, Improved Management Will Lead to Acela Parts Contract Cost Savings

The company's Procurement department's management of the Acela parts contract has not been effective or efficient because it paid too little attention to costs and associated management and oversight controls. Specifically, the department's policies and procedures do not clearly state requirements for contract monitoring and oversight, the data and information systems were inadequate to support contract management functions, and key officials responsible for managing the contract turned over multiple times.

As a result, there has been a significant waste of funds:

- Unreasonably high prices were paid for repaired parts. Price reviews that could have identified unreasonable prices were not conducted. The prices paid for 9 of 10 repaired parts we sampled were 118 percent to 2,377 percent greater than the contractor's repair costs. About $85,000 in unreasonably high prices was paid for these repaired parts.
- Penalties were not assessed for late parts delivery and train annulments, partly because there are no formal procedures for tracking the delivery of parts and assessing penalties. For example, as much as $19 million in penalties had not been assessed for late part deliveries that occurred since 2013, based on company estimates.
- A reported $18.8 million in outstanding warranty claims has accumulated because there are no formal procedures for processing and settling warranty claims in a timely manner.
- Contract management was hindered by inadequate administration and maintenance of contract files, including missing documentation for change orders.

If the company had effectively managed the contract, it could have reduced contract costs and freed up funds that could have been put to better use. Our recommendations included that the company develop appropriate internal controls and data systems to effectively manage, monitor, and oversee the contract; define and document the roles and responsibilities of key official responsible for managing the parts contract; review contract prices for parts and work to reset prices where appropriate.

The company agreed with our recommendations and provided action plans to improve the effectiveness and efficiency of its contract management and oversight functions. The company also agreed to seek remediation for unreasonably high payments when appropriate.

Governance

OIG-A-2015-003
January 13, 2015, Quality Control Review of the Independent Audit of Amtrak's Consolidated Financial Statements for Fiscal Years Ended 2013 and 2012

Amtrak (the company) contracted with the independent certified public accounting firm of Ernst & Young LLP to audit its consolidated financial statements as of September 30, 2013 and 2012, and for the years then ended, and to provide a report on internal control over financial reporting and on compliance and other matters. Because the company receives federal assistance, it must obtain an audit performed in accordance with generally accepted government auditing standards.

As authorized by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards. The key aspects of the Ernst & Young reports are discussed below.

In its audit of the company's consolidated financial statements, Ernst & Young concluded that the consolidated financial statements fairly presented, in all material respects, the consolidated financial position of the National Railroad Passenger Corporation and subsidiaries at September 30, 2013 and 2012, and the consolidated results of their operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

Ernst & Young also reported that significant deficiencies identified during the FY 2012 audit were not remediated during FY 2013, and resulted in a restatement of the FY 2012 financial statements and significant delays in issuing the FY 2013 financial statements. Ernst & Young reported three material weaknesses in internal control over financial reporting: 1) Capital Lease Accounting, Documentation and Analysis, 2) Income Tax Accounting, and 3) Financial Reporting. Ernst & Young made several recommendations to correct these material weaknesses and the company agreed with all of them.

OIG-A-2015-004

February 9, 2015, Quality Control Review of Single Audit Report, National Railroad Passenger Corporation and Subsidiaries, Year Ended September 30, 2013

Amtrak (the company) contracted with Ernst & Young LLP to perform a Single Audit of the company's federal grants for the year ended September 30, 2013, in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Because the company receives federal funding, it must obtain an audit performed in accordance with generally accepted government auditing standards. The objective of the Single Audit was to test internal control over compliance with major federal program requirements and determine whether the company complied with the laws, regulations, and provisions of contracts or grant agreements that may have a direct or material affect on its major federal programs.

As authorized by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards and OMB Circular *A-133* requirements.

Ernst & Young concluded that the company did not fully comply with the requirements for the Department of Transportation (DOT) grant program and issued a qualified compliance opinion. Ernst & Young reported two material weaknesses and three significant deficiencies in internal control over compliance related to the DOT grant program. Ernst & Young made several recommendations to correct the material weaknesses and significant deficiencies and the company agreed with all of them.

