



Memorandum

To: Jeffrey R. Moreland, Chairman, Audit and Finance Committee,
Amtrak Board of Directors
William Auve, Interim Chief Financial Officer

From: Ted Alves, Inspector General



Date: April 18, 2013

Subject: *Monitoring the Work of Amtrak's IPA Conducting the FY 2013 Financial Statement Audit and Single Audit (Projects 007-2013 and 008-2013)*

This is to inform you that the Office of Inspector General (OIG) is initiating an engagement to monitor the Fiscal Year (FY) 2013 Amtrak Consolidated Financial Statement Audit (Project 007-2013) and Single Audit (Project 008-2013). We are in the third year of implementing our plan to monitor the audit work performed by Amtrak's independent public accountant (IPA) (see Attachment).

The objectives of this engagement are to

- (1) determine whether the IPA performed the audit of Amtrak's Consolidated Financial Statements in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States;
- (2) determine whether the IPA performed Amtrak's Single Audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and
- (3) follow up on prior recommendations made to the Audit and Finance Committee and Chief Financial Officer (CFO) to improve Amtrak's oversight of the IPA.

Our monitoring procedures are designed to provide the Board of Directors, Amtrak management, and external stakeholders with assurance that the IPA performed high-quality audits that meet professional standards. At the conclusion of our work, we will provide you with two letters that will cite whether we found any material instances of

noncompliance with generally accepted government auditing standards for either the Consolidated Financial Statements audit or the Single Audit. We will brief you on the results of our work as it progresses and as you request.

Our work is not intended to enable us to express, and we will not express, an opinion on Amtrak's FY 2013 consolidated financial statements, compliance with federal grant requirements, internal control, or conclusions on compliance with laws and regulations. The IPA is responsible for its audit reports and the conclusions expressed in those reports. However, if applicable, our work will disclose any instances where the IPA did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General. We may also issue letters of comment to the IPA and you to report any issues that are not material in nature, but that we believe deserve attention to help improve the audit process.

Throughout the engagement we will work with the appropriate IPA and Amtrak staff to obtain information necessary for the completion of our work and to arrive at mutually acceptable time frames for the delivery of requested data. We plan to initiate this review within the next 2 weeks, and will schedule an entrance conference through Amtrak's Senior Audit Liaison.

If you have any questions regarding this engagement, please contact David Warren, Assistant Inspector General, Audits (david.warren@amtrakoig.gov, (202) 906-4742) or Earl Hedges, Senior Director, Audits (earl.hedges@amtrakoig.gov, (202) 906-4718).

cc: Anthony Coscia, Chairman, Board of Directors and
Member, Audit and Finance Committee
Joseph Boardman, President and CEO
Christopher Beall, Member, Audit and Finance Committee
Eleanor D. Acheson, Vice President, General Counsel, and
Corporate Secretary
Matthew Gagnon, Senior Director, Business Processes and
Management Control
Melantha Paige, Senior Audit Liaison

Attachment

ATTACHMENT

Amtrak OIG's Plan to Review the Independent Public Accountant's Work

This plan describes the Office of Inspector General's (OIG) plan related to monitoring Amtrak audits performed by an independent public accountant (IPA¹). OIG's role is designed to help the Board of Directors carry out fiduciary responsibilities and to meet the OIG's responsibilities to assure that any work performed by non-federal auditors complies with the standards established by the Comptroller General.

Introduction and Background

The Board and OIG have important responsibilities with respect to the Company's financial reporting processes, internal controls, and annual audits of its financial statements.

The Board, through its Audit and Finance Committee, is responsible for overseeing the Company's financial reporting processes, internal controls, and annual audit of its financial statements by an IPA. At times, the Board makes decisions regarding these same matters. The Company's Finance Department executes the decisions of the Board and Committee with respect to the Company's financial reporting processes, internal controls, and annual audit of its financial statements.

