AMTRAK OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

GOVERNANCE:

Amtrak Has Begun to Address State Partners' Concerns About Shared Costs But Has More Work to Do to Improve Relationships

OIG-A-2022-005 | January 31, 2022

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AMTRAK OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

Memorandum

To: Roger Harris
Executive Vice President/Chief Marketing and Revenue Officer

From: Jim Morrison
Assistant Inspector General, Audits

Date: January 31, 2022

Subject: *Governance: Amtrak Has Begun to Address State Partners' Concerns About Shared Costs But Has More Work to Do to Improve Relationships*
(OIG-A-2022-005)

Amtrak (the company) and its 20 state partners[1] operate 28 routes under a joint mission to deliver and grow the country's rail transportation network. These state-supported routes carried 15 million riders in fiscal year (FY) 2019—nearly half of the company's total pre-pandemic ridership and about a quarter of its total revenue[2] (approximately $800 million). In 2008, Congress passed the Passenger Rail Investment and Improvement Act (PRIIA), which directed the company and states to develop a methodology to share the costs of operating these routes and maintaining the equipment they use on them.[3] Over time, however, the company and its state partners have raised concerns about the application of the methodology they jointly developed.[4] Some state partners have raised concerns about the company's implementation of the methodology, including its process for calculating the state partners' share of the costs. As we reported in August 2020,[5] the pandemic exacerbated state partners' concerns—particularly about the relationship between their service levels and shared costs.

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[1] The company partners with 20 transit organizations across 17 states. Throughout this report, we refer to the 20 entities as "state partners."

[2] Total revenue includes adjusted ticket revenue, food and beverage sales, and other revenue.

[3] Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, Div. B, Title II, § 209, 122 Stat. 4848, 4917-4918.

[4] The States Working Group and Amtrak, *PRIIA Section 209 Cost Methodology Policy*, August 31, 2011.

[5] *Governance: Observations on Amtrak's Use of CARES Act Funds* (OIG-MAR-2020-013), August 5, 2020.

Cost sharing has continued to generate significant congressional interest and legislation, such as provisions in the Infrastructure Investment and Jobs Act, which requires the company, its state partners, and the Federal Railroad Administration (FRA) to revise and update its cost-sharing methodology by March 31, 2022.[6] In the coming years, the company plans to expand passenger rail service to as many as 160 new communities in 16 new states. Given the important role the state-supported routes play in the company's national network, our objectives were to identify and assess the challenges associated with cost sharing on state-supported routes and the extent to which the company is working independently, and with its state partners, to address them.

To identify and assess these challenges, we conducted an extensive review of the issues related to cost sharing on state-supported routes. To obtain state partners' perspectives on the cost-sharing methodology and the company's process for calculating state partner costs and developing their bills, we conducted structured interviews with all 20 state partners. We also interviewed officials from the company and other relevant organizations, such as staff from the State-Amtrak Intercity Passenger Rail Committee (SAIPRC)—an organization that facilitates collaboration among the company, state partners, and FRA. We reviewed company documents, such as contracts with its state partners, that govern the operations and payments for state-supported services. In addition, we evaluated controls over the company's process for calculating costs and developing bills. Furthermore, we interviewed company officials involved in various aspects of that process and compared the results of our review with widely accepted management standards used by private- and public-sector organizations.[7] For more information on our scope and methodology, see Appendix A.

[6] Infrastructure Investment and Jobs Act, Pub. L. No. 117-58. § 22211, 135 Stat. 429, 708-712 (2021). The law calls for the parties to revise the methodology and adopt stricter reporting and accountability procedures.

[7] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

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SUMMARY OF RESULTS

Over the past several years, the company has worked to address some of the challenges associated with cost sharing on its state-supported routes to ease its state partners' longstanding concerns. This has included providing greater access to detailed company cost data to improve transparency and better communicating with state partners about changes that impact their bills. In addition, SAIPRC has provided a forum for the company, state partners, and FRA to work cooperatively to address concerns. During our audit, they also began discussions to revise the cost-sharing methodology. However, the following three challenges persist:

- **Conflicting perspectives about control over decision-making and level of support**. State partners pay a significant portion of the cost of the company's state-supported routes. In return, some expect to have more control over decisions that impact their individual routes and costs than company officials believe they should provide, given that the company must run an efficient nationwide railroad. In addition, some state partners want more support from the company, such as answers to tactical questions about costs, than company officials believe is reasonable given competing resource demands. These are foundational disagreements about the nature of the company's relationship with its state partners that impact progress on other issues.
- **Unaddressed issues with the cost-sharing methodology.** Since implementing the agreed-on methodology, the company has improved its ability to directly assign operating costs to state partners' trains. Nonetheless, 18 state partners believe there is no strong correlation between some of the costs they pay and the level of service they receive; this occurs because of unanticipated challenges in how the methodology allocates shared costs. In addition, the company, the state partners, and FRA have not resolved whether and how to share capital expenses for infrastructure—such as the cost of maintaining stations, facilities, and other fixed assets. During our audit, they began addressing the issue with assigning operating costs, but do not have plans for resolving how to cover capital costs.
- **Assuring state partners that the company's bills are accurate.** The company has designed quality controls into its process for calculating state partners' costs and developing bills and provided them with detailed information on their costs, such as itemized monthly reports and access to all available underlying cost data. Nevertheless, almost half of its state partners question whether the company has

effective quality controls in its cost-calculation and bill-development process. Further, some partners told us they do not understand the company's process. Therefore, they have lingering doubts that their bills are accurate.

State partners' perceptions about these issues affect their trust in the company. One-third told us they have high trust in the company around cost-sharing issues, one-third had moderate trust, and one-third had low trust. Moreover, trust has become a self-perpetuating problem, with low-trust partners interpreting the company's actions through that lens and leading them to take actions to protect their interests. The resulting tensions have consumed significant time and effort and ultimately may hinder progress on issues beyond cost sharing, like improving and expanding service.

We recognize that each state partner has unique needs for rail service, making it difficult to agree on all issues. Nevertheless, the ongoing congressionally mandated discussions about the cost-sharing methodology offer a meaningful opportunity to begin resolving the challenges we identified. To capitalize on this opportunity, we recommend that the Executive Vice President/Chief Marketing and Revenue Officer coordinate with state partners and FRA, likely through SAIPRC, to clarify which decisions affecting state partner costs the company must control and the level of support the company can provide. We also recommend that the company clarify and document decisions about the relationship between costs and service and how to handle capital costs. In addition, we recommend taking steps to better assure state partners that their bills are accurate, such as documenting the cost-calculation and bill-development process and sharing this information with them.

In commenting on a draft of our report, the Executive Vice President/Chief Marketing and Revenue Officer agreed with our recommendations and identified actions the company plans to take by October 31, 2023, to implement them. These include working with SAIPRC, state partners, and FRA to clarify and document the policies and services that the company believes it must control, the basis for its cost-calculations, and other documentation specifying the company's systems for implementing the methodology. The company also identified actions to provide state partners with assurance that their bills are accurate, including working with SAIPRC to track billing errors and ensuring that an independent third party validates the company's systems. For management's complete response, see Appendix D.

BACKGROUND

Key stakeholders. The company partners with 20 transit organizations across 17 states[8] to operate 28 routes throughout its national network. The state partners pay to operate these routes under contract agreements with the company. These routes are each shorter than 750 miles and comprise major parts of the national network, as shown in Figure 1.

Figure 1. Amtrak's State Partners and Routes

Source: OIG analysis of company documentation of state-supported routes
Note: According to the cost-sharing policy, if more than 95 percent of a route's miles are in one state, the route is considered that states route.

Other key external stakeholders include the following:

- **FRA** conducts federal oversight of the company's operations and grant agreements and collaborates on state-supported issues as a voting member of SAIPRC. In 2005, Congress tasked FRA with developing the company's cost-

[8] California manages its routes through four oversight bodies: the California Department of Transportation and three Joint Powers Authorities.

allocation system, which eventually became the Amtrak Performance Tracking System (APT).[9]

- **SAIPRC,** which Congress formalized in December 2015 to help manage cost sharing,[10] helps facilitate collaboration among the company, the state partners, and FRA on the implementation of the cost-sharing methodology.
- **John A. Volpe National Transportation Systems Center (Volpe)** is a research institution and component of the Department of Transportation. In concert with FRA, Volpe helped the company develop APT, which it uses to assign and allocate costs to all routes, including state-supported routes.

Key internal stakeholders include the following:

- **The Billing team in the Finance department** prepares, reviews, and sends the company's bills to state partners.
- **The Financial Consolidation team (APT team) in the Finance department** manages the APT system.
- **The Public Budget Formation team in the Finance department** manages the State Profit and Loss (PnL) Tool, which uses APT results to compute the state-supported costs billable under the methodology.
- **The State-Supported Services team in the Commercial department** oversees the state-supported routes and manages the company's relationships with its state partners.

Cost-sharing methodology implementation. Prior to implementing the methodology developed under PRIIA, the company and state partners operated under a framework established by Section 403(b) of the Passenger Rail Service Act of 1970.[11] It required state partners to pay only for the rail service they established after the law was enacted. As a result of this law and subsequent amendments, some state partners were not paying all—or, in some cases, any—of the costs associated with their routes. Section 209 of PRIIA attempted to address these inequities by shifting how state partners reimburse

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[9] Consolidated Appropriations Act 2005, Pub. L. No. 108-447, 118 Stat. 2809, 3221.
[10] The company, the state partners, and FRA informally created SAIPRC on July 9, 2015, to oversee the implementation of the cost-sharing methodology. Congress formalized SAIPRC on December 4, 2015, in the Fixing America's Surface Transportation Act, Pub. L. No. 114-94 (2015).
[11] Rail Passenger Service Act of 1970, Pub. L. No. 91-518, § 403(b), 84 Stat. 1327, 1336.

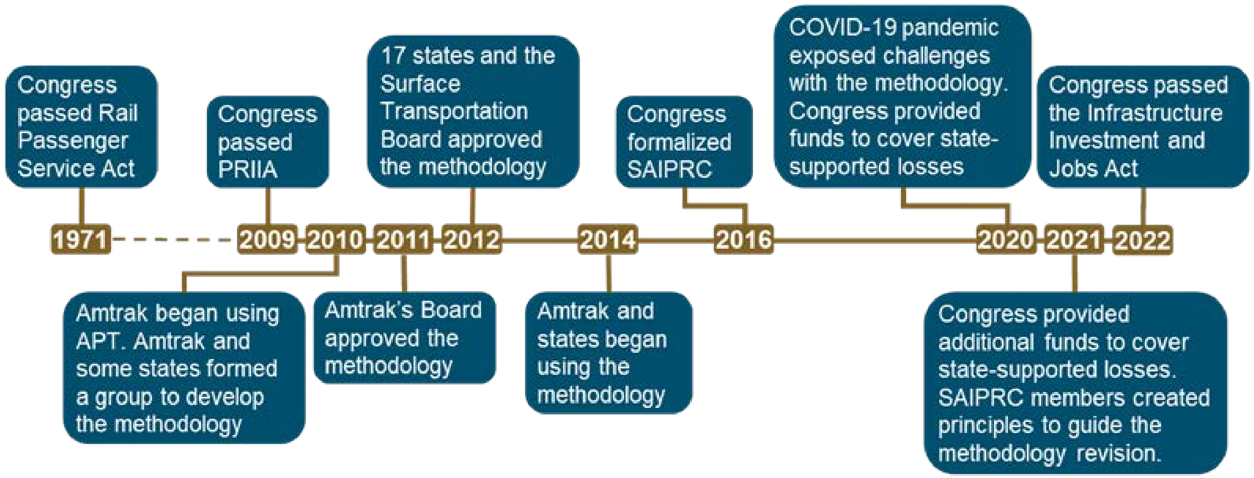
the company for costs associated with their routes.[12] It required the company, states, and the Department of Transportation to develop and implement a single, nationwide methodology for establishing and sharing the operating and capital costs associated with state-supported routes. The law specifically required this methodology to do the following:

- Treat all states equally when allocating costs for like services.
- Allocate the costs directly associated with a route and a portion of costs for shared services—such as a station used by multiple states—using factors that reasonably reflect a state's use of that shared service.

The company, the state partners, and FRA started to develop the cost-sharing methodology in FY 2010 and implemented it in FY 2014 after the Surface Transportation Board approved it. More recently, Congress passed the Infrastructure Investment and Jobs Act, which requires that the company, state partners, and FRA revise the methodology by March 31, 2022,[13] and adopt stricter reporting and accountability procedures. For the history of the development and implementation of the cost-sharing methodology for the company's state-supported services, see Figure 2.

[12] Pub. L. No. 110-432, § 209 (2008).
[13] Pub. L. No. 117-58, § 22211 (2021).

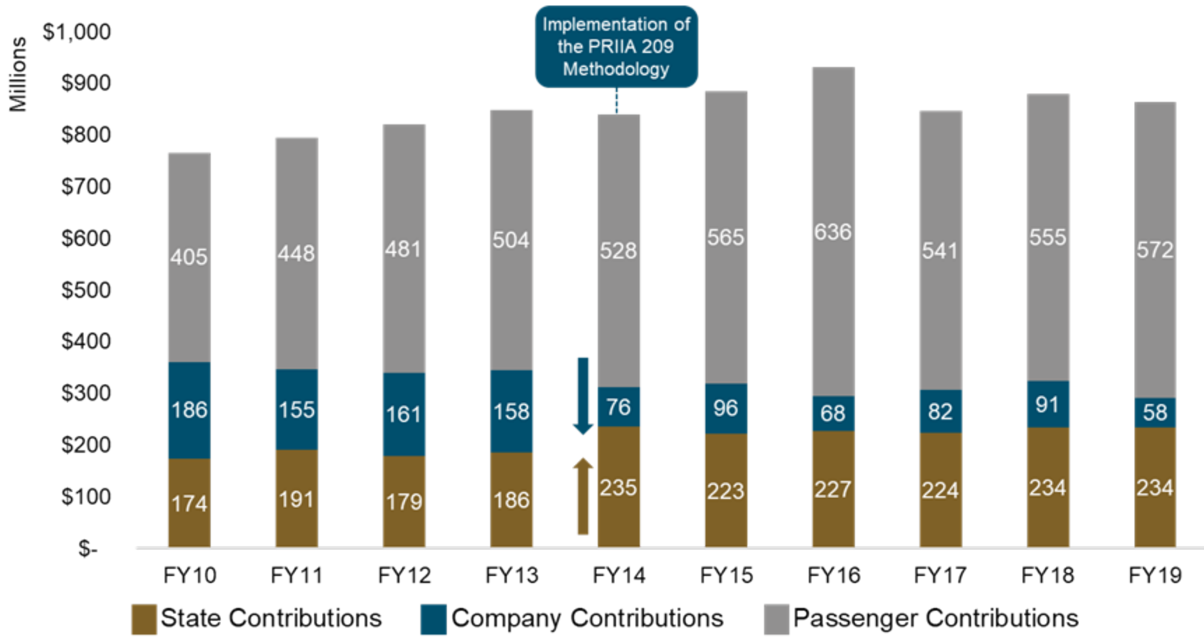
Figure 2. History of Cost Sharing on State-Supported Services (By Fiscal Year)



Source: Analysis of Amtrak and SAIPRC documents, prior OIG reports, and relevant legislation
Note: In FY 2012, one state (Indiana) did not approve the methodology, but that state discontinued its route in FY 2019; therefore, it was outside the scope of this audit.

