OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

AMTRAK:

Top Management and Performance Challenges—Fiscal Years 2017 and 2018

OIG-SP-2017-009 | March 29, 2017

This page intentionally left blank.

Memorandum

To: Charles W. Moorman
President and Chief Executive Officer

From: Tom Howard
Inspector General

Date: March 29, 2017

Subject: *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009)

This report identifies our views of the top management and performance challenges facing Amtrak (the company). Many other inspectors general are legislatively required to produce similar reports focusing on high-risk or high-impact activities and performance issues that affect programs, operations, and the achievement of strategic goals. Those reports have shown that periodically identifying and reporting these challenges to management and other decision-makers can help improve organizational performance. Although we are not legislatively required to report on top management and performance challenges, we do so with the intent of providing similar benefits. This is our third such report, with prior reports issued in fiscal year (FY) 2014 and FY 2015.[1]

In deciding whether to identify an issue as a top management and performance challenge, we considered its significance in relation to the company's mission and strategic goals; its susceptibility to fraud, waste, and abuse; whether the underlying causes are systemic in nature; and the company's progress in addressing the challenge. We discussed the challenges we identified with company executives and senior managers to obtain their insights and reviewed industry, government, and legal documents to gain additional perspectives.

[1] Amtrak OIG, *Amtrak: Top Management and Performance Challenges–Fiscal Year 2016 and Beyond*, OIG-SP-2015-015, September 30, 2015; *Amtrak: Top Management and Performance Challenges*, OIG-SP-2014-012, September 29, 2014.

We identified the following eight challenges, which generally align with those identified in the prior two reports:[2]

- **Governance:** *Sustaining Commitment to Improving Management Processes and Effectiveness*
- **Financial Performance***: Securing the Company's Financial Future*
- **Asset Management**: *Sustaining Equipment and Infrastructure*
- **Acquisition and Procurement**: *Effectively Managing the Company's Processes*
- **Safety and Security:** *Ensuring the Safety and Security of Passengers, Employees, and Infrastructure*
- **Information Technology**: *Improving the Integrity, Security, and Utility of Technology Systems*
- **Customer Service**: *Putting Passengers First*
- **Human Resources**: *Refocusing Priorities to Build a Quality Workforce*

Summary

In recent years, the company has made notable progress in addressing several management and performance challenges. The company has significantly improved its financial and operating performance over the last five years—its FY 2016 operating loss of $230 million represented a $143 million improvement over the company's reported operating loss of $373 million in FY 2012. In FY 2016, the company also set new records for revenue and ridership, and its customer service scores improved 4 percentage points over FY 2015. Additionally, the company is making progress modernizing its aging rail fleet and is working with states to improve the Northeast Corridor's infrastructure. Major progress includes awarding a contract for the next generation of high-speed trainsets and moving forward on the $24 billion Gateway Program to double rail capacity between New York and New Jersey.

Although the company has made progress in each of the challenge areas, additional and continued management focus is needed to ensure sustained progress. In this regard, our work over the years has repeatedly identified three long-standing, systemic factors that drive many of the challenges noted throughout this report: (1) the company's inconsistent use of its strategic goals to drive spending priorities and business decisions,

---

[2] In prior years, we presented safety and customer service challenges combined in a single "Train Operations" challenge. Because these challenges align with two of the company's three strategic goals, this year we divided them into separate challenge areas.

(2) an ineffective governance framework to hold managers accountable for delivering program and project results, and (3) a workforce culture that is not consistently focused on achieving the corporate goals of safety, customer service, and financial excellence. These factors drive many of the operational day-to-day challenges addressed throughout this report, and, more importantly, represent critical obstacles to the company's efforts to advance its strategic goals.

Over the past six months, the company hired a new President and Chief Executive Officer who has made significant organizational changes, including reducing the number of his direct reports and establishing new initiatives to address some of the challenges and systemic factors discussed in this report. These changes and initiatives provide opportunities to bring fresh perspectives and introduce new ways of doing business; however, they are not in and of themselves enough to guarantee success.

Whether these opportunities yield safer operations, better governance processes, improved financial results, enhanced customer service, and better program delivery will depend upon top management sustaining its focus and providing the necessary resources. Success will also depend upon how effectively the company's leaders communicate and reinforce the expectation that it is the responsibility of every employee—from senior executives to station cleaners—to embrace and promote the company's values of safety, service, and financial responsibility.

In this report, we discuss each of the eight challenges in detail and highlight examples where our work illustrates the nature of the challenges, the company's progress in addressing the challenges, and additional actions the company can take to further address the challenges and their underlying causes.

Contents

1. Governance: Sustaining Commitment to Improving Management Processes and Effectiveness

Amtrak (the company) continues to face challenges in establishing and sustaining effective companywide governance processes to ensure that its programs and operations are managed effectively and efficiently. Effective governance[3] is a particular challenge given the complexities of the company's operating environment, which includes a nationwide scope of operations; a diverse portfolio of equipment, stations, and related infrastructure; and priorities that are sometimes at odds with one another given the company's hybrid public-private status. Adding to the complexity is an organizational structure that has evolved several times since the company's creation—at different times aligning along geographical, operational, or business service lines. In this dynamic environment, good governance processes are critically important to ensuring that the company is making informed business decisions and managing its programs and operations effectively. However, our prior work has consistently identified weaknesses in the company's governance processes, particularly management controls, as the root cause of operational and programmatic deficiencies.

In recent years, the company has taken a number of steps to improve its capability to govern, including its most recent organizational restructuring. Some of these steps align with our recommendations, as well as leading practices used by successful organizations. Nevertheless, our work this year and in prior years shows that the company still has work to do to address persistent governance challenges, including:

- strengthening decision-making processes and accountability for results
- using the company's strategic goals and priorities to drive spending decisions
- enhancing the use of management tools to reduce risks
- implementing a disciplined program and project management approach

Progress to Date

The company has made progress in addressing several of these challenges.

Strengthening decision-making and accountability. In January of this year, the President and Chief Executive Officer (CEO) announced a new leadership team, created

[3] Effective governance, as defined by the Project Management Institute, includes establishing strategic goals and objectives to guide the organization, addressing risks to the goals, establishing an organizational structure and lines of accountability to implement the strategy, and managing programs and projects to achieve the goals.

new departments and divisions, realigned departmental responsibilities, and established new lines of accountability for various activities. Although the organizational and personnel alignment is still evolving, notable changes in the current structure include reducing the leadership team to 6 direct reports—down from the 12 executives who reported directly to the prior CEO. Company executives told us they believed that the prior management structure contributed to inefficiencies, such as encouraging departmental "silos" and "shadow" organizations. For example, separate information technology (IT), finance, and procurement groups within departments made independent contracting and investment decisions. The CEO stated that he expects the new organizational alignment to strengthen accountability and improve decision-making across the company.