Under the *Inspector General Act of 1978*, as amended, Inspectors General are required to (i) establish guidelines for determining when a Federal entity may use a non-federal auditor and (ii) ensure that any non-federal auditor conducts its work in accordance with auditing standards established by the Comptroller General of the United States. The IPA that audits Amtrak's financial statements is considered a non-federal auditor. While practices vary, most Federal entities involve their OIG in a significant manner in overseeing and ensuring that the work performed by non-federal auditors in annual financial statement audits is conducted in accordance with applicable standards.

Our office has made significant changes over the past year to ensure that we operate under best practices consistent with the spirit as well as the letter of the IG Act. To reach even closer to becoming a model IG, additional changes will be made over the next several years. We plan to ultimately assume the role of monitoring all audits performed by non-federal auditors. Our monitoring will provide reliable, timely, and consistent

¹ **IPA (Independent Public Accountant)** – An accountant who is licensed or works for a firm that is licensed in the state or other political jurisdiction in which it operates its professional practice, and who complies with the applicable provisions of the public accountancy law and rules of the jurisdiction in which the audit is being conducted.

financial information that can be used by the Board and the Company to make significant decisions regarding the Company's operations.

Purpose and Scope

Consistent with Amtrak OIG's commitment to comply with the specific duties and responsibilities mandated by the IG Act and to meet the standards established under generally accepted government auditing standards, OIG will monitor all audits performed by non-federal auditors. Our monitoring of the work performed by the IPA will ensure that its work complies with standards established by the Comptroller General. OIG will place particular emphasis and attention on the Company's consolidated financial statement audits.

This memorandum is applicable to all audit² work performed by the IPA, as defined in the scope of work included in its contract to perform audit services, including the audits of

- Amtrak's Consolidated Financial Statements;
- Passenger Railroad Insurance, Ltd.;
- Penn Station Leasing, LLC;
- Grant compliance under U.S. Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*;
- and
- Employee Benefit Plan Audits:
 - Amtrak's Retirement Savings Plan for Agreement Employees,
 - National Railroad Passenger Corporation Retirement Savings Plan (for management employees), and
 - Retirement Income Plan for the Employees of National Railroad Passenger Corporation.

OIG's Plan to Monitor the IPA

Beginning in this fiscal year and continuing through FY 2013, OIG will implement a phased plan to monitor the IPA to ensure that IPA audit work complies with applicable professional standards established by the Comptroller General. We will progressively increase our monitoring activities through 2013. By 2014, we will have established policies and procedures that guide our future audits of IPA's work.

² **Audit** – For the purpose of this document, the term *audit* refers to any engagement performed by a non-federal auditor that provides an independent assessment of and reasonable assurance, through the expression of an opinion, over the subject matter for which the IPA is retained. The terms *non-federal auditor* and *IPA* mean the same, and are used interchangeably throughout the document.

OIG's review is designed to provide the Board and the Company with confirmation that the IPA is independent and that its work is of high quality and meets professional standards. Our monitoring activities will comply with the standards prescribed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE³) and the Government Accountability Office (GAO⁴) for monitoring the work performed by non-federal auditors. Our monitoring does not constitute an audit conducted in accordance with generally accepted government auditing standards and, therefore, is not designed to enable us to express opinions on the Company's financial statements, conclusions about the effectiveness of internal controls, or conclusions about the Company's compliance with laws and regulations related to the financial statements.

The scope of our monitoring activities will include reviews related to (A) selecting the IPA, (B) performing the audit (by the IPA), (C) administering the IPA contract, and (D) facilitating the audit process. Our planned role in each of these activities is described below.

(A) *Selecting the IPA*

The IPA selection process is the responsibility of the Board. OIG's review will provide the Board with independent assurance that its IPA selection process complies with policies and procedures, applicable laws and regulations, and industry best practices.

During this fiscal year, OIG will perform steps designed to help us understand the IPA selection process, including solicitation preparation, appointment of the Selection Committee, technical evaluation, price evaluation, and scoring of proposals.

In FY 2012, if the Board reappoints the IPA, OIG will review the Company's annual contract renewal process and brief the Board on whether that process complies with applicable procurement regulations, the Company's policies and procedures, applicable laws, and industry best practices.