Immediately after implementing the original methodology in FY 2014, the state partners' total share of the costs increased by 26 percent from the prior year—primarily because some states began paying for trains they had not previously funded—and the company's share decreased by 52 percent. The company collected an average of $230 million annually from the state partners from FY 2014 through FY 2019. For contributions on state-supported routes by funding source from FY 2010 through FY 2019, see Figure 3.

Figure 3. Contributions Covering State-Supported Costs by Funding Source



Source: Analysis of Amtrak's Route Performance Reports from FY 2010 through FY 2019

The company uses all passenger contributions on state-supported routes, including ticket revenue and food and beverage sales, to offset the state partners' share of the costs.

Cost-sharing methodology. The cost-sharing methodology that the company and state partners developed requires the company to share the following three types of operating costs with the state partners:

- **Route Costs** accounted for approximately 68 percent of state partners' FY 2019 payments. These costs are closely associated with the operation of a route, such as costs for train crew labor, stations, food service, and train maintenance.
- **Third-Party Costs** accounted for approximately 16 percent of state partners' FY 2019 payments. These costs include payments to other railroads for the maintenance they perform on tracks that Amtrak uses or for meeting on-time performance targets.[14]

[14] The company makes incentive payments to host railroads for meeting on-time performance targets and passes to state partners the share of those payments that are associated with their route.

- **Support Fees** accounted for approximately 16 percent of the state partners' FY 2019 payments. These fees help cover the regional and national support the company provides to the states—for example, costs for network-wide police work, which are assessed on a rate per passenger mile.

State partners' route costs include both direct and shared costs:

- **Direct costs.** The company can assign these costs directly to a particular train, such as costs for a conductor. According to company-reported data, in FY 2019, it directly assigned about 56 percent of its operating expenses companywide.[15]
- **Shared costs.** The company cannot assign these costs directly to a particular train and instead allocates them across multiple trains. For example, the company allocates costs for management personnel across multiple trains based on each train crew's labor hours. According to company-reported data, in FY 2019, it allocated about 44 percent of its operating expenses companywide.

The methodology also requires the company to share with state partners three types of capital costs. These include costs for company-owned equipment and company and non-company-owned fixed assets that the state partners use.

Differences among states. The company's state partners vary across at least six areas. Differences in these areas result in each state partner having its own unique blend of needs and wants, which can impact how each interacts with the company and views cost sharing.

Visions for rail program. Each state partner has a different vision for its rail program. For example, some state partners have more highly detailed plans to grow and improve rail service in their states than others.

[15] This percentage represents expenses for all the company's business lines. In 2016, we reported that the company directly assigned 55 percent of its costs to business lines in FY 2015, which was a marked improvement over the about 20 percent it directly assigned in 2013. See *Close-out Memorandum: Accounting for Business Lines of Operation* (Project Code 011-2015), July 28, 2016; and Department of Transportation OIG, *Amtrak's New Cost Accounting System is a Significant Improvement But Concerns Over Precision and Long Term Viability Remain* (CR-2013-056), March 27, 2013.

Amounts of dedicated resources. Each state partner has different staffing levels and dedicates different amounts of time and money to its rail program. For example, state partners with larger staffs typically devote more time and effort to the routes they support.

Geographic location. The 20 state partners are in four regions of the country—the Northeast, South, Midwest, and West—which can impact the level and types of concerns they hold. For example, some northeastern states must manage costs for state-supported routes that they also share with the Northeast Corridor.

Past experiences with the company. Each state partner has had a different experience interacting and working with the company over time.

Contracted costing method. Each state partner can negotiate a unique contract consistent with the methodology, which dictates its rail operations, including how the company bills the state for costs associated with its routes. State partners can annually negotiate a contract to pay a fixed price each month based on forecasted costs, a variable amount based on current costs, or both.

Service levels. Each state partner has different ridership and service levels. For example, some state partners operate one or two round trips daily, and others operate multiple round trips and have multiple routes. Ridership levels range from about 30,000 to more than 2 million annually.

CONFLICTING PERSPECTIVES ABOUT WHO SHOULD CONTROL COST DECISIONS AND THE LEVEL OF COMPANY SUPPORT

The company and some state partners have foundational disagreements about the structure and nature of their business relationships. The company has made noteworthy efforts to address state partners' concerns, but conflicts persist because it has not clarified the level of state control over decisions affecting their costs and the support it can provide them.

Conflicting perspectives about making and communicating decisions. The states pay a significant portion of the cost of operating the company's state-supported routes. In return, some expect more control over decisions that impact their individual routes and costs than the company believes it should provide, given operational, legal, and practical limitations. State partners can control some decisions that impact their routes and ultimately their costs, such as setting train schedules, deciding whether to serve food on the trains, and determining what other onboard amenities to offer. Eighteen of the 20 state partners told us they want more control over decisions, however, such as those involving fare policies, marketing promotions, payment methods, and station staffing, as well as the types of rail equipment and technologies their routes use. These preferences are not uniform: some state partners want control in one or two areas, and others want full decision-making authority so they can tailor their service to their needs. But overall, most state partners want more control.

18 of 20 state partners want more control over decisions

In addition, at least six state partners volunteered that, when the company makes decisions that affect them, they want it to communicate those decisions before implementing them, not after, as they believe happens. For example, two state partners told us the company eliminated its youth and elderly discounts without consulting them, which negatively impacted their costs and revenue.

The Executive Vice President/Chief Marketing and Revenue Officer and the Vice President/State Supported Services told us state partners could have greater control over certain decisions, such as station staffing levels. These and other company officials also stated, however, that the following limitations prevent them from giving states authority over other decisions:

- **Operational limitations**. Company officials stated that they must be able to set national standards in some areas, ranging from train and passenger safety and the travel of unaccompanied children down to policies about luggage size. Without such uniform standards, the company could not operate a safe and efficient national network. For example, a company official explained that if state partners create their own ticket reservation systems, as opposed to the current, national-level reservation system, passengers could face difficulties trying to book tickets on trains that cross state lines or connect with Amtrak's bus services.

- **Legal limitations**. In other cases, statutory requirements or regulations have limited the company's ability to give decision-making authority to the states. For example, legislation passed in FY 2020[16] prevented the company from reducing the size of its police force, and congressional relief funds provided to mitigate the impacts of the pandemic temporarily prevented the company from furloughing any workers, such as workers in stations that the state partners use.
- **Practical limitations**. In other areas, consulting with all 20 state partners on more tactical operating decisions may not always be realistic because of the time and resources it can take the state partners to agree on some issues. For example, agreeing to add bike racks to some trains took more than a year, according to a state partner and one of the company's senior directors for state-supported services. This occurred because, as one state partner explained, states share the train equipment; therefore, even those that did not want the bike racks had to agree to pay a portion of the cost.

These conflicting perspectives about the level of control that states can have over decisions that impact their routes and costs have created friction between the company and its state partners. As a result, they regularly debate individual issues, which can consume significant time and resources. Further, when the company makes decisions without states' input, it sometimes leaves them frustrated and feeling powerless over issues that directly impact their riders and their costs.

Moreover, without clarity about decision-making, the company and individual state partners negotiate different standards for making and communicating decisions in their annual train operating contracts. For example, 16 state partners' contracts include provisions that the company notify them in writing about decisions that may impact their routes and costs. Two of these contracts provide that the company seek their approval before it makes certain decisions, such as onboard amenities, and one has no provisions for consulting or communicating company decisions.[17] These varying standards complicate the company's ability to manage relationships with all 20 state

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[16] Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, Div. H, Title I, § 151, 133 Stat. 2534, 2960.

[17] We reviewed contracts for 17 state partners. Three state partners operate from amendments to contracts they originally signed from 1996 through 2016. Reviewing those contracts and all associated amendments was outside the scope of this audit.

partners. Clarifying which parties can control decisions that impact state-supported routes would help narrow the differences between contracts and reduce this effect.

Conflicting perspectives about level of support. The company and its state partners also have conflicting perspectives about the level and type of support the company should dedicate to state partners' inquiries and requests about their routes and costs. Some state partners want more support than company officials believe is reasonable. Common types of assistance that the state partners request from the company include the following:

- **Cost inquiries**. State partners regularly raise questions and concerns about the costs the company charges them.
- **Special requests.** Some state partners have made special requests, such as for reports that track their prior year costs.
- **Education.** Some state partners request that company employees educate them on the company's process for calculating costs and the cost-sharing methodology itself.

Company staff told us they generally accommodate these requests and are willing to work with state partners to address cost inquiries and answer questions but providing the level and type of support that some state partners expect consumes significant time and resources. For example, one company employee told us he often spent 40 hours a month researching questions about costs for one state partner, including multiple hours spent researching a $36 charge. Another state partner asked the company to validate a $0.42 charge.

In addition, company officials have met with some state partners multiple times to educate them about their costs and the process it uses to calculate them. Officials also told us they receive special requests from state partners for cost details that the company has already provided or that its state partners can track themselves. Company officials stated that the time the company spends researching, preparing, and responding to some of these inquiries could be better spent on more strategic issues such as growing and improving its train service. From the perspective of some state partners, however, these types of requests are a necessary and reasonable part of the service they expect the company to provide. In their view, these requests are even more important because of the challenges that state partner and company officials told us they believe the company has had in accurately charging them in the past, as we discuss below.

Foundational disagreements about the relationship. These conflicting perspectives amount to foundational disagreements about the structure and nature of the business relationship between the company and its state partners. Some state partners would prefer that their relationship with the company more closely resemble a contractor model, in which they pay the company to provide the type of train service they want, have a high-level of control over decisions that affect their costs, and receive a high level of support from the company. Company officials, however, including its President, told us that although the company wants to be an effective partner, they believe that its relationship with state partners should more closely resemble a franchise model. Under such a model, the company would set national standards, allow state partners some control over decisions that affect their routes, and provide support at a level commensurate with the time and resources the company can afford to commit.

19 of 20 state partners believe SAIPRC facilitates collaboration to a great or very great extent

Over the past several years, the company has made efforts to address concerns about cost sharing. SAIPRC has also helped by providing a forum for the company and state partners to work together to resolve issues. For example, SAIPRC helped the company and state partners determine how the company should calculate state partners' costs for their routes during the coronavirus pandemic. Accordingly, 19 of the 20 state partners told us that SAIPRC works as Congress intended to facilitate collaboration on the cost-sharing methodology to a great or very great extent. Some said it has also improved the level of communication between the company and state partners and has given them an opportunity to be more involved in issues that affect their routes.

During the eight years that the cost-sharing methodology has been in place, however, the company and state partners have not resolved these conflicts. The company has not clarified which decisions it must control, when and how it will communicate them with the state partners, or the level of control the state partners' can have over other decisions affecting their costs. In addition, the company has not clarified with state partners the level and type of support the company will provide in response to state partners' inquiries and concerns about their costs. Clearly assigning responsibilities and defining how the company and state partners should interact and communicate to achieve shared goals would likely resolve some of these conflicts and align the company with private- and public-sector management standards.[18]

The company and state partners have not resolved these foundational disagreements because they have been more focused on addressing other issues, such as challenges with the cost-sharing methodology. In addition, these issues are complex; any adjustments to the company's relationship with its state partners would require the company, FRA, and state partners—each of whom has unique rail service needs—to jointly agree to the terms of a new relationship.

In March 2021, during our work, the company, state partners, and FRA—with the assistance of a contractor hired by SAIPRC staff—agreed to revise the methodology and review key components of the relationship, with completion scheduled for March 31, 2022, as later codified by the Infrastructure Investment and Jobs Act.[19] Although the ongoing negotiations provide an opportunity to address the conflicting foundational perspectives we identified, they appear to be focused on revising the tactical details of the existing cost-sharing methodology, which we discuss in greater detail below.

The Executive Vice President/Chief Marketing and Revenue Officer told us it would be impractical to identify every type of decision and then negotiate who gets to make each of them, particularly because each state partner has unique needs. He noted, however, that the company could start by identifying the common services needed to run the nationwide network and the corresponding decisions the company would need to control. Regardless, if the company and its state partners do not take this opportunity to at least clarify the level of control over decisions affecting state partner costs and the level of support the company can provide, these persistent and conflicting perspectives with state partners will continue to hinder success on future issues. These include achieving the company's 15-year vision of expanding service to as many as 160 new communities and 16 new states.

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[18] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

[19] Pub. L. No. 117-58, § 22211 (2021). The bill calls for the company, state partners, and FRA to revise the methodology by March 31, 2022.

UNADDRESSED CONCERNS WITH THE DESIGN OF THE COST-SHARING METHODOLOGY

The company, its state partners, and FRA have not yet addressed two key concerns with the cost-sharing methodology they jointly designed: 1) the extent to which some state partner costs do not strongly correlate with the level of train service they operate, and 2) who will pay certain capital costs associated with running state-supported routes. Although the company, state partners, and FRA have begun negotiations to revise the methodology by March 31, 2022, to address state partners' concerns about the relationship between costs and service, they do not yet have plans to resolve issues relating to capital cost allocation.

Most State Partners Are Concerned with Some of the Costs They Pay Under the Methodology, but the Parties Are Working to Rectify This

18 of 20 state partners do not believe some of their costs align with service

Since implementing the agreed-on methodology, the company has improved its ability to directly assign costs to each train. Nonetheless, 18 of the company's 20 state partners told us they do not believe there is a strong correlation between some of the costs they pay and the service they receive. In particular, 11 state partners identified concerns about how the company splits the shared costs with them, which leads state partners to believe they pay more than they should. For example, state partners share a portion of the costs for stations they use that serve multiple routes and for supervisors who manage crews that repair and clean multiple trains. To estimate each state partner's portion of shared costs, the company applies the methodology to allocate these costs to the associated state partners using specific rules and statistics,[20] such as the number of passengers and the amount of ticket revenue for each route. For a simplified example of this process, see Figure 4.