OIG-A-2015-005

February 11, 2015, Opportunities Exist To Improve the Efficiency of Procurement Practices for Goods and Services

In Calendar Year (CY) 2013, the company paid about $2.3 billion to 17,000 vendors for goods and services. We reviewed procurement practices to determine whether there are opportunities to procure goods and services more economically.

Our work showed that, although the company's procurement manual establishes policies and procedures, and provides guidance on how to procure goods and services efficiently and effectively, there were weaknesses in vendor prices, discounts, and payment terms practices. For example, the company would have saved about $3.4 million if it had purchased about $35 million worth of materials from the lowestcost vendors and about $84,000 by taking advantage of missed early payment discounts. An additional $6 million could have been saved if it had negotiated an early payment discount of 1% with the 20 highest dollar volume vendors. In addition, the company could have potentially improved its cash flow by about $78 million if payment terms on the $1.4 billion in purchase orders were extended to 45 days, and about $135 million if terms were extended to 60 days.

Implementing the procurement practices discussed in this report could reduce payments by about $3.4 million annually by using lower-price vendors and $6 million annually by negotiating early payment discounts. The potential savings of about $9.4 million for three years would result in freeing up about $28.2 million that could be put to better use.

We recommended, and the Chief Financial Officer agreed where possible and practical, that the company will implement the use of purchasing practices to help ensure that the best value is received for all items and services purchased.

Human Capital Management

OIG-A-2015-009
March 13, 2015, Incentive Awards Were Appropriate, but Payment Controls Can Be Improved

The company reported, and we validated, that it had achieved its FY 2014 Short Term Incentive (STI) financial goal but not its customer service goal. The company's unaudited FY 2014 data reported a potential Adjusted Net Operating Loss of $214 million, which is $91 million below the STI $305 million target. Our review showed that the calculation of the adjusted net operating loss was accurate and supported by the company's trial balance amounts. Award payments were made for achieving this goal.

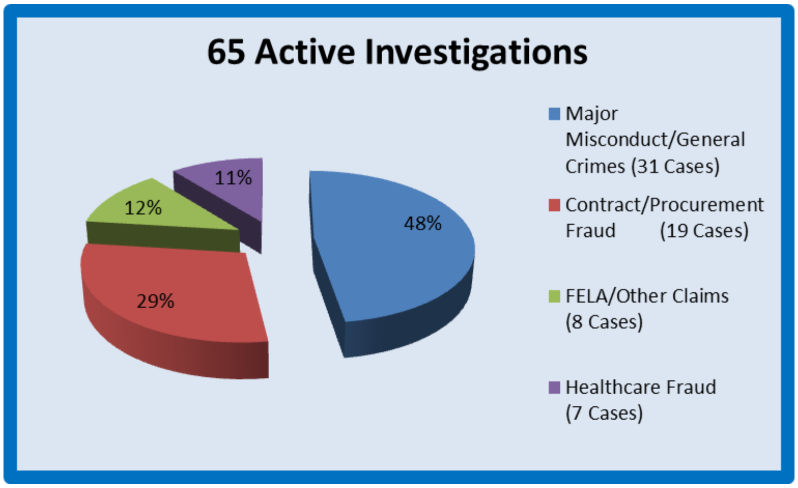
The company also reported that it did not achieve the STI performance target of having a minimum Customer Satisfaction Index (CSI) of 84.25%. We reviewed the processes used to solicit and measure CSI results and tested the accuracy of three months of data from FY 2014. We found that the results were reliable.

Our analysis of 100 percent of the award payments made to eligible non-agreement employees found that 98.4 percent of eligible employees received the correct award payment and 1.6 percent received incorrect payments. Overpayments totaling $36,907 were made to 32 employees, payments totaling $2,389 were not made to 9 award-eligible employees, and 4 employees were underpaid by $171. We also determined that controls over the incentive payment process—including policies and procedures—were not fully developed before the payments were processed. As a consequence, award-payment policies and procedures for certain cases were developed as the process was being implemented. These decisions were not documented adequately and could not be verified without discussion with program officials.

We recommended that the company collect FY 2014 overpayments and make payments to the employees who were inappropriately underpaid. The company said that payments were made to employees who were underpaid but that after review, management opted not to collect overpayments. Therefore we are closing this recommendation. We also recommended, and the company agreed with, actions for improving the STI plan and process for future fiscal years.