Establishing strategic goals and linking spending priorities. The company has taken steps to establish and advance a set of strategic goals that focus on three key themes: superior safety and security, customer service, and financial excellence.[4] The company established a corporate strategy office and, in 2011, issued its first five-year strategic plan. The company updated the plan for fiscal years (FY) 2014–2018 to reflect new Vision and Mission Statements, and to provide clarity on the company's priorities and goals. The document was intended to help the company navigate the "political, economic, and social environment" in which Amtrak does business and reinforce the expectation that it is everyone's responsibility to ensure safe operations, give customers a travel experience that exceeds expectations, and contribute to building the company's financial strength.

The company has also developed a system to link its spending priorities to its strategic goals. Partly in response to our 2013 report on the capital planning process,[5] the company implemented a system in FY 2014 to catalog its capital projects into one of

---

[4] The Safety and Security goal is to set the standard for safety and security in the transportation industry to ensure that every passenger and employee goes home injury-free every day. The Customer Service goal is to acquire and retain the most satisfied customers of any travel company in the world. The Financial Excellence goal is to be profitable on an operating basis and to be good stewards of capital in order to secure the company's long-term viability.

[5] Amtrak OIG, *Corporate Governance: Planned Changes Should Improve Amtrak's Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds*, OIG-E-2013-020, September 27, 2013.

three categories—mandatory, state-of-good-repair,[6] and new initiatives. These classifications are intended to help executives set spending priorities.

Managing risks. In FY 2012, the company committed to establishing a formalized enterprise-wide framework for identifying, analyzing, and managing risk. Our FY 2012 audit of the company's risk management efforts acknowledged the company's initial efforts to proactively identify and evaluate business risks; however, we recommended that the company take additional actions to align its risk management framework with leading practices.[7] The company subsequently established an office to manage the risk management process and assigned a senior accountable official to direct these efforts. This office tracks and measures efforts to address risks, assesses remaining gaps, works with departments on solutions, and reports progress to management and the Board. The office also developed a Management Controls Framework to more specifically assess the management and internal controls that departments have in place or need to implement to help mitigate risks, including the controls related to preventing fraud, waste, and mismanagement.

Improving program and project management. In January 2016, the company took a significant step in building its capability to effectively manage its portfolio of capital projects—more than 700 projects and an annual budget of about $1 billion. The company established an Enterprise Program Management Office (ePMO) and hired an executive with substantial experience to lead it. As first steps, the ePMO developed company-wide policies and standards for project management; is working to standardize project managers' career paths, training, and credentials; and is developing a comprehensive inventory of capital projects, including their related costs and complexity.

Challenges

Strengthening Decision-making and Accountability

The company has opportunities to encourage better collaboration across departments and establish clear lines of authority and accountability for program results. For instance, our January 2017 review of the company's budget process identified a

---

[6] A condition in which the existing physical assets, both individually and as a system, are functioning as designed within their "useful" lives, and are sustained through regular maintenance and replacement programs.

[7] Amtrak OIG, *Amtrak Corporate Governance: Implementing a Risk Management Framework is Essential to Achieving Amtrak's Strategic Goals*, OIG-A-2012-007, March 30, 2012.

tendency for departments to operate in silos rather than collaborate on decisions, which has resulted in conflicts.[8] We reported that the executive leadership team would agree on department budget targets, but some departments would then submit requests that exceeded the targets. The Finance department would then dictate across-the-board percentage cuts rather than work with executives to agree on more strategic budget adjustments.

We also noted that fractured responsibility for decision-making under the prior business line organization structure undermined accountability for program results. When the company created business lines in FY 2013, it left the authority to make some budget and operating decisions vested with other corporate units, such as Marketing and Engineering. As a result, managers told us business lines had little influence over decisions—such as which track to repair, or when to launch a fare sale—even though these decisions affected the lines' operations and financial performance. In the January 2017 reorganization, the CEO disbanded the business lines, redirected some of their functions, and organized the lines' train operations into three geographically based divisions—East, Central, and West. Because the roles, responsibilities, and functions of the new and reconfigured divisions are still evolving, it is too early to tell how this change will affect the authority for budget or other operating decisions.

Our work also showed that the company could have avoided inefficiencies if it had designated senior accountable officials to manage key programs and projects. This was true for its implementation of the positive train control systems, video surveillance system, infrastructure upgrades in response to requirements of the Americans with Disabilities Act (ADA), and its procedures for boarding passengers.[9] The lack of accountability for managing these programs and projects resulted in conflicts, delays, cost increases, and other problems.

As noted earlier, the company's new organizational structure is intended to streamline decision-making, increase alignment between departments, and establish clear areas of

---

[8] Amtrak OIG, *Governance: Addressing Remaining Shortcomings Would Lead to a Budget Development Process More Fully Aligned with Leading Practices*, OIG-A-2017-004, January 17, 2017.

[9] Amtrak OIG, *Safety and Security: Progress Made in Implementing Positive Train Control, but Additional Actions Needed to Ensure Timely Completion of Remaining Tasks*, OIG-A-2017-001, October 6, 2016; *Information Technology: Progress Made Installing Video Surveillance Systems, but Coverage and Performance Could Be Improved*, OIG-A-2016-010, August 9, 2016; *Acquisition and Procurement: Adequate Competition for Most Contracts Awarded Under Americans with Disabilities Act Program, but Procurement Policies Could be Improved*, OIG-A-2016-008, June 8, 2016; *Train Operations and Business Management: Addressing Management Weaknesses Is Key to Enhancing the Americans with Disabilities Program*, OIG-A-2014-010, August 4, 2014; *Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience,* OIG-A-2016-011, September 7, 2016.

responsibility. This change offers the potential to help address some of the governance challenges we have identified in our prior work. However, its success will depend, in large part, on how nimbly the organization can react to and embrace the new structures and adhere to the new ways of doing business.

Using Amtrak's Strategic Goals and Priorities to Drive Spending Decisions

The company does not consistently ensure that its strategic goals and spending priorities are the primary factors driving business decisions. Our report on the company's budget development process noted that some departments had not bought in to the company's strategic planning process and did not base their spending and operational decisions on its strategic goals. We also reported that the strategic management system stalled because of a lack of funding and other support needed to successfully roll it out across departments. Company executives suggested that the new CEO should decide whether to fully commit to the system or pursue an alternative.