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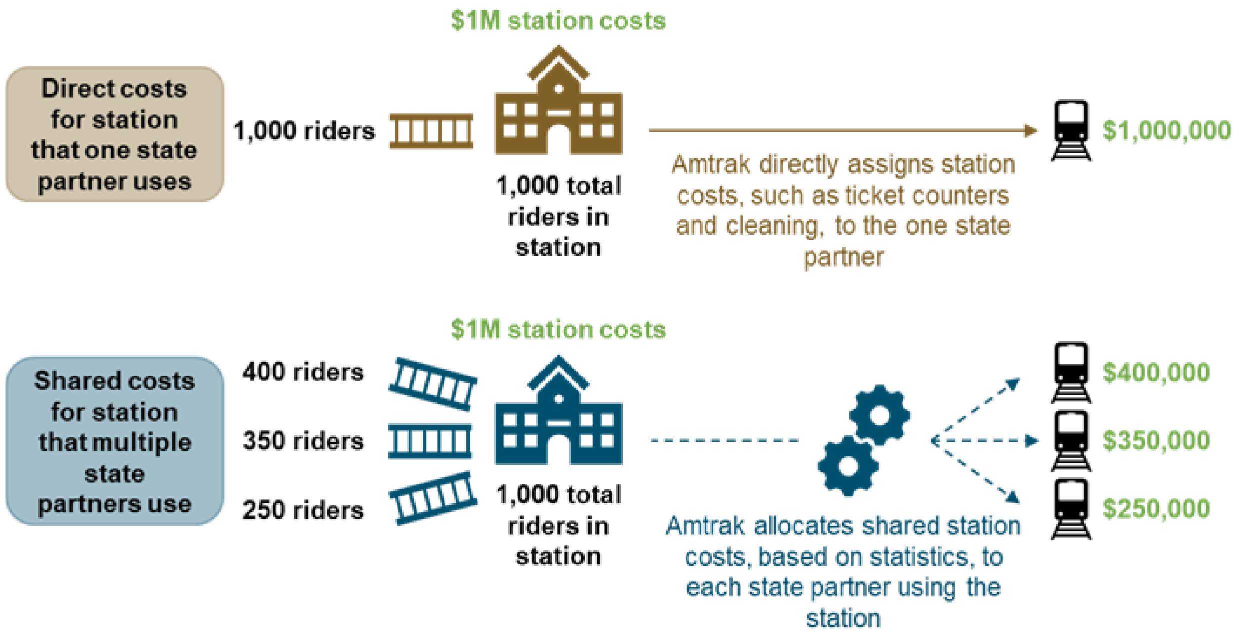
[20] These rules—known as APT rules—which the company developed jointly with Volpe, dictate how the company will allocate shared costs. APT must have a rule for every unique expense transaction so the company can allocate costs using statistics. For example, the company allocates station manager expenses to trains based on the number of passengers on each train using that station.

Figure 4. Simplified Example of Process for Calculating Direct and Shared Costs



Source: OIG analysis of documentation of Amtrak's APT System and the cost-sharing methodology

These costs present at least three inherent challenges:

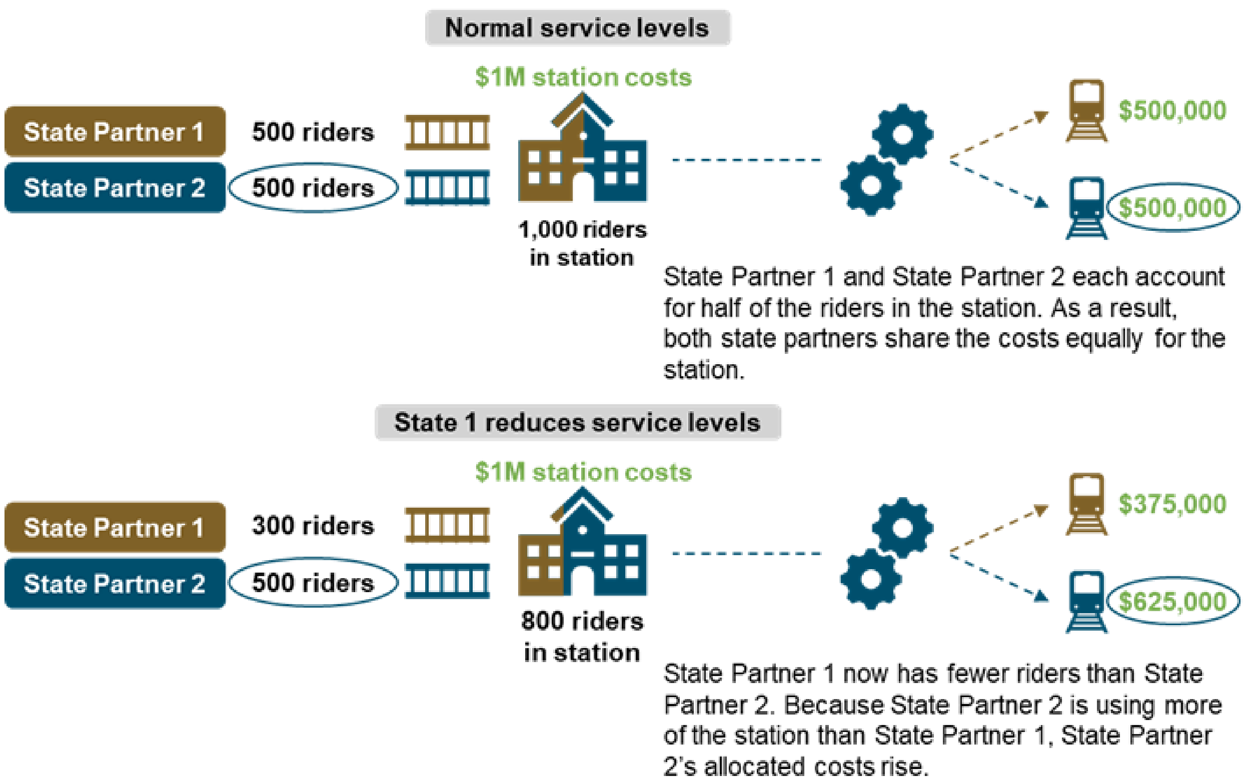
- **All state partners must continue to pay certain fixed costs, even when they reduce their service**. This issue rose to prominence during the pandemic. Although most state partners reduced the frequency of train operations in response to sharp declines in ridership, some costs did not go down as much as they anticipated because they reflected the fixed costs of operating a railroad.[21] For example, one state partner told us that if it was running five trains and decide to run only one, it expected to pay one-fifth of the costs it had been paying. A state partner that reduced the frequency of its service, however, may not see a commensurate decrease in its bills because the company's underlying costs for maintenance facilities and equipment, for example, would not necessarily change. According to a presentation by SAIPRC in June 2020,

[21] In 2020 and 2021, Congress provided funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. No. 116-136), the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (Pub. L. No. 116-260), and the American Rescue Plan of 2021 (Pub. L. No. 117-2) to help cover operating and capital costs during the coronavirus pandemic and to prevent pandemic-related furloughs.

during the first months of the pandemic, state partners reduced their train miles by an average of about 60 percent while the total costs allocated to state-supported routes decreased by only 37 percent.

- **Individual state partners allocated costs may change when service changes in other states or the company's other business lines**. At least eight state partners told us that, under the methodology, the decisions of other state partners could cause their costs to change. For example, if at least two state partners share a station, and one state partner chooses to decrease its service to that station, the other state partners' operating costs of the station would increase even if their service stays the same, as Figure 5 shows. Highlighting this point, one state partner told us, "If a state drops out [of a certain train service], we will get a bigger bill."

Figure 5. Simplified Example of Proportional Allocation of Shared Costs



Source: OIG analysis of Amtrak's APT System documentation and the cost-sharing methodology

On the other hand, if a state partner increases its own service, it will pay a larger portion of the shared expenses, such as station costs, because an increased number of riders use the station. This outcome acts as a disincentive for state partners to grow their service, according to the Vice President/State Supported Services. Additionally, changes the company makes to the frequency of long distance or Northeast Corridor routes that share services with state-supported routes could similarly impact state partners' costs.

- **Some state partners believe that their police or marketing support fees do not strongly correlate with the level of services they use.** The company calculates and charges the state partners support fees to cover expenses for functions that are generally associated with all routes, such as police across the network and national marketing programs.[22] To calculate the support fee for police, the methodology prescribes that the company multiply a state partner's total passenger miles by $0.005. To calculate the support fee for marketing, the methodology prescribes that the company multiply a state partner's total revenue by a set percentage depending on how closely that state partner is connected to major transit hubs and the Northeast Corridor, which consume more marketing services.

  Some state partners, however, do not believe that these support fees directly align with the marketing or police services they use. For example, according to five state partners, the company reduced its presence of local police or marketing staff in their states, but they did not see a commensurate reduction in these fees because the calculations to determine them are unrelated to the actual number of police or amount of marketing efforts dedicated to a state partner's route. As a result, some state partners have withheld payments, and one state partner disputed its marketing support fee and, at the time of our review, had not paid it in approximately three years, according to a company official.[23]

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[22] The company also charges the state partner's support fees for train and engine crew support, maintenance of passenger cars and locomotives, onboard services, and administrative and other shared services.

[23] Although we did not validate the company's support fee calculations, company officials told us the marketing support fee continues to cover several activities that benefit state-supported routes, including the pricing system, booking support, loyalty program management, and other marketing services.

When the company and its state partners designed the methodology, some did not anticipate these difficulties, according to state officials. Since it implemented the methodology, the company has made efforts to improve its ability to directly assign costs and rely less on allocations across all its routes. Across the company, Amtrak went from directly assigning 20 percent of costs in FY 2013 to 56 percent in FY 2019 by finding ways to more clearly identify detailed costs.[24] A company executive told us that two goals for the ongoing methodology revision are to better align state partners' costs with their level of service and to not penalize state partners for growing their service.

Nevertheless, most state partners remain dissatisfied with this aspect of the cost-sharing methodology, telling us that it negatively impacts their ability to manage their costs. For example, some state partners told us the unpredictability of their costs prevents them from readily demonstrating to their state legislatures how their costs relate to the rail service they receive. Some also told us the company cannot accurately project what it will cost to adjust their service, leaving at least two partners uncomfortable expanding it. This inability to forecast also presents some states with yearly budgeting challenges because generally they are legally required to balance their budgets and must be able to forecast costs.

The state partners' concerns with some of the costs they pay persist, in part, because the company, the state partners, and FRA have not fully clarified and documented the extent to which the company will continue to use allocations to determine state partners' shares of costs. In response to state partners' concerns, the company recently initiated an internal review of state-supported costs to better understand how directly each expense is related to a given train and to inform the renegotiations of the cost-sharing methodology. This aligns with management standards used by private and public organizations, which suggest that organizations periodically reassess processes to ensure that they are still relevant and effective.[25] In addition, in August 2021, the company hired a new Senior Director in the State-Supported Services group to assist the company in those renegotiations, according to the Vice President/State-Supported

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[24] Department of Transportation Office of Inspector General, *Amtrak's New Cost Accounting System is a Significant Improvement But Concerns Over Precision and Long Term Viability Remain* (CR-2013-056), March 27, 2013; and *Close-out Memorandum: Accounting for Business Lines of Operation* (Project Code 011-2015), July 28, 2016.

[25] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

Services, signaling the company's focus on these issues. SAIPRC also recently hired a contractor to help revise the methodology to ensure a more direct connection between state partners' costs and service levels; it also initiated a review of the support fees with assistance from Volpe. These efforts will likely benefit the company and state partners as they attempt to revise and update the cost-sharing methodology by the deadline of March 31, 2022, as required by the recently passed Infrastructure Investment and Jobs Act.

These renegotiations will be challenging, however, given that the issues are complex and require the company, the state partners, and FRA to reach agreement,[26] despite each state having its own unique financial and operational needs. If the company can help reach a consensus on the extent to which it will rely on allocations when calculating state partner costs, this could directly impact state partners' satisfaction with cost sharing and help reduce tensions overall, especially those related to budgeting for rail service.[27]

The Company, State Partners, and FRA Have Not Resolved How to Cover Most Capital Costs Associated with State-Supported Routes

In accordance with the cost-sharing methodology,[28] the company and its state partners share certain capital costs related to equipment, such as the cost to maintain and overhaul all train cars, engines, and other rolling stock used on state-supported routes. The company allocates a proportional share of these costs to state partners. The company and state partners do not, however, share most of the capital costs related to infrastructure that supports state partner routes, such as the cost of maintaining

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[26] The voting structure established in the Fixing America's Surface Transportation Act requires the unanimous consent of its three voting members, including the company, FRA, and at least two-thirds of the state partners.

[27] The Infrastructure Investment and Jobs Act requires the company, state partners, and FRA to revise and update the cost-sharing methodology by March 31, 2022, and to implement the methodology during FY 2023. Pub. L. No. 117-58, § 22211 (2021).