ONGOING INVESTIGATIVE WORK

As of March 31, 2015, we had 65 active investigations focusing on significant allegations of suspected fraud, waste, and misconduct in the following areas.



NOTEWORTHY CRIMINAL, CIVIL, AND ADMINISTRATIVE ACTIONS

Theft of Property - An Amtrak machinist ordered goods from Amtrak's Work Management System that he did not need to fulfill his job duties. When confronted, the machinist admitted to ordering goods that he took home for personal use, gave away, or sold. A consensual search, agreed to by the employee, resulted in the recovery of $1,400 in Amtrak equipment. He was arrested and charged with felony theft in Cook County, IL. The employee pled guilty on November 19, 2014, and was sentenced to one year of supervised probation. He was also ordered to make restitution in the amount of $5,000 to Amtrak. The employee voluntarily resigned.

Theft of Fuel - An investigation of suspected fraudulent fuel activity on company-issued fuel cards revealed that an Amtrak employee made $9,927 in fuel purchases while on leave. The employee was purchasing fuel for personal vehicles. During the investigation, the employee voluntarily separated from Amtrak. The employee was charged with two counts of larceny, two counts of credit card fraud, and two counts of conspiracy in Suffolk County, MA. He pled guilty to one count each of larceny, credit card fraud, and conspiracy, and was sentenced to two years in jail, sentence suspended. He was placed on six years of supervised probation, and was ordered to make restitution to Amtrak of $9,927.36. The remaining counts of larceny, credit card fraud, and conspiracy were dismissed.

Mentor Pay - We received a complaint that new hires in the Mechanical Engineering department in the Delaware shops were assigned multiple mentors so that employees could receive extra pay for mentoring. Using a data-analytics tool, OI found that mentor pay was on track to exceed $500,000, an increase over the prior year of more than 350%. As a result of our report, Amtrak management conducted a thorough review of the mechanical mentor program and an analysis of all locations throughout operations. Amtrak management took several measures to minimize the risk of abuse of this program.

Track Supervisor Violates Policy - We conducted an investigation of a Track Supervisor to determine if he made fraudulent purchases on an Amtrak Purchase Card, conducted private business on company time, or used an Amtrak vehicle for personal business. Our investigation did not substantiate any of those issues. However, it did reveal that the supervisor used the Purchase Card to purchase vehicle parts for his Amtrak vehicle instead of going through Amtrak's automotive department. Additionally, the supervisor did not complete the vehicle mileage forms and left the fuel credit card in the vehicle when not in use. The supervisor received counseling for the policy violations.

Ethics Policy Violation - We received an anonymous complaint that the spouse of an Amtrak executive had been convicted of embezzling funds from a non-profit organization and sentenced to incarceration and a substantial restitution, which we later confirmed. The complaint also raised concerns that company funds could be at risk, given the spouse's obligation for restitution, because the Amtrak executive had decision-making authority and oversight of large company contracts. Our subsequent investigation found that the executive was not involved with or accused of any criminal wrongdoing in connection with the spouse's activities and we did not discover any evidence of improper payments on the company contracts that we reviewed. However, we found that the executive failed to diligently investigate whether the executive's duties conflicted with the spouse's activities and report to the company that there may have been a conflict of interest or the appearance of a conflict of interest, which was contrary to Amtrak's ethics policy. Consequently, management counseled the executive on the relevant policy obligations.

Contractor Falsifies Servicing of Fire Extinguishers - We investigated a complaint that a contractor, responsible for servicing fire extinguishers on Amtrak's properties in Los Angeles, was not providing the contracted services. We observed the contractor tagging fire extinguishers that were known to have deficiencies as having been inspected, tested, and found to be in good working order. Amtrak terminated the contract based on OIGs results.

Fraud Awareness Training

Since January 1, 2015, we presented eight fraud awareness and outreach briefings to 46 Amtrak management and union employees.

Fraud Waste and Abuse Hotline

Since January 1, 2015, we processed 122 hotline matters.

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission	The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.
Obtaining Copies of OIG Reports and Testimony	Available at our website: www.amtrakoig.gov.
To Report Fraud, Waste, and Abuse	Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous): Web: www.amtrakoig.gov/hotline Phone: 800-468-5469

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