As noted above, the company has begun classifying its capital projects into three categories—mandatory, state-of-good-repair, and new initiatives—to help set spending priorities. However, we found that the company does not set priorities for state-of-good-repair projects, which account for about 60 percent of the total capital budget. As a result, the company cannot ensure that it is giving funding priority to the most necessary and time-critical projects. We recommended that the executive leadership team set priorities for a greater share of the company's funds. The company partially agreed with our recommendation and told us that Finance is leading an effort to improve the process used to determine funding priorities. However, we continue to question whether the changes we seek in the process can be achieved without more executive leadership involvement and active CEO direction and oversight. Accordingly, we requested that as the company implements its new organizational structure, it consider alternatives to more fully address the shortcomings identified in our report.

Our recent work continues to illustrate management control deficiencies that occur when departments do not take a strategic approach to managing individual programs and projects:

- ***Master Services Agreements (MSAs).*** In our February 2017 report,[10] we found that the company does not strategically manage its growing number of MSAs—a type of contract used to obtain professional services, such as IT support. As a result, the company cannot monitor and control the costs of these contracts—which totaled about $400 million from October 2008 through September 2016—and coordinate procurement decisions across the company.

- ***Passenger boarding procedures.*** In September 2016, we reported that the company did not have a unified passenger boarding strategy.[11] In the absence of such a strategy, station managers and other regional personnel developed their own boarding procedures, leading to inconsistent procedures, confusing signage, and frustrated passengers.

- ***Video surveillance system.*** In August 2016, we found that the company did not develop a strategic approach to designing and implementing its video surveillance network.[12] As a result, the network has gaps in surveillance coverage at some high-risk stations and cannot ensure that the company will have the information it needs to respond in an emergency.

Our prior work also found that the lack of a strategic approach hindered the company's efforts to manage other functions and activities, such as procuring spare parts, making ADA changes, and implementing the next-generation reservation system.[13] We made a number of recommendations in the resulting reports to help the company address the weaknesses identified. The company generally agreed with the proposed changes and

---

[10] Amtrak OIG, *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved*, OIG-A-2017-006, February 22, 2017.
[11] Amtrak OIG, *Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience*, OIG-A-2016-011, September 7, 2016.
[12] Amtrak OIG, *Information Technology: Progress Made Installing Video Surveillance Systems, but Coverage and Performance Could Be Improved*, OIG-A-2016-010, August 9, 2016.
[13] Amtrak OIG, *Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings*, OIG-A-2017-005, February 3, 2017; *Acquisition and Procurement: Adequate Competition for Most Contracts Awarded Under Americans with Disabilities Act Program, but Procurement Policies Could be Improved*, OIG-A-2016-008, June 8, 2016; *Train Operations and Business Management: Addressing Management Weaknesses Is Key to Enhancing the Americans with Disabilities Program*, OIG-A-2014-010, August 4, 2014; and *Asset Management: Amtrak Followed Sound Practices in Developing a Preliminary Business Case for Procuring Next-Generation High-Speed Trainsets and Could Enhance its Final Case with Further Analysis*, OIG-E-2014-007, May 29, 2014.

is taking action to address many of them. Once implemented, the changes should help the company take a more strategic approach to its business activities.

Enhancing the Use of Management Tools to Reduce Risks

The company continues to face significant business risks because not all the departments are committed to the company's Enterprise Risk Management process. The company's risk management governing committee has not met during the past year, and some executives reported that the process has stalled. They noted that the risk management process is not integrated with the company's strategic management system and budget processes; therefore, it competes with these processes for departments' attention. As a result, risk controls in some departments are lacking.

A report prepared for the Board in September 2016 by the director of the risk management office concluded that risk controls at the corporate level and in 6 of the 11 departments need to improve, and that some of these gaps place the company at "significant" risk. The risk management office characterizes significant risks as those that meet any of seven specific criteria, such as creating the potential for a life-threatening injury or blocking the company's ability to achieve a strategic goal.

Even when department leadership is making an effort to identify and mitigate risks through effective controls, we found that these controls are not always being cascaded down to the operational levels, and that managers and supervisors are not consistently held accountable for enforcing them. For example, our review of the company's procurement processes found that company costs were escalating because managers were not consistently applying procurement controls—such as buying materials from the lowest-cost vendor, taking advantage of early payment discounts, and seeking opportunities to better manage cash flow through negotiations of longer payment terms.[14]

Our recent work shows that problems with management controls continue in the following areas:

- ***Vehicle fleet management.*** In our October 2015 report, we found problems in the company's management of its vehicle fleet.[15] These problems included weaknesses in the controls over vehicle acquisition and leasing, lapsed vehicle inspections, and weak controls over company-issued fuel procurement cards. In

---

[14] Amtrak OIG, *Governance: Opportunities Exist to Improve the Efficiency of Procurement Practices for Goods and Services*, OIG-A-2015-005, February 11, 2015.
[15] Amtrak OIG, *Asset Management: Observations on Vehicle Fleet Management*, OIG-MAR-2016-001, October 16, 2015.

addition, the company authorized some employees to use company vehicles without reviewing their driving records.

- ***Managing spare parts.*** In February 2017, we reported that, with more effective management controls, up to $5.56 million in company funds used for spare diesel locomotive parts could be put to better use. This includes $5.3 million for some spare parts that the company drew from its own inventory rather than relying on a supply that General Electric was contractually obligated to provide. Additionally, the company missed opportunities to collect $265,000 for late-delivered parts because it does not have an effective process to ensure that it calculates and receives credits for parts that General Electric does not deliver on time.[16]

- ***Ethical violations***. As in past years, our oversight efforts this year continued to identify examples of ethical violations by employees and managers at multiple levels within the company. For example, we documented individual cases of conflict of interest violations, property theft, contractor fraud, and fraudulent health insurance claims, among others. Based on these persistent individual problems, we are completing a systematic assessment of the company's overall ethics program in comparison to leading industry practices. The goal is to identify opportunities to strengthen the program's ability to deter such violations and promote ethical behavior within the company.

We made numerous recommendations to management on improvements to address the deficiencies cited above. Management responded in a timely manner and generally agreed to make the recommended changes.

Implementing a Disciplined Approach to Project Management

With more than 700 capital projects costing about $1 billion each year and a looming portfolio of future infrastructure and equipment projects, it is critical that the company develop and maintain an effective and structured approach to managing projects. Although the company established the ePMO last year, the office faces a number of challenges to successfully implementing a disciplined project management approach company-wide.[17] Since May 2013, we have issued 14 reports that identify significant weaknesses in the company's management of its projects. These weaknesses have

---

[16] Amtrak OIG, *Acquisition and Procurement: Improved Management and Oversight of GE Diesel Locomotive Service Contract Could Lead to Savings*, OIG-A-2017-005, February 3, 2017.
[17] In this section, we generically discuss challenges to effective "project" management as they relate to both managing a program—defined as a group of related projects—and managing an individual project.

included the lack of effective governance and project management frameworks—such as establishing organization charts, management plans, and decision-making processes and procedures—as well as inadequate oversight and control of projects. As a result, the company has experienced significant scope changes, cost overruns, and missed milestones on significant capital initiatives and projects.