[28] Section 209 of PRIIA required the company, state partners, and FRA to develop and implement a standardized methodology for establishing and allocating capital costs among the state partners and Amtrak. Pub. L. No. 110-432, § 209 (2008).

stations, maintenance facilities, and other fixed assets, like company-owned track and signal and dispatch systems. Instead, the company has historically covered these costs.[29]

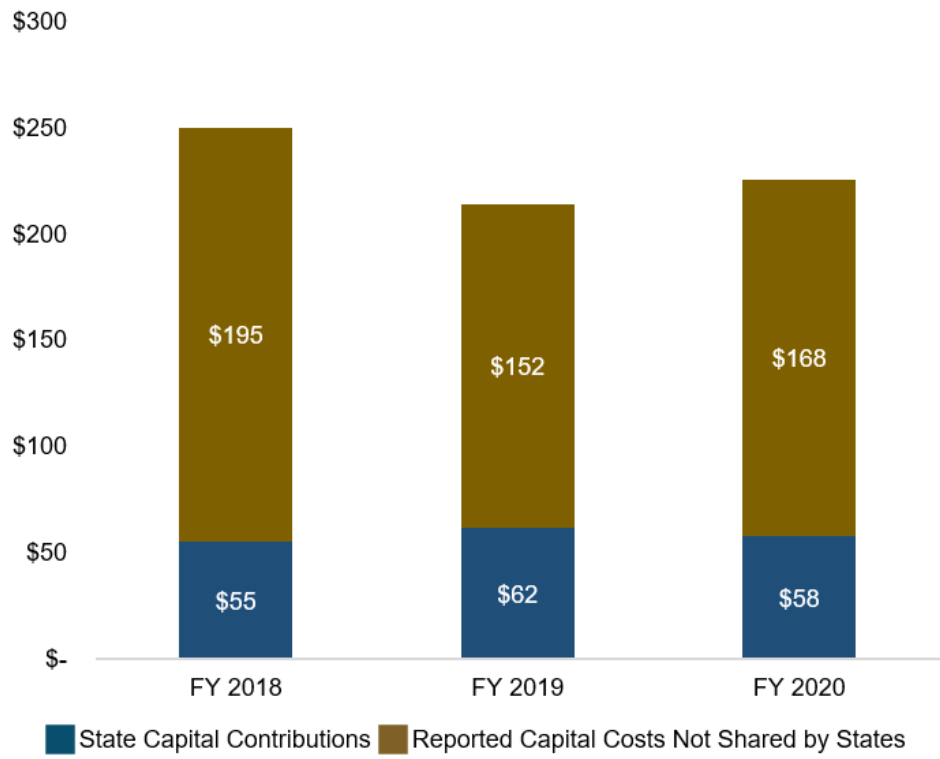
The company and state partners are not sharing these costs because when they originally developed the methodology, they were unable to reach a consensus on how they would do so, according to company and SAIPRC officials. Instead, the company and state partners agreed to share these costs on a case-by-case basis. In practice, however, they are not doing so. FY 2020 contracts between the company and 15 of 17 state partners[30] stated that the company would not assess fixed asset capital charges to the state partner because there is no methodology for calculating them.

As a result, company-reported data shows that, from FY 2018 through FY 2020, state partners contributed about $175 million in capital payments, as Figure 6 shows. The company covered the remaining $515 million in reported capital costs with other sources, such as federal grant funds.

[29] The Infrastructure Investment and Jobs Act includes $16 billion in federal funds for Amtrak over the next five years for certain capital projects on state-supported and long-distance routes, such as new single-level passenger cars and facilities for maintaining and storing those cars. According to a company executive, however, these funds will not materially cover maintaining stations, maintenance facilities, and other fixed assets; therefore, the company will need to continue to share these costs with its state partners.

[30] We reviewed contracts for 17 state partners. Three state partners currently operate under amendments to contracts originally signed from 1996 through 2016. Reviewing those contracts and the associated amendments was outside the scope of this audit.

Figure 6. Amtrak-Reported Capital Costs for State-Supported Routes Shared and Not Shared by State Partners, FY 2018–2020 ($ in millions)



Source: OIG analysis of company reports prepared in accordance with the Fixing America's Surface Transportation Act
Note: Capital costs not shared by the state partners exclude $74 million in "national assets and corporate services" over the three years, which, according to company officials, are administrative costs that benefit all routes and not state supported directly.

Company-reported data show that it incurred capital expenditures for the benefit of state-supported routes in five major categories from FY 2018 through FY 2020, as Table 1 shows.

Table 1. Amtrak-Reported Capital Expenditures for State-Supported Routes, FY 2018–2020 ($ in millions)

Capital Expenditure Category	FY 2018	FY 2019	FY 2020	Total
Service Line Management	$0.1	$0.5	$0.7	$1.2
Transportation [a]	$21.2	$16.8	$11.7	$49.7
Equipment [b]	$91.7	$79.0	$85.1	$255.8
Infrastructure [c]	$97.2	$85.2	$85.2	$267.6
Stations [d]	$40.3	$32.7	$43.4	$116.4
Total Capital Expenditures:	**$250.5**	**$214.2**	**$226.0**	**$690.7**

Source: OIG analysis of company-reported data
Notes:
[a] Includes transportation facilities, technology, and systems
[b] Includes new equipment and overhauls, preventative maintenance, and facilities for existing equipment
[c] Includes infrastructure replacement, safety, and improvements
[d] Includes station replacement, accessibility, safety, and improvements

The above figures, however, do not include contributions to fixed asset capital that state partners independently made. For example, two state partners told us they have spent millions of dollars upgrading assets that the company also uses, such as stations and safety equipment. In addition, company officials told us that state partners in the Midwest and South have spent hundreds of millions of dollars on assets that host railroads or other organizations own that also benefit the company although they do not reduce its required investments.

Decisions about who will pay for infrastructure capital costs would be subject to negotiations among the company, state partners, and FRA if the decisions require changes to the methodology. They do not, however, have plans to address capital cost sharing in the near term. For example, planning documents for the ongoing negotiations focus on issues that most concern the states, such as revising the operating cost portion of the methodology, and company executives said that the company is not planning to address this issue at the moment. Clarifying and documenting decisions about whether to revise the methodology to have state partners cover additional capital costs, continue to have the company cover them, or find some other solution would provide stakeholders, including Congress, with the transparency they need to plan the funding for state-supported capital costs.

THE COMPANY HAS ADDITIONAL OPPORTUNITIES TO ASSURE STATE PARTNERS THAT BILLS ARE ACCURATE

The company has designed quality controls into its process for calculating the amount it bills each state partner and provides them with detailed information on costs, such as itemized reports and access to all underlying cost data. Nevertheless, some state partners told us they do not fully understand the company's cost-calculation and bill-development process and have lingering doubts about the accuracy of their bills. The company's early history of making more frequent billing errors amplifies this skepticism. Together, this has impacted the level of support that state partners' request from the company about their costs, as we noted earlier in this report. Thus, the company has additional opportunities to assure state partners that the complex process and supporting systems it uses to calculate state partner costs and develop their bills do so accurately and in accordance with the cost-sharing methodology.

Controls Over the Process for Calculating and Billing Costs Help Reduce the Risk of Errors

The company has generally automated its process for calculating the costs it bills to state partners, which helps provide consistency in its calculations and reduce the risk of human errors. In particular, the two key systems used to calculate state partner costs are automated—the APT system which assigns and allocates costs to state-supported routes and the PnL Tool which then extracts the APT data to compute the state-supported costs.[31] The company has also implemented several quality checks to detect errors and anomalies that could cause bills to be inaccurate. For example, APT automatically generates exception reports that flag potentially misallocated or erroneous costs. The company also compares its automated cost calculations to more detailed, itemized reports to validate costs.[32] In addition, a separate group in the Finance department, known as the Host Railroad Accounting group, conducts monthly audits of three sample state partner bills to verify the accuracy of key information. Moreover, the APT team has been using a monthly checklist for about a decade to identify errors in the cost

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[31] Assessing the accuracy of the two systems that make up the heart of the cost-calculation process—APT, the PnL Tool—and the underlying rules, logic, and coding that make up those systems was outside the scope of our review.

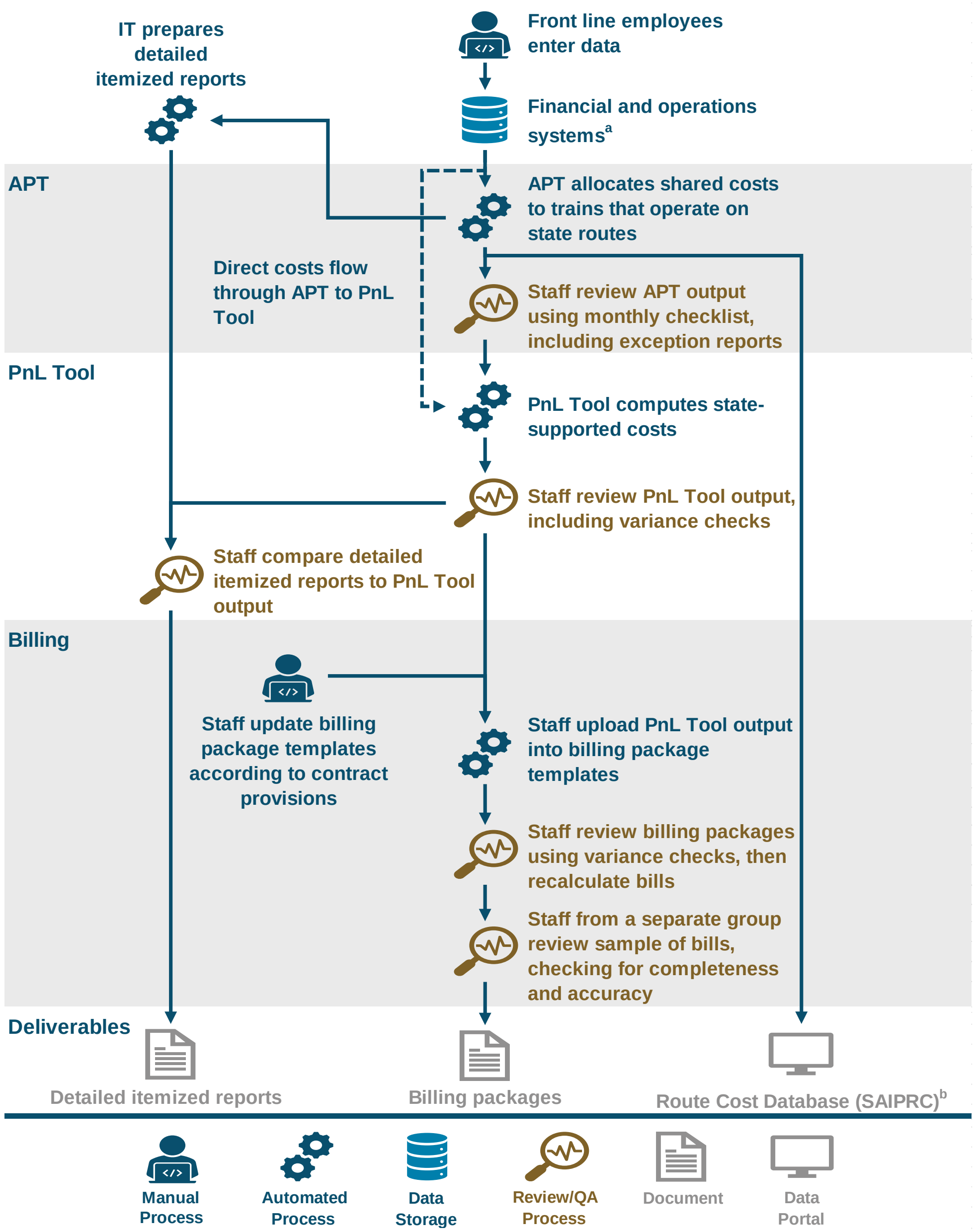
[32] The company's Information Technology department developed these monthly reports using APT data to independently validate the PnL Tool's output and provide state partners with more details about their costs, as shown in Figure 7.

allocations and continuously updates this checklist as it identifies new issues, which strengthens this quality check over time. According to company officials, such internal controls have helped identify potential errors before they end up on state partners' bills.

Further, the company has a series of ongoing and planned initiatives to simplify and streamline its process for calculating costs. For example, the APT team now performs an annual cleanup to remove obsolete rules from the system.[33] Figure 7 shows the major steps involved in the company's process for calculating costs and developing bills. For a more detailed description of this process, see Appendix C.

[33] These are also known as APT rules, which dictate how the company will allocate shared costs. APT must have a rule for every unique expense transaction so the company can allocate costs using statistics.

Figure 7. Amtrak's Process for Calculating and Billing Operating Costs on State-Supported Routes



Source: OIG analysis of company documents and interviews with company officials

[a] Financial and operations systems include Systems Applications and Products (SAP), which is the company's enterprise resource planning system; the Labor Management System; the Ridership and Revenue Warehouse; the Train Unit Statistic System, and the Operations Management System.

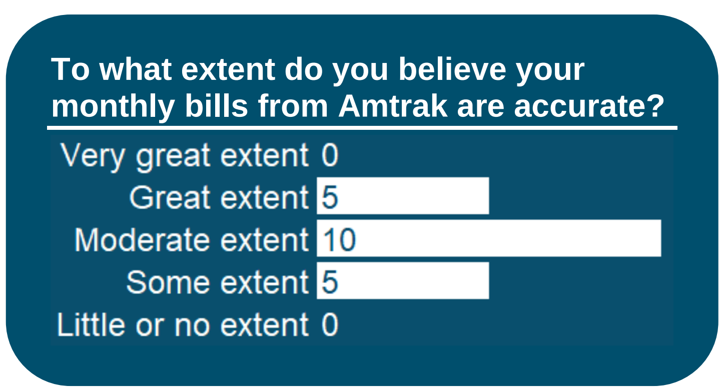
[b] SAIPRC partnered with Volpe to create a Route Cost Database that each state partner can access, using data that the company made available and Volpe extracted, to explore cost allocations in more detail. State partners can access readily available reports that SAIPRC staff have developed, as well as the details that support those reports.

The automation and quality control checks in the company's cost-calculation and bill-development process help reduce the risk of errors, but the company has opportunities to better inform its state partners and improve the company's internal control processes, as we describe below.

Opportunities to Improve State Partners' Confidence in the Effectiveness of the Company's Cost-Calculation and Bill-Development Process

Over the past three years, the company has improved the transparency of its cost data. For example, in addition to their bills, the company has begun providing each state partner with two detailed, itemized monthly reports about their costs. These reports include greater specificity about individual cost categories and variances from the same month in the prior year. The company also worked with SAIPRC to establish a data portal to give state partners access to all of the underlying cost data it uses to develop their bills. Company and SAIPRC officials stated that these are the most detailed cost data the company has available. According to company officials, the company also provides state partners with the same ridership and revenue data the company uses for its internal analysis.[34] In addition, the company now better communicates with its state partners when it changes its process for calculating and billing costs.

Some state partners, however, do not fully understand the company's cost-calculation and bill-development process and seek further assurances that their bills are accurate. Six of the 20 state partners told us, without our asking, that the company's cost-calculation and bill-development process is complex or that they did not understand it. In addition, despite the quality controls it has implemented, at least eight of the company's state partners questioned whether the company has controls to ensure bills are accurate. When we asked to what extent state partners believed that the company's bills were accurate,



[34] Company officials stated that in addition to providing state partners with underlying cost data, they have provided information about on-time performance and the results of passenger surveys on customer service.

only 5 out of 20 responded "to a great extent."

