Memorandum

To: Gerald Sokol, Jr.
Executive Vice President/Chief Financial Officer

From: Stephen Lord
Assistant Inspector General, Audits

Date: July 28, 2016

Subject: *Close-out Memorandum: Accounting for Business Lines of Operation* (Project Code: No. 011-2015)

On March 11, 2015, we initiated an audit of the company's accounting for business lines of operation. The objective of this audit was 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.

The audit was to also assess whether the company implemented recommendations made by the U.S. Department of Transportation Office of Inspector General (DOT OIG) in a March 27, 2013 report to the Federal Railroad Administration (FRA).[1] The DOT OIG reported that the Amtrak Performance Tracking (APT) system directly assigned only 20 percent of the company's costs to business lines of operation and indirectly allocated the remainder, which reduced the precision of the company's financial performance reporting. The DOT OIG recommended that FRA work with the company to improve the precision of the company's financial performance reporting. FRA concurred with the recommendations and worked with the company to implement corrective actions for all of the recommendations.

We are terminating this audit because the company has taken and plans to take additional actions to enhance the APT system. These actions are intended to improve the precision of the company's financial performance reporting as well as its ability to

[1] Report No. CR-2013-056.

meet accounting requirements established by the Fixing America's Surface Transportation Act or (FAST Act).[2] We presented our observations, which are summarized below, to your staff on May 17, 2016.

Observations

Improvements to precision of financial performance reporting. In response to the DOT OIG recommendations, the company has increased the percentage of costs directly assigned to business lines of operation. This was accomplished by enhancing the APT methodology to better utilize the Work Breakdown Structure task codes in the SAP general ledger system. As a result, the company was able to directly assign 55 percent of company costs to business lines of operation in fiscal year (FY) 2015—a marked improvement over 2013.

Updates to APT code design have not been made. APT staff informed us that a business case had been prepared and submitted for a redesign of the APT system's codes—"APT 2.0"—which, if funded, would further improve the speed and accuracy of business line reporting. In September 2014, the company prepared *A Plan to Maintain the Long-Term Utility of the APT System*. In a September 2015 update to the plan, APT staff reiterated the need to review the APT code design as part of the company's effort to make APT more compatible with the SAP general ledger system.

Improvements to address expense coding errors in the general ledger system. In April 2015, recognizing that expenses were prone to coding errors in the SAP general ledger system that result in APT allocation errors, the company initiated the *Account Coding Error Project.* Company officials estimated that such errors affect thousands of transactions. According to the project's charter, coding errors in the general ledger system affect state-supported billings, reimbursable activity, capital maintenance trends, decision-making, and financial statements. Under the project, the company began a series of workshops to inform line managers of the problem and train them on the importance of the proper coding of expenses. The project is intended to reduce expense coding errors by 25 percent.

Opportunities to enhance usefulness of APT-generated reports. The company plans to enhance training on the APT system to improve the usefulness of APT-generated reports. Six executives who work in the three National Train Service business lines told us they review APT-generated reports, but they rely more on ad hoc reports from the general ledger system to manage their business lines and make business decisions. They stated that the reports generated by the general ledger system provide more detail on direct costs and are available on a more-timely basis than the APT-generated reports. In addition, some executives—including general managers and deputy managers—said they needed additional training on how to access and use the APT system. APT staff

[2] Pub. L No 114-94.

informed us they will continue to develop and deliver training on the APT system, as well as develop a new user's manual after the next version of APT is released.

Efforts to improve the accuracy of state billings. The company and its state-partners established a committee to resolve disagreements over Section 209[3] state-billings. We contacted representatives of six states to discuss their experiences with the company's APT-based billings. These representatives told us that the billings did not appear to be reliable and lacked transparency, and that the company was not always responsive to their concerns about the billing process. Representatives from one state told us they believed that long-distance costs were co-mingled with their state-supported costs, resulting in higher billings. To resolve these disagreements, the company, its state partners, and FRA established the *State-Amtrak Intercity Passenger Rail Committee* in July 2015 to work with the Surface Transportation Board and the Federal Mediation and Conciliation Service. To date, the committee has developed a new cost-sharing methodology, which will take effect in FY 2017, and established several working groups to improve communications between the company and its state-partners.

FAST Act requires additional improvements. APT staff are working to implement a new account structure and accounting methodology improvements to meet the FAST Act's accounting requirements. Enacted in December 2015, the FAST Act requires the Secretary of Transportation, in consultation with the company, to define an account structure and improvements to accounting methodologies, to support, at a minimum, the Northeast Corridor and the National Network. FRA issued a document that defined this new account structure and accounting methodology improvements in May 2016. According to the FAST Act, the company has one year from the date of enactment or until December 2016, to implement the new account structure and accounting methodology improvements. This new account structure and improved accounting methodology are aimed at enhancing the transparency and usefulness of the current APT-based reporting system, and the assignment of revenues and cost to the company's lines of business.

We appreciate the time and cooperation provided by Amtrak personnel, particularly the APT staff during the course of our work. If you or your staff have any questions, or need additional information, please contact me at 8-777-4742 (Stephen.Lord@amtrakoig.gov) or Earl Hedges, Senior Director, Audits, at 8-777-4718 (Earl.Hedges@amtrakoig.gov).

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[3] Section 209 of the Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, Div.B. (2008).