Two reports we issued within the past year highlight some of the weaknesses in the company's management of projects and the related effects. We made recommendations for improvement in each of these reports, which the company generally agreed to implement.

- ***Positive train control.*** In October 2016, our third report on the company's implementation of positive train control identified continued diffused accountability across several departments, leaving the company vulnerable to cost and schedule increases. In addition, the company did not fully estimate the complete cost of the implementation tasks, which could lead to cost increases totaling hundreds of millions more than initially budgeted.[18]

- ***CAF long-distance equipment.*** In February 2016, we documented the need for the company to establish a more structured, integrated approach to managing the 2010 procurement of long-distance passenger cars from CAF USA that were originally scheduled for delivery in November 2014. At the time of our report, the new delivery completion date was not expected until March 2017—a delay of more than two years. Through December 2015, the delays in delivering these long-distance passenger cars had led to increased project costs of $7 million and deferred benefits of $3.7 million. Key management weaknesses included unclear decision-making authority and accountability, the absence of a risk mitigation plan, and contract terms not being enforced.[19]

As noted previously, the company has taken a significant step to address its project management weaknesses by establishing the ePMO in January 2016. The ePMO has responsibility for providing company-wide governance of program and project management to achieve program and project goals, financial outcomes, and schedule milestones. This includes establishing standardized project management processes, metrics, requirements, and a training regimen. The ePMO has direct oversight of a small number of major corporate programs, but primarily works with departments as a

---

[18] Amtrak OIG, *Safety and Security: Progress Made in Implementing Positive Train Control, but Additional Actions Needed to Ensure Timely Completion of Remaining Tasks*, OIG-A-2017-001, October 6, 2016.
[19] Amtrak OIG, *Asset Management: Additional Actions Can Help Reduce Significant Risks Associated with Long-Distance Passenger Car Procurement*, OIG-A-2016-003, February 1, 2016.

facilitator to ensure that they are adequately managing and overseeing their own projects.

To continue its effort to establish a disciplined project management approach company-wide, the company faces a few immediate challenges, including:

- ***Providing the ePMO adequate authority and gaining company-wide acceptance of a standardized project management approach.*** The company should work to gain company-wide acceptance of the ePMO and its standardized, disciplined approach to project management. Some departments have not fully embraced or been supportive of the ePMO and its new project management policies and procedures. For example, Engineering—which has the largest portfolio of capital projects—has been resistant to implementing ePMO's policies and procedures, citing the existence of its own independent project management function. In a December 2015 report, we reported that this was a potential problem and recommended that the company work with executives to ensure that planned department-level project management initiatives are consistent with company-wide initiatives.[20] Under the company's recent reorganization, the ePMO is located in the newly created Administration group and reports to the Executive Vice President/Chief Administrative Officer. However, its authority over department-level program and project management is unclear. The lack of adequate authority could undermine the ePMO's ability to bring rigor to the program and project management function across the company.

- ***Enhancing project management capacity and skills throughout the company.*** Soon after its creation, the ePMO conducted a survey of the company's project management maturity and rated it at about 1.3 on a 5-point scale. In particular, it found that the company's project scheduling and cost estimation skills were weak overall. The ePMO also found that many employees managing projects lacked sufficient project management training, skills, and expertise. The ePMO is working on standardizing project managers' career paths, training, and credentials as a key step to strengthening project management capacity throughout the company. For example, according to the ePMO's policies, by October 2017, all staff with project management responsibilities must have project management certifications.

Addressing these challenges should go far toward bringing much-needed rigor to the company's program and project management. However, top executives will need to

---

[20] Amtrak OIG, *Governance: Alignment with Best Practices Could Improve Project Management Office Implementation*, OIG-A-2016-002, December 16, 2015.

fully commit and continuously reinforce the concepts of disciplined accountability, cost estimating, scheduling, and oversight in order to establish an effective project management culture throughout the company.

2. Financial Performance: Securing the Company's Financial Future

The company's goal of achieving financial excellence by turning an operating profit remains an elusive and ongoing challenge. Since its creation in 1971,[21] the company has received $45.6 billion in federal funds to cover its annual operating losses and to fund capital improvements such as rolling stock—locomotives and rail cars—and railroad infrastructure. The company has significantly improved its financial and operating performance over the last five years—its FY 2016 operating loss of $230 million represented a $143 million improvement over the company's reported operating loss of $373 million in FY 2012. However, additional progress will require management's sustained attention and long-term commitment to increase revenues and reduce costs.

In addition to profitability, the company's strategic goal of financial excellence states, "be good stewards of capital in order to secure our long-term viability as a company."[22] Our work has identified numerous areas in which weak management controls and inadequate program and project management have led to waste and financial inefficiencies, and has raised questions regarding the company's stewardship of federal funds. Being good stewards of federal funds is an important element of the company's financial excellence strategic goal and is key to gaining the trust of public and private investors.

During the last decade, company officials and federal oversight agencies have cited Amtrak's public-private status as a complicating factor in its efforts to advance its strategic goal of financial excellence. The company's authorizing legislation requires it to be managed as a for-profit corporation, but Congress has enacted restrictions that make it difficult for the company to make sound business decisions. For example, federal law requires the company to operate long-distance routes although these routes continue to lose money.

The company's major challenges related to securing its financial future include:

- improving revenues and returns on investments in a competitive environment
- identifying and implementing sustainable cost-reduction strategies
- securing sufficient capital funding to support financial improvement goals