The company's early history of making more frequent billing errors contributed to this skepticism, according to company and state partner officials. For example, one state partner official told us that they look more deeply at invoices and ask more questions because of errors they have found. Moreover, state partners' concerns about the company's cost-calculation and bill-development process also likely contribute to their perspectives on the level of support they receive from the company, with billing inquiries being among the most common types of assistance that state partners request, as discussed earlier in this report. Thus, although the company is responding to state partner concerns, it has the following opportunities to better assure them that its cost-calculation and bill-development process is sound and that it has accurately implemented the agreed-on methodology.

Documenting and informing stakeholders about the process and changes to the supporting systems. The company, with SAIPRC's assistance, has made efforts to communicate more proactively with state partners about how it calculates the costs in their bills. Company officials provided several examples of instances when they explained individual aspects of the process to some state partners in response to inquiries. The company has not, however, documented its entire process for implementing the cost-sharing methodology and calculating the state partners' share of costs. Also, it has not communicated that process to all state partners to inform them about how the process works and to provide a consistent reference to educate new individuals that become involved in state-supported issues over time.

More specifically, the company has documented how the PnL Tool uses APT data to compute the amounts billable to state partners under the methodology. It has not, however, documented all of the steps in the cost-calculation and bill-development process, such as the data collection and processing steps, the stakeholders involved in each step, their roles and responsibilities for calculating state partners' costs, and the quality assurance steps the company uses to ensure that the costs and bills are accurate. Documenting processes to assure stakeholders that all the necessary steps are in place and working effectively would bring the company into alignment with private- and public-sector management standards.[35] Documented processes also provide current

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[35] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

and new staff with a common understanding of how each step in the process is executed, which enhances consistency and reduces ambiguity about how the process works. The Northeast Corridor Infrastructure and Operations Advisory Commission (Northeast Corridor Commission)[36] provides one example of how this is done in practice. It has documented and informed all relevant stakeholders about its cost-development processes, including the roles and responsibilities of all involved parties, the process components, and the quality assurance steps involved.[37]

While the company has made changes to the systems it uses to generate state partners' bills, it has not consistently informed stakeholders in the company or its state partners about these changes, as shown in the following examples:

- **Informing internal stakeholders about system changes**. In March 2019, the APT team did not communicate a material system change to other users of the data within the company.[38] This led to the company accidentally overcharging 19 state partners $15 million for equipment maintenance costs. The company has corrected the error and applied credits to all state partners affected.
- **Informing external stakeholders about system changes**. The company logs some of the changes it makes to APT and the PnL Tool. It has not, however, consistently informed state partners about these changes. For example, 13 state partners said that, over the last 3 years, the company has improved its communication of changes to its systems used to generate bills,[39] but most also said it was not informing them before making these changes or was doing so only after state partners brought an issue to its attention. This leads to discontent

[36] In 2008, as part of PRIIA, Congress charged the Northeast Corridor Commission with developing a formula for sharing Northeast Corridor capital and operating costs and with promoting cooperation and planning on the corridor. Pub. L. No. 110-432, § 212 (2008). Although the Northeast Corridor Commission and the state-supported system are different in certain ways—such as the makeup of stakeholders and focus on operating or capital costs—there are some similarities. Because of these similarities, and based on our interviews with officials from Amtrak, SAIPRC, and the Northeast Corridor Commission, we determined that the Northeast Corridor Commission would be a relevant comparator in these select instances.

[37] A full review of the Northeast Corridor Commission's processes was outside the scope of this audit.

[38] The APT team reclassified certain mechanical cost centers, which had unintended consequences for the calculation of shared costs.

[39] Six state partners who answered this question said there was no change in communication since 2018. None said it had gotten worse. One state partner did not respond.

among some state partners who feel blindsided by changes that potentially impact their costs.

These practices are contrary to private- and public-sector management standards, which call for identifying and communicating—internally and externally—changes to programs, activities, or technology to ensure that an organization can achieve its objectives.[40] In addition, contracts for 16 state partners require the company to notify state partners of changes to APT that could impact their costs.

During our audit work, company officials documented steps they would take to review, approve, and notify stakeholders of APT rule changes. These steps would require company officials to review routine maintenance changes quarterly and notify company staff involved in the cost-calculation and bill-development process as well as state partners—through SAIPRC—of any adjustments that could impact state partner costs. This is a positive step toward greater transparency. The company has not, however, memorialized these steps in policy to confirm that it will sustain these practices. Establishing steps in policy to consistently communicate to internal stakeholders and state partners any system changes that materially impact state partners' costs, either before making the change or as soon as practical thereafter, could help reduce tensions with state partners.

APT allocates 7 million records monthly, using approximately 60,000 rules

Seeking independent validation. The company's cost-calculation systems—APT and the PnL Tool, which are at the heart of its process for calculating state partner costs—are complex.[41] APT processes more than 7 million data records per month and uses about 60,000 rules and 47 statistics to allocate costs to the company's various routes, including its state-supported routes. The company's PnL Tool adds another layer of complexity by using APT data to separately compute the amounts billable to each state partner under the cost-sharing methodology. This complexity leaves some state partners questioning whether

[40] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.
[41] Assessing the accuracy of the APT allocations and PnL Tool calculations—particularly the underlying rules, logic, and coding that make up those systems—was outside the scope of our review.

the company is accurately executing the methodology. In addition, the company controls the allocation systems and data; therefore, some state partners told us they see the company as a vested party in the cost-calculation and bill-development process that may not consistently look out for their interests.

Despite the complexity of the systems embedded in the process, there has not been an independent third-party review—particularly of the APT system and the PnL Tool—to validate that they accurately implement the cost-sharing methodology, since these systems were developed. Volpe, which collaborated with the company on the design of APT, has published documentation describing how it works and annually documents its organizational structure and the statistics it uses.[42] It does not, however, verify that the underlying rules and allocations in APT are functioning as the methodology intended and has not comprehensively validated the PnL Tool.[43] Furthermore, it does not play a systematic role in reviewing or approving the changes to the allocation rules in APT, and Volpe officials told us that if the company changed the way it allocates costs without sharing those changes, they would not see those changes during their annual review of the organizational structure.[44]

The Northeast Corridor Commission provides one possible model. It uses an independent third party each year to check that its allocations are correct and ensure that its cost-sharing methodology is working as intended.[45] This also helps assure the participating states and agencies that the commission staff are correctly using the statistics outlined in the methodology and not making any data processing errors. With a similar check of the company's cost-calculations for state bills, the company has an opportunity to assure its state partners that the underlying rules and statistics embedded in the calculations accurately execute the methodology. This could help

[42] This documentation is limited to the APT system; it does not cover all the other systems and processes the company uses to calculate the costs ultimately billed to state partners. See Department of Transportation, *Amtrak Performance Tracking (APT) System: Methodology Summary*, September 2017; and Department of Transportation, *Update on the Methodology for Amtrak Cost Accounting Amtrak Performance Tracking (APT): Annual Update for Appendices A, B, and D*, March 2019.

[43] As part of the Route Cost Database development, Volpe reviewed the accounting codes and replicated costs from the PnL Tool.

[44] Beginning in October 2020, Volpe archives the monthly APT allocation rules used in all transactions.

[45] A full comparative analysis between the state-supported routes and the routes that fall under the Northeast Corridor Commission was outside the scope of our review.

reduce some state partners' concerns that the company is not accurately calculating shared costs.

The company has not pursued this option to date, but executives agreed that such a check could help ease state partner concerns. Further, the Infrastructure Investment and Jobs Act of 2021 requires SAIPRC to select an independent entity to evaluate whether state partner payments for the most recently concluded fiscal year are accurate and comply with the cost-allocation methodology.[46] Although the law does not specify that this evaluation should validate the underlying rules and assumptions in APT and the PnL Tool, including such a validation in this annual review could help to ease state partner concerns.

Tracking Errors on Bills Could Help Improve State Partners' Confidence in the Costs They Pay

One key control that is missing is tracking and sharing errors that the company and state partners identify on bills. As a result, the company and its state partners do not know the number, type, or magnitude of errors that occur on state partner bills and therefore do not have the information necessary to assess the accuracy of the bills and make changes to the process, as needed. None of the three parties—the company, its state partners, and SAIPRC—was able to provide a comprehensive list of errors. We attempted to independently determine the accuracy of the company's bills but were unable to because the company does not have a process for tracking errors, and the data the company has on them are scattered across various systems and in staff emails. This is inconsistent with private- and public-sector management standards[47] that call for organizations to establish processes for tracking errors to help meet organizational performance targets and prevent future errors. For example, the Northeast Corridor

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[46] Pub. L. No. 117-58, § 22211 (2021).

[47] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

Commission has a system for tracking and resolving all cost-development issues, including errors, and sharing this information with all stakeholders.

State partners and company officials told us they do not formally track errors, but based on their experience, three types are the most common:

- **Data entry errors** can occur, for example, when conductors incorrectly record their working hours, when engineers make purchases and incorrectly associate them with a specific route and train, and when incorrect data are entered in the source systems that generate the statistics APT uses to allocate costs.
- **Errors applying contract provisions** are unique to each state partner contract. These can occur after a new contract is signed if the systems are not properly updated to reflect the provisions. For example, on one occasion, the company incorrectly allocated equipment costs after the company and state partner amended a contract to specify a different allocation method.
- **Allocation errors** can occur after infrequent or unusual events like a derailment, that may require a sudden temporary adjustment for insurance or other costs. SAIPRC staff provided examples of at least eight allocation errors they were made aware of from October 2018 through February 2021, some of which appeared to have occurred following such events.

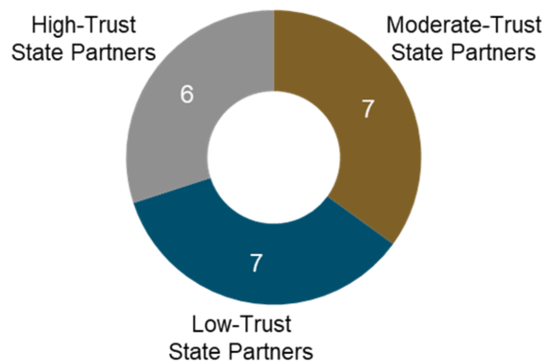
Without a process to track and share errors on state partner bills, the company is missing an opportunity to conclusively identify any material or recurring billing issues to prevent them from occurring again. In addition, without a common picture of the accuracy of the company's bills, some state partners may believe that errors are more common than they are. For example, 17 state partners told us that, on average, about 4 of the company's monthly bills in FY 2020 (33 percent) included errors but did not provide documentation to support this. In addition, when we asked state partners to provide a comprehensive list of all errors on their FY 2019 bills, none provided one. Some provided examples of individual issues they identified with their costs or bills but only 5 of the 20 state partners provided examples of issues that we could confirm as likely errors, indicating that some state partners may have mistaken perceptions about the accuracy of bills.[48]

[48] We asked state partners to provide a list of errors from FY 2019 to avoid any potential biases caused by temporary changes to the billing process in FY 2020 from the pandemic and supplemental federal funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Thus, the company also has an opportunity to either better assure its state partners that bills are accurate or validate their concerns and improve its practices. SAIPRC staff told us they are developing a process to track issues related to the company's state-supported services; therefore, partnering with SAIPRC on efforts to track billing errors could provide one option for reducing the work burden for the company.

ADDRESSING THESE CHALLENGES COULD HELP BUILD TRUST AND REMOVE BARRIERS IMPEDING WORK ON BROADER ISSUES

State partners' perceptions about the issues we discussed above—including the company's practices for making and communicating decisions, providing support, implementing the cost-sharing methodology, and calculating costs—contribute to their level of trust in the company as an organization. During our interviews, about one-third (6) of the company's state partners told us they have high levels of trust in the company around issues of cost sharing, another one-third (7) had moderate trust, and the remaining one-third (7) had low trust.



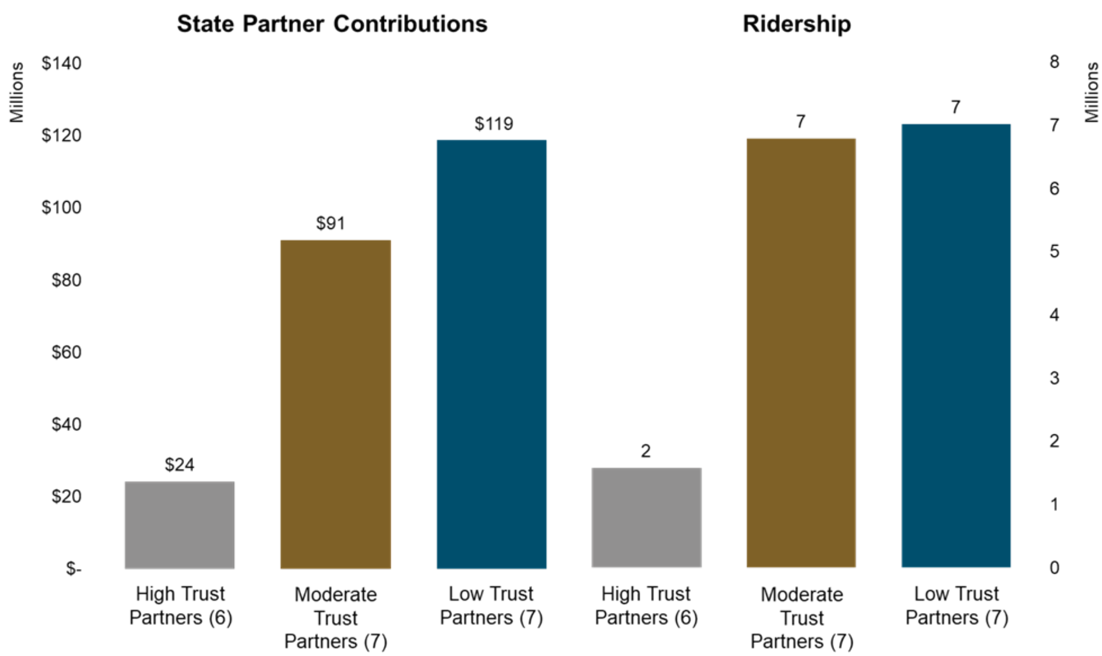
These varying levels of trust affect how they interact with the company. High-trust state partners, for example, generally raised the fewest concerns about cost sharing; they told us they had strong relationships with company staff and believed that the company is an honest and committed partner. Low-trust state partners, on the other hand, generally raised the most concerns about cost sharing. For example, two company managers told us the low-trust state partners account for most of the state complaints about cost sharing in their regions. These state partners are also the ones who usually raise questions about low-dollar issues on their bills, as we discussed above.