If, in any year, the Board directs the Company to solicit new IPA bids to conduct the Company's required audits, OIG will assess and brief the Board on the propriety of the Company's contract solicitation process. We will focus on whether the process is fair, transparent, and consistent with procurement regulations required by grant agreements, the Company's policies and procedures, industry best practices, and applicable laws.

³ CIGIE is the authoritative body under which IGs operate. It was formed under the *Inspector General Act of 1978*, as amended by the *Inspector General Reform Act of 2008*, by combining what were formerly known as the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

⁴ GAO is the authoritative body that establishes government auditing standards, commonly referred to as generally accepted government auditing standards (GAGAS).

OIG will notify the Board and the Company of any deficiencies or recommendations for improvement so that revisions to solicitation documents may be made prior to selecting the new IPA.

(B) *Performing the Audit (by the IPA)*

OIG's objective for reviewing the IPA's performance of the audit is to ensure that the IPA complies with applicable professional standards, its own quality control policies and procedures, and its methodology for conducting the audits.

During this fiscal year, we will develop an understanding of the Company's financial statement audit process, including the financial reporting, consolidation, and information systems processes. We will also review the Company's audit oversight process to determine whether its oversight is adequate to ensure that the IPA complies with its statements of work and professional standards.

We will report to the Board any recommendations to improve the audit oversight and monitoring processes based on guidance established by CIGIE, GAO, and industry best practices.

Starting in fiscal year 2012 and in subsequent years, we will continue to review the financial reporting and audit processes. We will also perform sufficient audit work to allow us to understand the IPA's audit methodology and internal quality assurance and quality control policies and procedures. We will further perform procedures prescribed by CIGIE and GAO for monitoring the work of non-federal auditors, including reviewing and making judgments in the areas of:

- evaluating the IPA's independence and objectivity;
- evaluating the IPA's qualifications;
- making recommendations with respect to type of reporting;
- reviewing documentation;
- performing supplemental testing, if necessary; and
- discussing key issues with management.

Our work will provide the Board with independent assurance of the IPA's application of professional auditing standards and its quality control policies as they relate to the Company's consolidated financial statement audit.

As appropriate, we will make recommendations to the Board, the Company, and the IPA during the course of our monitoring to achieve corrective actions prior to the IPA issuing the Company's financial statements. Our report, along with the IPA's opinion on the

Company's financial statements, will be available to the Board, the Company, the Congress, and the public.

We will not express an opinion on the Company's financial statements, conclusions about the effectiveness of internal controls, or conclusions about compliance with laws and regulations, as they relate to the Company's financial statements. We will, however, issue a transmittal memorandum attached to the issued IPA report(s) that will cite whether we found any material instances of the IPA's noncompliance with standards established by the Comptroller General.

Starting in fiscal year 2013 and in every year thereafter, we will determine whether to apply the same monitoring procedures described above to other audits performed by the IPA. These audits include the subsidiary financial statement audits, the OMB A-133 audit, and employee benefit plan audits.

(C) *Administering the IPA Contract*

Administering the IPA contract involves, among other things, assuming the role of the contracting officer's technical representative, including approving payments to the IPA and ensuring that the IPA complies with contract terms.

We do not plan to perform activities related to contract administration. However, we will review the Company's contract administration and contract oversight as described above under *Performing the Audit (by the IPA)* section.

We will request that management provide us with written notification of any dispute between Finance and the IPA regarding accounting issues or contract performance.

(D) *Facilitating the Audit Process*

The ultimate goal of facilitating the audit process is to provide the IPA with what it needs when it needs it, enabling it to perform the necessary audit procedures while meeting performance milestones and targeted completion dates.

We do not plan to perform activities related to facilitating the audit. However, facilitating the audit process is within the scope of our review of the Company's audit oversight, as described above under *Performing the Audit (by the IPA)* section. We will be actively involved in assisting the Board and the Company in resolving any issues with the IPA.