---

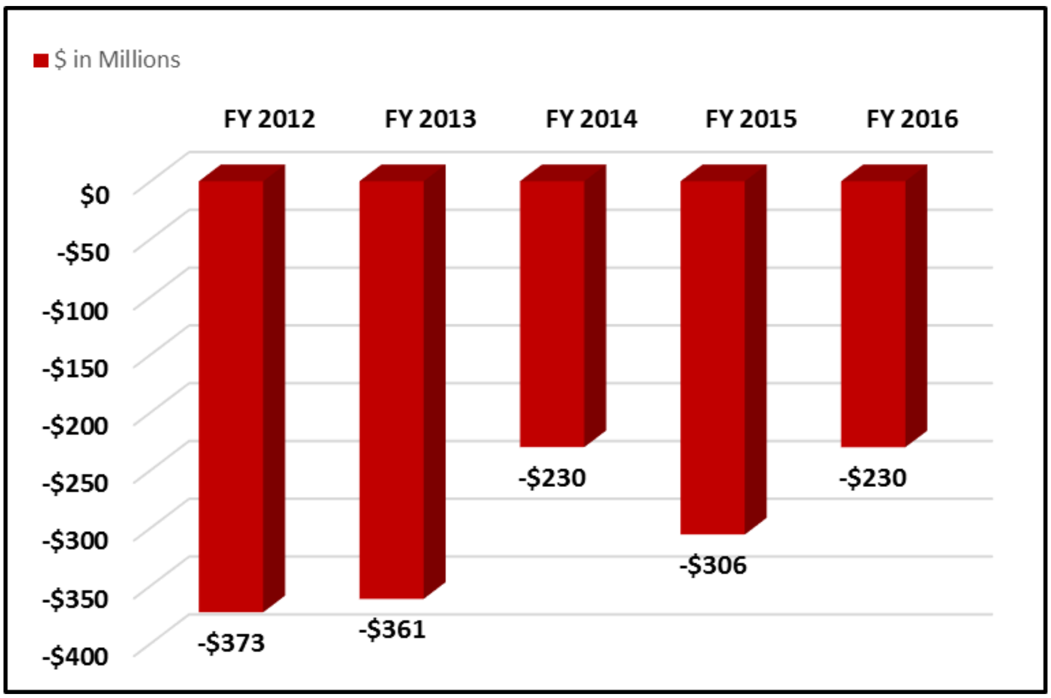
[21] The authorizing legislation creating Amtrak was signed into law in 1970; however, the company did not begin operations until May 1971.
[22] Amtrak, *Strategic Plan FY 2014–FY 2018.*

- being good stewards of federal funds
- protecting the integrity of financial information systems and providing accurate and transparent cost information

Progress to Date

Advancing corporate financial and performance goals. The company made significant progress this past year in reducing its operating losses, reporting a FY 2016 operating loss of $230 million, which was a $143 million improvement over its loss in FY 2012.[23] The reduced loss in FY 2016 generally follows a trend of sustained financial improvement, with one exception in 2015, as shown in Figure 1.

Figure 1. Amtrak Adjusted Net Operating Losses, FY 2012–FY 2016



Source: OIG analysis of data provided by Amtrak's Finance department

The progress in recent years reflects, in part, increasing profits in the Northeast Corridor, which were used to offset losses on long-distance service. Additionally, states have contributed more to support services from which they benefit, including sharing the financial burden for unprofitable routes. In FY 2016, the company's marked

[23] The adjusted net operating loss is the net loss determined on the basis of generally accepted accounting principles but excludes (1) certain non-cash items such as depreciation and income tax expense and (2) income statement items funded by capital and debt service grants.

improvement over FY 2015 was partially attributable to substantial fuel savings from historically low fuel prices; warranty settlements and insurance proceeds; and lower expenses in the Information Technology, Finance, and Law departments.

Improving controls over financial reporting. The company has made progress improving the quality and timeliness of its audited financial statements. Over the past year, the company corrected three material weaknesses first identified in the audit of its FY 2013 financial statements: (1) capital lease accounting, documentation, and analysis; (2) income tax accounting; and (3) financial reporting—including the complete, accurate, and timely production of financial statements. In addition, the company issued its FY 2016 financial statements on January 27, 2017, which was on time—a significant improvement over the seven-month delay in issuing its FY 2015 statements. The company also made progress addressing internal control weaknesses related to payroll management—an issue first identified in an audit of the company's FY 2012 compliance with federal grant requirements.

Challenges

Improving Revenues and Returns on Investments in a Competitive Environment

In FY 2016, the company generated $2.5 billion in passenger revenues[24] and $745 million in revenues from other sources, such as commuter rail services, station retail leases, parking, and advertising. Although passenger revenues were up $17 million from FY 2015, they were $129 million below budget forecasts for 2016. The company attributes the lower-than-anticipated revenue in part to low fuel prices, which made automobile travel an attractive alternative to rail in some markets. The company also faced increased competition from intercity bus and airlines in top markets. Nonetheless, in this challenging competitive environment, the company has opportunities to improve by better managing revenue and monetizing service improvements.

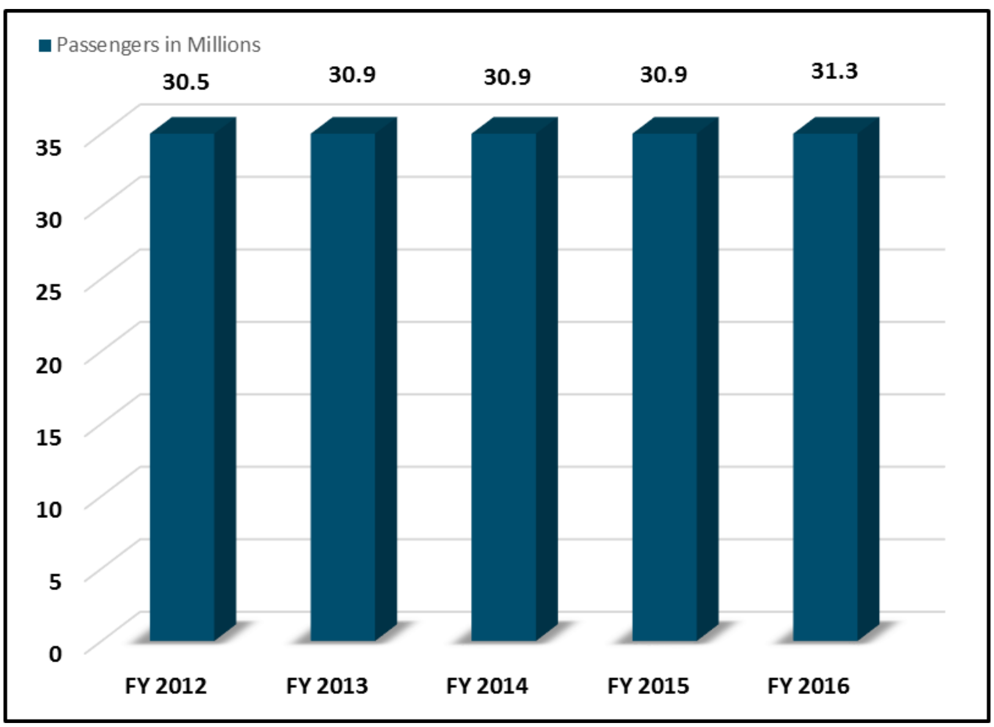
Improving revenue management. An external revenue consultant attributed lower-than-anticipated revenues in FY 2016 in part to weaknesses in the company's revenue management system—Rail Price Optimizer. The company uses this system to manage seat availability and pricing, and to help make decisions on when to discount or raise fares. The consultant identified forecasting errors as high as 80 percent, which resulted from a combination of software limitations and staff not fully utilizing the capabilities of Rail Price Optimizer. The consultant also found that the company was not

[24] Passenger revenues consist predominantly of ticket revenues (about 85 percent), with additional revenues from onboard food and beverage sales (about 5 percent) and state-supported services (about 10 percent).

maximizing revenues from its premium services. For example, in some cases, the company offered discounted fares too close to departure time—generally a window when business travelers are willing to pay premium fares. More broadly, the consultant cited several factors that undermined company's ability to maximize revenue, including: (1) the company's lack of a clear growth strategy and understanding of customer needs, and (2) a misalignment between capital investment and marketing. For example, the consultant noted that the company "celebrates new trains (capital) rather than customer/ability to fill those trains." The consultant presented a number of initiatives to address these deficiencies, which include improving forecasting accuracy, increasing revenue management staffing, and better aligning the functions of revenue management and marketing.