Notably, the seven state partners with the lowest levels of trust in the company paid approximately half of the total funds the company collected from states and accounted for 46 percent of state-supported ridership in FY 2019, as shown in Figure 8.[49]
As a result, the company's ability to ensure that it operates an efficient nationwide

[49] Ridership of the low-trust state partners ranged from about 66,000 to more than 2 million in FY 2019. Revenue ranged from about $3.5 million to $50.5 million.

railroad depends partly on the support and cooperation of its least satisfied state partners.

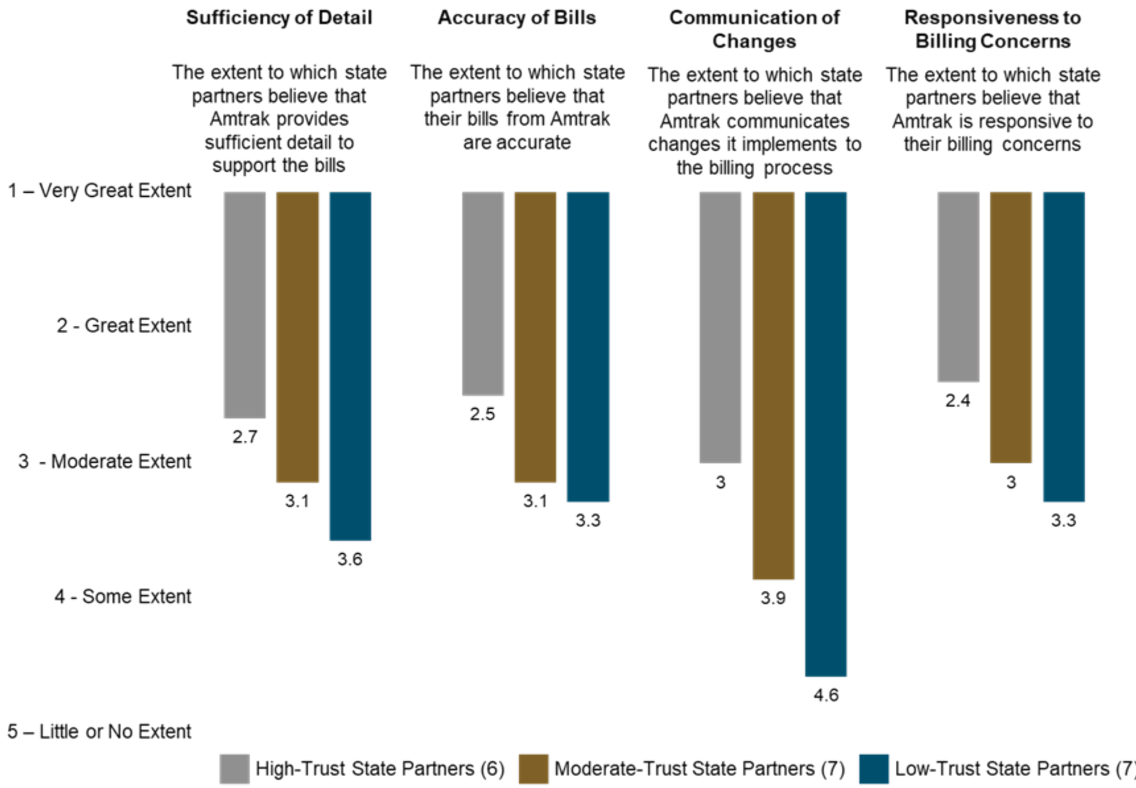
Figure 8. State Partner Contributions and Ridership by Level of Trust in Amtrak, FY 2019 ($ in millions)



Source: OIG interviews with state partners and analysis of company data on ridership and operating revenue contributions

In addition, state partners with lower levels of trust in the company were more likely to say they were less satisfied with specific aspects of the company's cost calculation and bill-development process, such as communications about the process and changes to it, as well as the company's responsiveness to state partner inquiries about their bills, as Figure 9 shows.

Figure 9. State Partner Perceptions of Amtrak's Process for Calculating and Billing Costs, by Level of Trust



Source: OIG interviews with state partners

These issues have become a self-perpetuating problem: state partners with the lowest levels of trust tend to view interactions with the company through that lens. For example, the company and SAIPRC staff recently dedicated significant time and effort to addressing some state partners' concerns about the sufficiency of billing detail the company provides. This included providing detailed, itemized monthly reports and access to underlying cost data used to develop bills, as we discussed above. Nonetheless, 11 of the 14 state partners with low or moderate levels of trust told us they still believe the company is not sufficiently transparent about its costs.[50] These perceptions contribute to some state partners doing more to protect their interests, like requesting additional documentation and advocating for additional control over their costs, as we discussed above. Some low-trust state partners have also elevated their

[50] When we asked all 20 state partners to identify the details that tend to be missing, they cited third-party costs (6 state partners), labor costs (3), station costs (3), mechanical costs (2), and credits (2).

concerns to company officials, including the President and CEO, and to members of Congress.

The resulting tensions hinder the company's ability to resolve cost concerns and address issues beyond cost sharing, such as improving and expanding train service in these states. We recognize that given the inherent differences among the state partners we laid out earlier in this report, the company and state partners will not reach complete agreement on all issues. Nevertheless, additional measures could help rebuild trust, reduce these tensions, remove barriers to progress on future issues, and reduce the company's investment in reconciling individual state partner concerns. Measures could include those we discussed above, such as clarifying the level of state partner control over decisions affecting their costs, better informing stakeholders about the company's cost-calculation and bill-development processes, having a third party validate company calculations, and better tracking billing errors so that the company and its state partners agree on how accurate their bills are.

CONCLUSIONS

The company continues to address state partners' concerns about cost sharing through automation and quality controls over its processes, greater transparency of its cost data, and enhanced communication efforts. Nevertheless, a significant portion of its state partners continue to be frustrated with how it assigns costs to them. Going forward, the company has real time opportunities in its ongoing negotiations to improve relationships with its state partners, enhance its process for implementing the methodology, and better assure state partners that their bills are accurate. Resolving the remaining challenges and their resulting tensions would help position the company for success in managing relationships with its current and future state partners, especially given its plans to expand passenger rail service to as many as 160 new communities in 16 new states over the next 15 years.

RECOMMENDATIONS

To mitigate the challenges we identified, we recommend that the Executive Vice President/Chief Marketing and Revenue Officer, in coordination with the company's state partners and FRA (likely through SAIPRC), take the following actions:

1. Clarify and document the following in the revised methodology, state partner contracts, or elsewhere:

   a. the decisions impacting state-supported costs that the company must control to ensure that it can manage its national network, when and how the company will communicate them to the state partners, and the level of state partner control over other decisions affecting their costs
   b. the level and type of support the company will provide in response to state partners' inquiries and concerns about their costs

2. As part of the ongoing process of revising the cost-sharing methodology, take the following actions:
   a. Clarify and document in the methodology, state partner contracts, or elsewhere, the extent to which the company will continue to use allocations to determine the state partners' share of costs.
   b. Clarify and document in the methodology, state partner contracts, or elsewhere, the extent to which the methodology will have state partners cover additional fixed asset and other capital expenditures, continue to have the company cover them, or some other solution.
   c. Work with Congress to ensure that the solution in recommendation 2b meets its intent under section 209 of PRIIA, and, if not, work with Congress on a resolution.

We also recommend that the Executive Vice President/Chief Marketing and Revenue Officer, in coordination with the Executive Vice President/Chief Financial Officer, take the following actions and document their implementation:

3. To ensure a common picture of the accuracy of the company's bills and help address any recurring billing issues that arise, develop and begin to implement a process to track and regularly share with all state partners the number, type, and magnitude of errors that occur on state partner bills. To reduce the work burden, consider partnering with SAIPRC to assist with these efforts.

4. After the cost-sharing methodology is revised, document and communicate to all state partners the company's process for implementing the methodology, and for calculating and billing the state partners' share of state-supported costs. This might include the data collection and processing steps, stakeholders, roles and responsibilities, and quality assurance steps involved in this process. The

company could consider using documentation that the Northeast Corridor Commission uses as a general model for how to accomplish this.

5. To the extent that cost allocations remain pertinent to the revised methodology, work with SAIPRC to ensure that its independent third party periodically reviews and validates that the systems the company uses to implement it, do so accurately and in accordance with the methodology, particularly the APT allocations and the PnL Tool.

We also recommend that the Executive Vice President/Chief Marketing and Revenue Officer in coordination with the Executive Vice President/Chief Financial Officer, take the following action:

6. Establish in policy a process to consistently communicate to internal stakeholders and state partners any system changes the company makes that materially impact state partners' costs, either before making the change or as soon as practical thereafter.

MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of our report, the company's Executive Vice President/Chief Marketing and Revenue Officer agreed with our recommendations and identified actions the company plans to take, which we summarize below.

- **Recommendation 1a**: Management agreed with our recommendation to clarify and document the decisions impacting state-supported costs that the company must control, when and how it will communicate them, and the level of state partner control over other decisions. Management stated that these issues have been a substantial part of the revised methodology discussions, and it believes that the methodology is the best place to document any changes. The target completion date is September 30, 2022, on completion of the revised methodology.

- **Recommendation 1b**: Management agreed with our recommendation to clarify and document the level and type of support the company will provide to state partners. Management noted that one of the goals of the revised methodology is to reduce the focus on detailed cost data. In addition, management stated that it will provide state partners with the necessary training and support to make use of existing systems where they can analyze operating and cost data. Management also stated they will continue to make staff available to provide support to state partners. The target completion date is September 30, 2022, on completion of the revised methodology. As we continue to monitor the company's progress on completing these actions, we will assess the extent to which they achieve the spirit of the recommendation—better clarity for states on the level and type of support the company will provide them.

- **Recommendation 2a**: Management agreed with our recommendation to clarify and document the extent to which the company will continue to use allocations to determine the state partners' share of costs. Management stated that these issues have been a substantial part of the revised methodology discussions and the revised methodology is the best place to document the basis for various costs. The target completion date is October 31, 2023.

- **Recommendation 2b**: Management agreed with our recommendation to clarify and document the extent to which the company and state partners will share fixed asset and other capital costs. Management stated that within 12 months of implementing the operating cost methodology, it hopes to transition into developing a revised fixed asset capital methodology. The target completion date is October 31, 2023.

- **Recommendation 2c**: Management agreed with our recommendation to work with Congress to ensure that the solution in recommendation 2b meets the intent of the law. It stated that if the parties are unable to come to an agreement on the fixed asset capital charge, it will work closely with SAIPRC to pursue a legislative solution from Congress. The target completion date is October 31, 2023.

- **Recommendation 3**: Management agreed with our recommendation to develop a process to track and share with state partners the number, type, and magnitude of billing errors. Management stated that it will work with SAIPRC staff to begin discussions of implementing an error tracking process. The target completion date is October 31, 2022.

- **Recommendation 4**: Management agreed with our recommendation to document and communicate the company's process, stakeholders, roles and responsibilities, and quality assurance steps involved in implementing the methodology and calculating state partner costs. Management stated that the company has worked with SAIPRC to document components of the existing methodology and expects the revised methodology to include additional documentation specifying the calculations and systems used. The target completion date is September 30, 2022.

- **Recommendation 5**: Management agreed with our recommendation to work with SAIPRC to ensure that an independent third party periodically validates the company's systems used to implement the revised methodology. Management stated that they plan to discuss with SAIPRC ways that an independent party can review and validate the systems and reports produced in support of the methodology. The target completion date is October 31, 2023.

- **Recommendation 6**: Management agreed with our recommendation to establish a policy for communicating system changes that materially impact state partners' costs. Management stated that it currently has a control for reviewing system changes, which it will formalize in March and will issue to the company's external auditors. Management said they will adapt the process as needed, as the revised methodology takes place. The target completion date is March 30, 2022.

For management's complete response, see Appendix D.

APPENDIX A

Objectives, Scope, and Methodology

This report provides the results of our audit of Amtrak's process for managing cost sharing on state-supported routes. Our objectives were to identify and assess the challenges with cost sharing on state-supported routes and the extent to which the company is working to address them, both independently and with state partners. We performed our audit work from July 2020 through December 2021 in Washington, D.C.

To identify and assess challenges with cost sharing on state-supported routes and the extent to which the company is working to address them, we designed a structured interview tool. Using this tool, the audit team conducted phone and video interviews with representatives from all 20 state partners.[51] When contacting them, we requested to speak with the individuals who were most qualified to represent that particular state partner's views on decision-making related to state-supported routes, the cost-sharing methodology, and the company's billing practices. For a list of state partners we interviewed, see Table 2.

[51] To design the structured interviews, we worked with a consultant with expertise in designing audit methodologies.

Table 2. All PRIIA 209 State Partners and Associated Routes

State Partner	Routes Supported by State Partner
California Department of Transportation	Equipment used on California routes
Capitol Corridor Joint Powers Authority (California)	*Capitol Corridor*
Connecticut Department of Transportation	*Valley Flyer*, Amtrak Hartford Line/*Northeast Regional*, *Vermonter*
Illinois Department of Transportation	*Hiawatha* service (w/WI), *Lincoln Service, Illini/Saluki, Illinois Zephyr/Carl Sandburg*
Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency (California)	*Pacific Surfliner*
Massachusetts Department of Transportation	*Valley Flyer*, Amtrak Hartford Line/*Northeast Regional, Vermonter*
Michigan Department of Transportation	*Wolverine Service, Blue Water, Pere Marquette*
Missouri Department of Transportation	*Missouri River Runner*
New York State Department of Transportation	*Empire Service, Maple Leaf, Adirondack, Ethan Allen Express*
North Carolina Department of Transportation	*Carolinian, Piedmont* service
Northern New England Passenger Rail Authority (Maine)	*Downeaster* service
Oklahoma Department of Transportation	*Heartland Flyer*
Oregon Department of Transportation	Amtrak Cascades
Pennsylvania Department of Transportation	*Keystone Service, Pennsylvanian*
San Joaquin Joint Powers Authority (California)	*San Joaquins*
Texas Department of Transportation	*Heartland Flyer*
Vermont Agency of Transportation	*Ethan Allen Express, Vermonter*
Virginia Department of Rail & Public Transportation	*Northeast Regional* (Washington, D.C.-Roanoke/Richmond/Newport News/Norfolk)
Washington State Department of Transportation	Amtrak Cascades
Wisconsin Department of Transportation	*Hiawatha* service

Source: OIG analysis of the FY 2020 Company Profile Report
Note: California Department of Transportation does not operate any state-supported services, but it owns and pays for equipment capital used on the other California state-supported routes.

The structured interview allowed us to collect consistent information about state partners' concerns with decision-making related to state-supported routes, the cost-sharing methodology, and the company's cost-calculation and bill-development process. We included questions on the issue of trust between state partners and the company because, during our preliminary interviews, individuals told us that some state partners do not trust the company as an organization regarding issues related to cost sharing. The interview included a series of closed- and open-ended questions. For a more detailed description of how we developed and validated this tool, as well as the results of close-ended questions on the structured interview, see Appendix B.

We also interviewed senior company officials, including the President, the Executive Vice President/Chief Marketing and Revenue Officer, Executive Vice President/Chief Financial Officer, and the Vice-President/State Supported Services, as well as officials from the company's State-Supported Services team and other Finance department officials. Additionally, we interviewed senior officials from SAIPRC, the Northeast Corridor Commission, FRA, and the Volpe Center. We conducted these interviews to obtain perspectives from relevant internal and external stakeholders on the challenges with cost sharing on state-supported routes.

To understand the legislative and other requirements for cost sharing on state-supported routes, we reviewed key documents, such as PRIIA,[52] the Fixing America's Surface Transportation Act,[53] and the cost-sharing methodology.[54] We also reviewed 17 FY 2020 contracts between the company and state partners formalizing details of the state-supported service and cost-sharing arrangement.[55] To further understand the company's process for implementing the cost-sharing methodology, we also reviewed documents from Volpe and the company on APT and the PnL Tool, as well as various other company and SAIPRC documents.

To evaluate the effectiveness of the controls over the company's cost-calculation and bill-development process, we interviewed officials from the following teams in the Finance department:

- **The Billing team**, which prepares, reviews, and sends the company's bills to state partners.

[52] Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, §§ 209, 212.
[53] Fixing America's Surface Transportation Act, Pub. L. No. 114-94, § 11204 (2015).
[54] The States Working Group and Amtrak, *PRIIA Section 209 Cost Methodology Policy*, August 31, 2011.
[55] Three state partners operate from amendments to contracts they originally signed from 1996 through 2016. Reviewing those contracts and all associated amendments was outside the scope of this audit.

- **The Financial Consolidation team**, which manages the APT system, which is used to assign and allocate costs to the state-supported routes.
- **The Public Budget Formation team**, which manages the PnL Tool, which is used to compute the state-supported costs billable under the methodology.
- **The Host Railroad Accounting team**, which reviews a sample of bills for accuracy.

Using a sample invoice, we also conducted a detailed walk-through of the company's cost-calculation and bill-development process with officials from the Billing, Financial Consolidation, and Public Budget Formation teams to observe how company officials manage the process for calculating costs and developing bills and to further evaluate the effectiveness of controls over the process. We then reviewed additional key company documents, including the following:

- documented control processes, such as the monthly APT checklist, to validate the existence of controls mentioned in our interviews
- state partner billing packages and detailed itemized cost reports to observe what state partners receive from the company, including the level of detail

We then mapped the company's process and activities for calculating costs and developing bills for state-supported routes to illustrate the steps contained in that process. For a more detailed description of the process, see Appendix C. We also compared the results of our review with commonly accepted private- and public-sector management standards[56] and, when appropriate, used practices of the Northeast Corridor Commission as comparative examples.[57] We did not perform an in-depth review of the APT system or its coding and logic, and we did not examine the source

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[56] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, May 2013; and Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

[57] In 2008, as part of PRIIA, Congress charged the Northeast Corridor Commission with developing a formula for sharing Northeast Corridor capital and operating costs and with promoting cooperation and planning on the corridor. Although the Northeast Corridor Commission and the state-supported system are different in certain ways—such as the makeup of stakeholders and focus on operating or capital costs—there are some similarities. Because of these similarities, and based on our interviews with officials from Amtrak, SAIPRC, and the Northeast Corridor Commission, we determined that the Northeast Corridor Commission would be a relevant comparator in these select instances.

data systems that feed into APT because of the cost, time, and expertise required. We also did not do a full review of the Northeast Corridor Commission's processes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

We reviewed the internal controls the company had in place for calculating costs and developing bills for state-supported routes. We assessed the internal control components and underlying principles and determined that all five internal control areas were significant to our audit objective:

- **Control Environment**. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- **Risk Assessment**. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
- **Control Activities**. Management should design control activities and the entity's information system to achieve objectives and respond to risks. Management should implement control activities through policies.
- **Information and Communication**. Management should use quality information to achieve the entity's objectives and should communicate the necessary quality information internally and externally.
- **Monitoring**. Management should establish and operate activities to monitor the internal control system and evaluate the results.

We developed audit work to ensure that we assessed each of these control areas. This included reviewing the extent to which the company followed internal controls standards, such as the following:

- identifying and communicating significant changes to programs, activities, or technologies related to the company objectives for state-supported cost-calculations and bill-development

- developing and implementing control activities to ensure that the company's objectives related to calculating and billing costs for state-supported routes are achieved
- communicating timely, relevant, and accurate information to other departments and to external stakeholders related to calculating costs for state-supported routes

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all of the internal control deficiencies that may have existed at the time of this audit.

Computer-processed Data

To assess the impact of challenges related to sharing capital expenditures incurred for the benefit of state-supported routes, we used reports that the company prepares in accordance with the Fixing America's Surface Transportation Act.[58] The company generates these reports directly from its SAP accounting system, and they are widely distributed internally and externally, such as to Congress, FRA, and the Amtrak Board of Directors. We assessed the reliability of these reports by interviewing the company official responsible for the underlying data, checking the underlying data for reasonableness, and comparing specific aspects of the data to another widely distributed company report. We also reviewed the process the company's external auditor uses to test the accuracy of these reports, as well as the results of the FY 2020 Single Audit, which found that the company's reports accurately represent its financial situation.[59] Based on our observation and tests, we determined that the reports were sufficiently reliable to meet our objective.

[58] Fixing America's Surface Transportation Act, Pub. L. No. 114-94, § 11204 (2015).

[59] *Governance: Quality Control Review of Amtrak's Single Audit for Fiscal Year 2020* (OIG-A-2021-010), May 27, 2021.

Prior Reports

In conducting our analysis, we reviewed and used information from the following reports:

Amtrak Office of Inspector General

- *Governance: Observations on Amtrak's Use of CARES Act Funds* (OIG-MAR-2020-013), August 5, 2020
- *Close-out Memorandum: Accounting for Business Lines of Operation* (OIG-011-2015), July 28, 2016

Department of Transportation Office of Inspector General

- *Amtrak's New Cost Accounting System is a Significant Improvement But Concerns Over Precision and Long-Term Viability Remain* (CR-2013-056), March 27, 2013

APPENDIX B

Structured Interview Questions with Responses for Closed-Ended Questions

We used structured interviews to gather state partners' perspectives for this report. A structured interview is a set of questions a researcher administers to each respondent in the same order with consistent delivery. The researcher then captures the responses either by a set of response categories provided to the respondent (for closed-ended questions) or by an open-ended response from the respondent. The structured interview method allowed us to obtain quantitative responses in closed-ended questions and robust examples in open-ended questions, and to probe for details and causes in real time.

We performed two rounds of pre-testing of the interview questions and response scales to assess the flow, timing, terminology, and content of the questions. We then refined our structured interview questions to ensure that they aligned with the audit objectives, incorporated an optimal mix of open-ended and closed-ended questions, could be administered in under two hours, and used clear language.

The interview questions are listed below. Each question is presented as it was asked and, for closed-ended questions, includes the scale options offered, the number of responses for each scale category, and the valid percentages of responses.

1: The first question is about the detail Amtrak includes to support items on its bills. Using scale A, to what extent do you currently receive <u>sufficient detail</u> to support your bills?

(1) Very great extent	0	0%
(2) Great extent	4	20%
(3) Moderate extent	9	45%
(4) Some extent	7	35%
(5) Little or no extent	0	0%
Total Responses	**20**	

- Why did you choose that response?
- [If 4 or 5 on scale] What kinds of detail tend to be missing?
- Has the sufficiency of detail to support your bills changed between 2018 and today?
- [If change] What caused this change?

2: Now, I am going to ask you about the accuracy of Amtrak's bills. By accuracy we mean free of errors—like from a clerical mistake or an incorrect allocation. Using scale A, to what extent do you currently believe that your monthly bills from Amtrak are accurate?

(1) Very great extent	0	0%
(2) Great extent	5	25%
(3) Moderate extent	10	50%
(4) Some extent	5	25%
(5) Little or no extent	0	0%
Total Responses	**20**	

- Why did you choose that response?

3: About how many of your bills in the past year contained billing errors?

- We are aware of the MoE cost center error and adjustments; what were the other errors you found, if any?
- Why do you think these errors occurred?
- Has the number of bills containing errors changed between 2018 and today?
- [If change] What caused this change?
- Would you be able to provide us with a report of all billing errors and associated adjustments and dollar values for FY 2019? If not, is there another way for us to understand the magnitude of the errors you mentioned in your bills?

4: Now, I am going to ask you about changes to the billing process that may impact your bills, such as changes to cost centers, APT allocations, or other rules. Using scale A, to what extent do you currently believe that Amtrak communicates changes it makes to its billing processes?

(1) Very great extent	0	0%
(2) Great extent	4	20%
(3) Moderate extent	3	15%
(4) Some extent	5	25%
(5) Little or no extent	8	40%
Total Responses	**20**	

- Why did you choose that response?

- Can you provide an example?
- Has the level of communication changed between 2018 and today?
- [if change] What caused this change?

5: Do you have any other concerns with the billing process that we did not cover?

- Why is that a concern?

6: [If 3-5 on scales, bills with errors, or concerns in #5] What steps, if any did you take with Amtrak to address any of the billing concerns or issues we've discusses so far?

- What was the outcome?

7: Now, I am going to ask you about Amtrak's responsiveness. By responsiveness, we mean whether Amtrak takes your concerns seriously. Using scale A, to what extent is Amtrak currently responsive to addressing your billing concerns, when you have any?

(1) Very great extent	1	5%
(2) Great extent	6	32%
(3) Moderate extent	6	32%
(4) Some extent	5	26%
(5) Little or no extent	1	5%
Total Responses	**19**	
No Response	1	

- Why did you choose that response?
- Who do you talk to at Amtrak when you have concerns?
- [If 4 or 5 on scale] Can you provide an example?
- [If 4 or 5 on scale] Why do you believe Amtrak has not been responsive?
- Has the level of Amtrak's responsiveness to addressing your concerns changed between 2018 and today?
- [If change] What caused this change?

8: [If 3-5 on scales, bills with errors, or concerns in #5] What is the impact, if any, on your state of the billing concerns you mentioned? For example, dollar amount or ability for the state legislature to plan.

9: What changes, if any, could Amtrak make to improve the various aspects of its billing process that we just discussed?

10: Before we move on to the next topic, what, if anything, is working well with the various aspects of Amtrak's billing process?

11: Using scale A, to what extent do you believe that the methodology, as designed, treats states equally for like services?

(1) Very great extent	1	5%
(2) Great extent	10	50%
(3) Moderate extent	5	25%
(4) Some extent	3	15%
(5) Little or no extent	1	5%
Total Responses	**20**	

- Why did you choose that response?
- Does your answer apply to both operating and capital costs? If not, why?
- [If 4 or 5 on scale] Can you provide an example?

12: Using scale A, to what extent do you believe that the methodology, <u>as designed</u>, proportionally allocates shared costs based on factors that reasonably reflect relative use?

(1) Very great extent	1	5%
(2) Great extent	5	25%
(3) Moderate extent	7	35%
(4) Some extent	6	30%
(5) Little or no extent	1	5%
Total Responses	**20**	

- Why did you choose that response?
- [If 4 or 5 on scale] Can you provide an example?

13: [If 4 or 5 on scale to #11 or 12] What impact, if any, does the design of the methodology have on your state?

14: [If 4 or 5 on scale to #11 or 12] What steps, if any, have you taken to help improve the design of the methodology?

- [If applicable] What was the outcome?

15: Now we are going to ask a specific question about how Amtrak is <u>implementing</u> the methodology. Using scale A, to what extent do you believe that Amtrak currently <u>implements</u> the methodology correctly?

(1) Very great extent	2	10%
(2) Great extent	7	35%
(3) Moderate extent	6	30%
(4) Some extent	4	20%
(5) Little or no extent	1	5%
Total Responses	**20**	

- Why did you choose that response?
- Does your answer apply to both operating and capital costs? If not, why not?
- [If 4 or 5 on scale] Can you provide an example?
- [If 4 or 5 on scale] Why do you think this happened?
- Has Amtrak changed how it implements the methodology between 2018 and today?
- [If change] What caused this change?
- [If 4 or 5 on scale] What steps, if any, have you taken to address your concerns with Amtrak's implementation of the methodology?

- [If applicable] How did Amtrak respond?
- [If applicable] What was the outcome?

16: Do you have any other concerns with the design or implementation of the cost-sharing methodology that we did not discuss?

- Why is that a concern?

17: [If 3-5 on scale in #15 or concerns in #16] What impact, if any, do the implementation concerns have on your state?

18: In your opinion, what, if anything, should change to improve the cost-sharing methodology's design or implementation?

19: What, if anything, works well with the cost-sharing methodology's design or implementation?

20: Using scale A, to what extent is SAIPRC currently working as the law intended to facilitate collaboration on the 209 cost-sharing methodology?

(1) Very great extent	11	55%
(2) Great extent	8	40%
(3) Moderate extent	1	5%
(4) Some extent	0	0%
(5) Little or no extent	0	0%
Total Responses	**20**	

- Why did you choose that response?
  What changes, if any, could improve SAIPRC's ability to facilitate collaboration on the 209 cost-sharing methodology?

21: I am going to ask about the advantages and disadvantages of the voting structure. First, what are the advantages, if any, of the current voting structure among states, Amtrak, and the FRA?

22: What are the disadvantages, if any, of the current voting structure among states, Amtrak, and the FRA?

- [If disadvantages mentioned] Can you think of any changes to improve the voting structure?
- [If disadvantages mentioned, and if applicable] What would be the implications to all parties of making those changes?

23: We now want to talk about influence over decisions that Amtrak makes that impact your state in the areas we have discussed, such as billing and the cost-sharing methodology. Using scale A, to what extent do you believe your state should have influence over these types of decisions?

(1) Very great extent	12	60%
(2) Great extent	6	30%
(3) Moderate extent	1	5%
(4) Some extent	1	5%
(5) Little or no extent	0	0%
Total Responses	**20**	

- Why did you choose that response?