Monetizing service improvements. The company is investing in service improvements aimed at improving the customer experience, but it has struggled to translate those improvements into increased revenues. Recent service improvements include extending free Wi-Fi to more trains and improving Wi-Fi service on its premium trains. The company also expanded two programs to attract new riders: Bikes on Trains and Pets on Trains. Despite these investments, the company's ridership gains have been modest, growing by only 2.6 percent from FY 2012 through FY 2016, as illustrated in Figure 2.

Figure 2. Trend in Annual Ridership, FY 2012–FY 2016



Source: OIG analysis of Amtrak Marketing department data

Furthermore, in FY 2016, the average ticket revenue per rider was about $1 less than FY 2015 and about $2 per rider below what the company projected for the year. The decline was more pronounced for long-distance services: average per-passenger ticket revenues were about $5 below the prior year and about $8 below the FY 2016 forecast.

Identifying and Implementing Sustainable Cost-Reduction Strategies

The company continues to face challenges identifying and capitalizing on opportunities to reduce costs. In FY 2016, the company achieved unprecedented success in this area through a combination of targeted savings opportunities, cost-sharing with states, and one-time savings related to low fuel costs, warranty settlements, and insurance proceeds. In future years, the company will need to build off this success by identifying and targeting new opportunities to reduce costs, with an emphasis on actions that are likely to generate sustainable savings. In addition, the company faces challenges in recovering costs from external stakeholders, such as states and commuter authorities. Also, human capital costs have posed a long-standing challenge for the company—particularly the labor and benefit costs for workers covered under collective bargaining agreements (agreement employees).

Targeting opportunities for sustained cost savings. Identifying and committing to strategies that will lead to significant, sustainable cost savings will be a challenge going forward. In April 2016, company leadership launched a corporate performance improvement initiative—Project Rail-Saver 1.50—to identify potential cost-reduction opportunities in the Marketing, IT, Human Resources, Finance, Procurement, and Law departments. The consultant engaged to assist with the study identified more than $100 million in potential savings and projected that most of these savings could be realized by the end of 2017. And, in fact, the company recognized some early savings in late FY 2016. However, in its October 2016 presentation to the Board, the consultant warned that one of the greatest risks to the company fully realizing the potential savings included an absence of accountability. The consultant noted that in order for sustainable cost savings to be achieved, company managers would need to take ownership of overseeing and delivering the initiatives. As we discuss in the Governance section of this report, a significant challenge for the company has been holding managers accountable for delivering program results.

Recovering costs from external stakeholders. Finalizing agreements and collecting contributions from state and commuter authorities under mandatory cost-sharing agreements continues to pose challenges because of disagreements over cost-sharing methodologies. States and commuter authorities that share infrastructure with the company or benefit from the company's services are required to pay an equitable share of operating costs and contribute to capital needs for services provided in those states, under Sections 209 and 212 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).[25] States supporting services of under 750 miles began sharing costs for those services in FY 2014 as required by PRIIA Section 209. Beginning in FY 2016, PRIIA Section 212 provisions became operational, and the company began recovering an allocated portion of operating and capital costs from other Northeast Corridor stakeholders according to a standardized formula developed in conjunction with the northeastern states, the Northeast Corridor Infrastructure and Operations Advisory Commission,[26] the U.S. Department of Transportation, and commuter authorities.

However, negotiating these agreements has been difficult, due to weaknesses in the company's financial performance tracking system, errors in billing, and disagreements between states and commuter authorities as to which Amtrak costs they should share and to what extent. Executives also attribute problems finalizing and executing these agreements to the company's inexperience working in a business-to-business environment that requires it to treat states as customers and provide timely and courteous service. Further, for the Section 209 agreements, the company's financial performance tracking system, Amtrak Performance Tracking (APT), continues to struggle to produce accurate and transparent financial information, which serves as the basis for the company's assessment of state costs. Disagreements over the inclusion of certain costs, as well as how those costs have been allocated, have led to delays in renewing the annual agreements and high levels of accounts receivables related to unpaid state bills. Additional information on APT is included later in this section on financial reporting systems.

Reducing human capital costs. One of the company's largest expenses is human capital—particularly wages and benefits for agreement employees, who account for about 84 percent of the company's nearly 20,000 employees. Efforts to reduce costs in this area have met with limited success, and labor-related costs for agreement employees continue to rise as a percentage of all costs. Wages and healthcare benefits for agreement employees increased from 35.9 percent of the company's total operating expenses in FY 2015 to 37.2 percent in FY 2016. Although negotiations with the 12 labor unions and 2 councils representing agreement employees are underway, executives

---

[25] Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, Div. B, Title II, 122 Stat. 4848 (2008) (codified at 49 U.S.C. § 24905).

[26] Congress created the Northeast Corridor Infrastructure and Operations Advisory Commission in PRIIA and charged it with developing a formula to allocate corridor capital and operating costs based on usage, making recommendations to Congress, and facilitating collaborative planning. The Commission is made up of 18 members, including representatives from each of the 8 states in the Northeast Corridor, the District of Columbia, Amtrak, and the U.S. Department of Transportation.

have expressed little optimism that these negotiations will yield significant cost savings. Challenges associated with workforce costs are discussed in greater detail in the Human Resources section of this report.

Securing Sufficient Capital Funding to Support Business Goals

To date, the company has relied primarily on federal grants and loans to finance its capital investments; however, the timing and amount of funding has not always been predictable or provided in a way that is conducive to long-term planning. Sufficient funding for capital investments is critical because the company has attributed strong financial growth to its investments in equipment and infrastructure, and it predicates future business growth on its ability to continue making such capital investments. The company anticipates funding future capital projects from a combination of sources, including self-generated revenues, federal grants and loans, state contributions, and private investment; however, each of these options presents challenges.