24: Using scale A, to what extent does your state currently have influence over these types of decisions [Decisions that Amtrak makes that impact your state in the areas we have discussed, such as billing and the cost-sharing methodology]?

(1) Very great extent	1	5%
(2) Great extent	0	0%
(3) Moderate extent	11	55%
(4) Some extent	5	25%
(5) Little or no extent	3	15%
Total Responses	**20**	

- Why did you choose that response?
- What are the types of decisions, if any, over which you think you should have influence but don't?
- [If 4 or 5 on scale] What steps, if any, have you taken to help change your level of influence?
- [If applicable] What was the outcome?
- Has your level of influence changed between 2018 and today?
- [If change] What caused this change?

25: Using scale B, how likely is it that your state will continue operating its rail service over the next three years?

(1) Very Likely	16	80%
(2) Somewhat Likely	3	15%
(3) Neutral	1	5%
(4) Somewhat Unlikely	0	0%
(5) Very Unlikely	0	0%
Total Responses	**20**	

- Why did you choose that response?

26: Using scale B, how likely is it that your state will remain with Amtrak as your rail service provider within the next three years?[60]

(1) Very Likely	16	84%
(2) Somewhat Likely	1	5%
(3) Neutral	1	5%
(4) Somewhat Unlikely	1	5%
(5) Very Unlikely	0	0%
Total Responses	**19**	
No Response	1	

- Why did you choose that response?
- What factors do you believe might affect your state's decision to remain with Amtrak?

27: In our preliminary interviews, some people mentioned the issue of trust between some State partners and Amtrak regarding aspects like cost-sharing or follow-through on commitments. Switching back to scale A, to what extent does your state trust Amtrak as an organization regarding the billing, methodology, and governance topics we have discussed?

(1) Very great extent	2	10%
(2) Great extent	4	20%
(3) Moderate extent	7	35%
(4) Some extent	4	20%
(5) Little or no extent	3	15%
Total Responses	**20**	

- Why did you choose that response?
- Can you provide an example?
- [If applicable] What do you think caused this distrust?
- What impact, if any, does this have on your state?
- What is your general perspective on the level of trust between Amtrak as an organization and its state partners regarding the topics we have discussed?
- [If 3-5 on scale] How could Amtrak as an organization improve to earn a higher level of trust?

[60] Percentages do not total 100 percent due to rounding.

28: We want to focus a bit more on legislative foundations of the current cost-sharing arrangement. What, if any, legislative changes could improve how cost-sharing works between Amtrak and the states?

29: Other than what we've discussed, what, if any, legislative changes could improve the FAST Act's provisions on SAIPRC?

30: Finally, do you have any other comments for us to consider about the topics we covered in the interview?

APPENDIX C

Description of the Process for Calculating and Billing Operating Costs on State Partner Bills

The company's cost-calculation and bill-development process for operating expenses occurs on a monthly cycle. At the end of each month, APT allocates costs to individual trains and routes, pulling data from two primary sources:

1. **Financial transactions from the company's SAP accounting system**,[61] some of which its front-line employees manually enter—for example, conductors record their working hours and associates them with a specific route and train. Revenue and expenses such as train crew labor, commissary expenses, and station costs also flow from SAP into APT.
2. **Data from multiple systems**, such as the Train Unit Statistics System, Labor Management System, and Ridership and Revenue Data Warehouse. These systems form the basis of the statistics for allocating costs that are not already assigned to trains.

This allocation process is automated. Costs directly attributable to trains such as a conductor's hours worked on a particular train, do not need to be allocated, and APT directly assigns them to a train. Based on statistics, however, APT allocates the costs for items that support the operation of multiple trains, such as supervisor salaries and station costs. The APT team then uses a month-end checklist to ensure the completeness and accuracy of the output by performing quality control steps, such as the following:

- **Generate and review exception reports.** These reports detail costs that have no rules or statistics assigned, which usually occurs with new types of transactions or other unusual situations.
- **Balance checks to compare APT output and SAP totals**. The system also automatically performs its own balancing checks at various stages of the allocation process.

Next, the PnL Tool identifies the costs that are eligible to be shared under the cost-sharing methodology, automatically extracting APT data and computing state-supported route costs, support fees, and revenue. Public Budget Formation staff

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[61] SAP Enterprise Resource Planning software processes enterprise-wide data from various business areas, such as finance, procurement, payroll, and project accounting.

told us they then perform quality control steps to identify anomalies, including the following:

- trend analyses, year-over-year by route and for the entire state-supported business line
- balancing checks, in which staff compare the output of the PnL Tool against each state partner's detailed, itemized cost reports

Billing staff then use PnL Tool output to populate predefined billing package templates for each state partner. The company designed these Excel-based templates to modify costs as needed according to provisions included in each state partner's contract. For example, three state partners use a different formula for calculating fuel usage, so the template automatically adjusts their fuel costs. Another state partner provides its own onboard services, so those costs are excluded from that bill. Although these templates perform the necessary calculations automatically, billing staff must manually adjust the templates to account for any new contract provisions whenever a state partner and the company sign a new agreement. In addition, billing staff must also manually apply advance payments or outstanding credits to invoices. Some of the quality control steps in this part of the process include the following:

- trend analysis and variance checks
- monthly call with members of other departments to discuss any changes to accounts that could affect state partner bills
- monthly audit by the Host Railroad Accounting team in the Finance department to review a sample of invoice packages for accuracy

APPENDIX D

Management Comments

NATIONAL RAILROAD PASSENGER CORPORATION

AMTRAK

Memo

Date	January 25, 2022	From	Roger Harris, EVP Marketing & Revenue
To	Jim Morrison, Assistant Inspector General, Audits	Department	Marketing and Business Development
		cc	Stephen Gardner, President & CEO Eleanor Acheson, EVP General Counsel Carol Hanna, VP Controller Ray Lang, VP State Supported Services Laura Mason, EVP Capital Delivery Scot Naparstek, EVP Service Delivery & Operations Dennis Newman, EVP Strategy, Planning & Accessibility Steven Predmore, EVP CSO Mark Richards, Sr. Director Amtrak Risk & Controls Qiana Spain, EVP CHRO Tracie Winbigler, EVP CFO Christian Zacariassen, EVP Digital Technology & Innovation

Subject: Management Response to **GOVERNANCE:** Amtrak Has Begun to Address State Partners' Concerns About Shared Costs But Has More Work to Do to Improve Relationships (*Draft Interim Audit Report for Project No. 015-20)*

This memorandum provides Amtrak's response to the draft audit report titled, "*Amtrak Has Begun to Address State Partners' Concerns About Shared Costs But Has More Work to Do to Improve Relationships*". Management appreciates the opportunity to respond to the OIG's recommendations. Our state partners are crucial to the future growth of corridor service across the National Network, and we are working diligently to improve our relationship with them.

To mitigate the challenges identified in the audit report, the OIG recommends that the Executive Vice President/Chief Marketing and Revenue Officer, in coordination with the company's state partners and FRA (likely through SAIPRC), take the following actions:

Recommendation #1:

Clarify and document the following in the revised methodology, state partner contracts, or elsewhere:

a. the decisions impacting state-supported costs that the company must control to ensure that it can manage its national network, when and how the company will communicate them to the state partners, and the level of state partner control over other decisions affecting their costs

b. the level and type of support the company will provide in response to state partners' inquiries and concerns about their costs

Management Response/Action Plan: Amtrak agrees. For recommendation 1a: These issues have been a substantial part of the discussions to date between the states and Amtrak about the revised methodology. This process is being led by SAIPRC with full involvement from Amtrak, state partners, and the FRA. For costs that are not closely related to the national network, Amtrak looks to the states to determine service levels and the costs associated with those services. Amtrak believes that the revised methodology is the best place to document these changes, so we can ensure that all states are treated equally. For policies and services which Amtrak believes it must control so that it can manage the national network, Amtrak will communicate those policies and their associated cost impacts to the states via SAIPRC. For recommendation 1b: One of the goals of the revised methodology is to reduce the focus on detailed cost data. In addition, Amtrak will continue to work with state partners and SAIPRC to ensure states have the necessary training to make use of existing systems where they can analyze operating and cost data. During periods where there are significant changes in operations, systems, or staff at state partner agencies, Amtrak will continue to provide additional support to states. Amtrak will continue to use the SAIPRC "Cost Sharing Working Group" as the primary venue to communicate changes or updates to existing data systems that the states have access to and the company will also continue to make the Finance Department staff available to answer questions on billing/invoices and correct any errors or omissions.

Responsible Amtrak Official(s): Ray Lang, VP State Supported Services

Target Completion Date: September 30, 2022 (Completion of revised methodology)

Recommendation #2:

As part of the ongoing process of revising the cost-sharing methodology, clarify and document the following in the methodology, state partner contracts, or elsewhere:

a. the extent to which the company will continue to use allocations to determine the state partners' share of costs

b. the extent to which the methodology will have state partners cover additional fixed asset and other capital expenditures, continue to have the company cover them, or some other solution

c. work with Congress to ensure the solution in recommendation 2b. meets its intent under section 209 of PRIIA, and, if not, work with Congress on a resolution

Management Response/Action Plan: Amtrak agrees. For recommendation 2a: These issues have been a substantial part of the discussions to date between the states and Amtrak about the revised methodology. When it is developed, the revised methodology should clearly document the basis for various costs. Amtrak believes that the revised methodology is the best place to document these changes, so we can ensure that all states are treated equally.

For recommendation 2b: Amtrak agrees that many aspects of fixed asset capital funding remain unresolved and could benefit from additional guidance in a revised methodology. At this time, the discussions on a revised methodology are focused primarily on operating costs. Amtrak is hopeful that as the parties develop a revised operating cost methodology, they can transition into developing a revised

NATIONAL RAILROAD PASSENGER CORPORATION

fixed asset capital methodology and we hope to do this within 12 months of implementation of the revised operating cost methodology.

For recommendation 2c: Amtrak agrees that understanding and reflecting the intent of Congress is key to a successful update of the methodology and will work closely with SAIPRC to ensure that happens. Should the parties be unable to come to an agreement on the fixed asset capital charge, Amtrak will work with SAIPRC to pursue a legislative fix from Congress.

Responsible Amtrak Official(s): Karim Karmali, Sr Dir Financial Planning & Analysis
Ray Lang, VP State Supported Services

Target Completion Date: October 31, 2023 (12 months after completion of revised methodology)

The OIG also recommends that the Executive Vice President/Chief Marketing and Revenue Officer in coordination with the Executive Vice President/Chief Financial Officer, take the following actions and document their implementation

Recommendation #3:

To ensure a common picture of the accuracy of the company's bills and help address any recurring billing issues that arise, develop, and begin to implement a process to track and regularly share with all state partners the number, type, and magnitude of errors that occur on state partner bills. To reduce the work burden, consider partnering with SAIPRC to assist with these efforts.

Management Response/Action Plan: Amtrak agrees that a process for tracking billing errors would be a useful tool for all parties. We also agree that SAIPRC is a logical venue to coordinate these activities. We will work with SAIPRC staff to begin discussion of implementing this process.

Responsible Amtrak Official(s): Karim Karmali, Sr Dir Financial Planning & Analysis
Eve Nacinovich, Assistant Controller, A/R and Revenue Acct.
Ray Lang, VP State Supported Services

Target Completion Date: October 31, 2022 (In partnership with SAIPRC, implement process to coincide with introduction of new PRIIA #209 methodology)

Recommendation #4:

After the cost-sharing methodology is revised, document and communicate to all state partners the company's process for implementing the methodology, and for calculating and billing the state partners' share of state-supported costs. This might include the data collection and processing steps, stakeholders, roles and responsibilities, and quality assurance steps involved in this process. The company could consider using documentation that the Northeast Commission uses as a general model for how to accomplish this.

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Management Response/Action Plan: To date, Amtrak has worked with SAIPRC to document components of the existing methodology, and we anticipate continuing this process with the revised methodology. Furthermore, we expect the revised policy will include additional documentation specifying calculations and systems utilized for the calculations.

Responsible Amtrak Official(s): Karim Karmali, Sr Dir Financial Planning & Analysis
Eve Nacinovich, Asst Controller, A/R and Revenue Acct.
Mark Paparo, Sr Dir Business Development

Target Completion Date: September 30, 2022

Recommendation #5:

To the extent that cost allocations remain pertinent to the revised methodology, work with SAIPRC to ensure that its independent third party periodically reviews and validates that the systems the company uses to implement it, do so accurately and in accordance with the methodology, particularly the APT allocations and the PnL Tool.

Management Response/Action Plan: Amtrak agrees. As the revised methodology takes shape, we look forward to discussing with SAIPRC the ways that an independent third party could review and validate the systems and reports produced in support of that methodology.

Responsible Amtrak Official(s): Karim Karmali, Sr Dir Financial Planning & Analysis

Target Completion Date: October 31, 2023 (One year after implementation of revised methodology when there is a full year worth of cost data available)

Recommendation #6:

Establish in policy a process to consistently communicate to internal stakeholders and state partners any system changes the company makes that materially impact state partners' costs, either before making the change or as soon as practical thereafter.

Management Response/Action Plan: Amtrak agrees. Today, a control exists where changes to APT that may have an effect on the Section 209 formula are periodically reviewed, with both the State Supported service line and with SAIPRC through the Cost Sharing Working Group. This current process will be formalized in March when the control narratives will be issued to Amtrak's external Auditors. As the revised methodology takes shape, we will adapt this process as necessary.

Responsible Amtrak Official(s): Costin Corneanu, VP Financial Planning & Analysis
Karim Karmali, Sr Dir Financial Planning & Analysis

Target Completion Date: March 31, 2022 (Per the current PRIIA 209)

APPENDIX E

Acronyms and Abbreviations

APT	Amtrak Performance Tracking System
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
FRA	Federal Railroad Administration
FY	fiscal year
Northeast Corridor Commission	Northeast Corridor Infrastructure and Operations Advisory Commission
OIG	Amtrak Office of Inspector General
PnL Tool	Profit and Loss Tool
PRIIA	Passenger Rail Investment and Improvement Act
SAIPRC	State-Amtrak Intercity Passenger Rail Committee
SAP	Systems Applications and Products
the company	Amtrak
Volpe	John A. Volpe National Transportation Systems Center

APPENDIX F

OIG Team Members

Eileen Larence, Deputy Assistant Inspector General, Audits

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OIG MISSION AND CONTACT INFORMATION

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 Reports and Testimony

Available at our website www.amtrakoig.gov

Reporting Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline

www.amtrakoig.gov/hotline

or

800-468-5469

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