Reinvesting Northeast Corridor operating profits in Northeast Corridor capital needs. The 2015 Fixing America's Surface Transportation Act (FAST Act)[27] requires the company to develop an account structure to enable it to report separately on the operating profits and losses of the Northeast Corridor and those of the rest of the system—designated as the National Network.[28] The revised account structure establishes a framework for allowing the company to reinvest Northeast Corridor operating profits into corridor infrastructure needs, rather than using these profits to offset losses on other services—especially long-distance routes, which recover, on average, just 48 percent of their operating costs.

In FY 2016, revenues on the Northeast Corridor exceeded operating costs by $479 million.[29] The ability to reinvest profits of this magnitude into the corridor's infrastructure is a good start, but is far from a complete funding solution given the high costs associated with the long list of Northeast Corridor needs—for example, rebuilding the Portal Bridge over the Hackensack River in New Jersey, constructing new tunnels

[27] Pub. L. No. 114-94 (2015).
[28] The Northeast Corridor is the Boston-to-Washington main line; the National Network includes all facilities and services outside the Northeast Corridor, including activities associated with state-supported routes (train routes less than 750 miles outside the Northeast Corridor main line) and long-distance routes, and commuter services that operate under these lines of businesses. It also includes an allocated portion of "shared services," or those company-wide expenses that serve both accounts, such as corporate management functions.
[29] Operating costs exclude interest, depreciation, and other non-cash expenses; numbers are based on unaudited FY 2016 data as reported in the company's Route Performance Report dated October 25, 2016. At the time of our report, the data had not been updated to reflect FY 2016 audited financial results.

under the Hudson River, upgrading capacity-constrained segments, and making improvements to support the next generation of high-speed rail. The company notes, however, that given the Northeast Corridor's strong and predictable financial performance, the profits could be used to leverage private capital and debt financing.

Since the FAST Act was enacted, the company has been working with the Federal Railroad Administration (FRA) to establish the mandated accounts. However, the effort has been hampered by limitations in the company's internal financial reporting system, which is discussed further in the financial reporting section to follow. In FY 2017, Congress began providing separate capital and operating grants according to the needs of each account—Northeast Corridor and National Network—and the company anticipates using Northeast Corridor profits to fund some portion of its infrastructure needs on the corridor during FY 2017.[30]

Securing a predictable funding stream. Cumulatively, the company has received significant federal funding since its creation—$45.6 billion in federal grants. However, the company has long advocated for a significant, long-term, multi-year capital commitment from the federal government, stating that only this type of funding arrangement will permit the company to efficiently plan and execute major, multi-year projects, such as bridge and tunnel replacements. The company states that the lack of predictability in the timing and levels of capital investment tends to discourage systematic, long-term strategic planning and investment in favor of short-term fixes—a strategy that the company asserts is more costly in the long term. Although acknowledging that the FAST Act supports improvement in rail infrastructure, enhances rail safety, and accelerates rail project delivery, the company's FY 2017 budget justification stated that the company intends to continue to pursue a dialogue with the Administration and Congress regarding a long-term, predictable source of capital funding.

In addition to grants, the company has procured new equipment by securing low-interest loans from the Department of Transportation. During FY 2016, the company secured a $2.45 billion loan from the FRA's Railroad Rehabilitation and Improvement Financing program to procure the next generation of high-speed trainsets to replace the aging Acela equipment on the Northeast Corridor. The company will also invest part of the loan in station upgrades and improvements to safety, track capacity, and ride

[30] Pub. L. No. 114-223, which provided continuing appropriations for FY 2017 through December 9, 2016, required the company to obligate funds in the FAST Act account and budget structure. Additionally, Pub. L. No. 114-254 extended the previous continuing appropriation provisions through April 28, 2017.

quality on the Northeast Corridor. The company plans to repay the loan through anticipated growth in corridor revenues.

Engaging states as capital funding partners. For Amtrak's 29 state-supported routes, PRIIA Section 209 agreements significantly increase state capital equipment contributions to help pay for overhauls of locomotives and rail cars. In addition to reimbursing the company for incurred capital costs, some states—such as Illinois, North Carolina, and Washington—are undertaking their own infrastructure improvements and equipment purchases. For capital needs in the Northeast Corridor, the PRIIA Section 212 agreements also require states and commuter authorities to contribute to basic infrastructure reinvestment. Company documents state that these investments will help the company and other Northeast Corridor users sustain current levels of service and will improve cooperative planning and coordination across the Northeast Corridor network. However, the company emphasizes that the level of investment will be insufficient to support the long-term growth plans of either the company or other corridor stakeholders. As noted earlier, negotiating both the Section 209 and Section 212 agreements has proven a challenge for the company because states have questioned the types of costs being allocated and the company's methodology for determining states' shares. These challenges are discussed later in this section.

Beyond the legislatively mandated capital-sharing agreements, the company has also worked closely with states in the Northeast Corridor to develop funding partnerships for large, mutually beneficial capital projects. For example, in November 2016, Amtrak and the states of New York and New Jersey joined forces to create the Gateway Program Development Corporation—an independent entity established to oversee and manage the $24 billion Gateway Program. When complete, the program will double rail capacity between New York and New Jersey, alleviating a commuter and intercity train bottleneck. The states, the company, and the federal government have agreed to participate equitably in the costs.

Leveraging private investment. The company is increasingly seeking opportunities to leverage private investment in infrastructure projects to generate additional revenue and accelerate refurbishment and modernization of station assets. In FY 2014, the company launched the Terminal Development Initiative to improve five major stations: Baltimore Penn Station, Chicago Union Station, New York Penn Station, Philadelphia 30th Street Station, and Washington Union Station. Projects at these stations include enhancing the stations and developing office space, retail and commercial space, adjacent properties, air rights, and rights of way. These projects are in various stages of planning and implementation. The company's challenge will be attracting private investors to participate in projects that address the company's interests, especially those that offer lower returns-on-investment.

A further challenge will be protecting the company's financial interests in these partnerships while preventing the profit interests of private investors from compromising the operational value of critical company assets. For example, as part of our audit assessing the company's boarding procedures, we noted that international rail operators reported that developers' desire for retail outlets and advertising in key station locations often conflicted with train operators' belief that such structures interfered with passenger sight lines and obstructed walkways. We discuss our recent work reviewing the company's management and oversight of the Terminal Development Initiative in the Asset Management section of this report.[31]

Being Good Stewards of Federal Funds

The company's financial excellence strategic goal includes a commitment to be good stewards of federal funds. This includes practicing effective project and program management and ensuring that internal controls are sufficient to prevent and detect fraud, waste, and abuse.

Over the years, our work has identified numerous opportunities for the company to improve its financial bottom-line through more effective management and oversight of its programs, projects, and procurements. For example, our recent report on Master Services Agreements identified up to $18 million in potential savings through enhanced management and oversight.[32] In addition, our report on the company's $191 million contract with Siemens for technical support and spare parts for new ACS-64 locomotives found that the company's delayed decision on a maintenance strategy resulted in about $6.8 million of increased costs and inefficient use of labor.[33] We also identified opportunities for the company to mitigate future costs by improving oversight of the procurement of its long-distance passenger cars. Through December 2015, we estimated that delivery delays on these passenger cars had already raised the project costs by an estimated $7 million and resulted in a deferral of about

[31] Amtrak OIG, *Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks*, OIG-A-2017-002, December 14, 2016.
[32] Amtrak OIG, *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved,* OIG-A-2017-006, February 22, 2017.
[33] Amtrak OIG, *Acquisition and Procurement: Opportunities Exist to Improve Management of Technical Support Services Contracts,* OIG-A-2016-013, September 30, 2016.

$3.7 million in benefits the company expected to accrue from having the cars in revenue service.[34]

Our investigative work also continues to identify numerous instances in which stronger internal controls might have deterred or prevented tens of thousands of dollars in fraud, waste, and abuse. As we discuss in the Governance section of this report, the company has made progress establishing and staffing an enterprise-wide program management office, and has begun to provide training, issue policies, and launch other initiatives that could improve the quality of program and project management throughout the company.

Protecting the Integrity of Financial Information Systems and Providing Accurate and Transparent Cost Information

The company has made progress addressing material weaknesses[35] cited in past years' audits of its financial statements; however, one weakness related to access and operations of information systems that impact financial reporting has not yet been addressed. Additionally, limitations in APT, the company's tool to track financial performance, continue to complicate the company's negotiations with states over cost-sharing of certain state-supported routes. These same limitations could make compliance with new FAST Act requirements more challenging.

Protecting the integrity of financial systems. The company produces annual audited financial statements primarily for the use of external stakeholders such as private creditors. These statements, which are prepared in accordance with generally accepted accounting principles, provide information about the company's cash flow, value of property and equipment, future liabilities, and operating results during the year reported. As we noted above, the company corrected three material weaknesses first identified in the audit of the company's FY 2013 financial statements. However, the company has yet to remediate the causes of an additional material weakness cited in the

---

[34] Amtrak OIG, *Asset Management: Additional Actions Can Help Reduce Significant Risks Associated With Long-Distance Passenger Car Procurement*, OIG-A-2016-003, February 1, 2016.
[35] A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material financial misstatement will not be prevented, or detected and corrected on a timely basis.

company's FY 2014, 2015, and 2016 financial statement audits.[36] The weakness relates to the company's controls over users' access and operations of information systems that impact financial reporting. The company notes that it has identified the root cause of the problems and will continue to institute corrective action plans to address the auditors' remaining findings during FY 2017.

Accurate and transparent cost information. The company also utilizes APT to understand how routes, lines of business, and other company activities relate to the company's operating results.[37] The tool is primarily used by internal managers to support operating and marketing decisions, as well as to determine the costs of providing passenger service or maintenance services to external parties such as states or commuter railroads. One of APT's shortcomings is its limited ability to precisely determine the actual costs of specific activities. For example, in FY 2013, the Department of Transportation Office of Inspector General reported that APT was able to directly assign only 55 percent of company costs to business line operations—well short of the 80 percent that some freight railroads are able to directly assign.[38]

The limitations in APT have become more prominent—and controversial—because PRIIA requirements for state cost-sharing agreements necessitate the use of APT data to bill states for their share of costs. Executives noted that states substantially increased their criticism of the accuracy and transparency of costs allocated to state-supported routes after these agreements went into effect in FY 2014. The Government Accountability Office also looked at states' experiences with PRIIA and reported that disagreements over the costs the company allocated to the states resulted in delays renewing state contracts, as well as difficulties collecting state reimbursements for

---

[36] Amtrak, *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2016 and 2015, With Report of Independent Auditors*, January 27, 2017; *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2015 and 2014, With Report of Independent Auditors*, August 3, 2016; and *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2014 and 2013, With Report of Independent Auditors*, October 1, 2015.

[37] The APT system was developed by Amtrak, the FRA, and the Volpe Center to create an improved methodology and a process for calculating and reporting fully allocated costs and revenues for Amtrak routes and other businesses. The efforts to develop APT began in 2005 and in FY 2010 replaced the Route Performance System as the sole financial performance tracking system.

[38] 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.

services the company provided.[39] Our report on the company's budget development process discussed similar issues.[40]

In 2015, the company began working with states and the FRA—via the State Amtrak Intercity Passenger Rail Committee and other groups—to correct financial data errors and improve APT's ability to directly assign costs to specific activities. In April 2015, the company initiated the Account Coding Error Project to begin addressing coding errors in the company's general ledger system that resulted in allocation errors. Although there is more work to be done, the company believes that this group has improved data reporting and relationships with states, which has improved the timeliness of state remittances.

As noted earlier, passage of the FAST Act in December 2015 placed a new financial reporting requirement on the company that is proving difficult to achieve because of APT's limited reporting capabilities. The FAST Act requires the company to issue separate reports identifying the operating profits or losses and capital needs of the Northeast Corridor and the National Network. It also requires five-year business plans for each of the company's three business lines—Northeast Corridor train services, state-supported routes, and long-distance routes—and a fourth business line related to ancillary services, including commuter and other operations.

In December 2016, the company advised the FRA that it had made progress toward implementing the new account structure; however, officials noted that additional time would be necessary to meet the 2016 and 2017 statutory deadlines for complying with the new report requirements, in part because of weaknesses in APT. A May 2016 FRA report reinforced these challenges and echoed the company's assessment regarding weaknesses in the performance tracking system.[41] The company's January 2017 reorganization largely eliminates the company's prior business lines and divides responsibilities and oversight for various aspects of their operations between the company's Operations and Marketing departments. The company is in the process of determining how this reorganization will affect the PRIIA and FAST Act reporting requirements. Nonetheless, the current appropriations law provides the company with funding assistance in the new two-account structure, and the company stated its intent

[39] Government Accountability Office, *AMTRAK: Better Reporting, Planning, and Improved Financial Information Could Enhance Decision Making*, GAO-16-67, January 6, 2016.
[40] Amtrak OIG, *Governance: Addressing Remaining Shortcomings Would Lead to a Budget Development Process More Fully Aligned with Leading Practices*, OIG-A-2017-004, January 17, 2017.
[41] Federal Railroad Administration, *Account Structure Definition and Accounting Methodology Improvements to Address Section 11201 of the FAST Act of 2015*, May 2016.

to use operating profits from the Northeast Corridor to address some portion of the corridor's capital needs in FY 2017.

3. Asset Management: Sustaining Equipment and Infrastructure

Sustaining equipment and infrastructure sufficiently to support safe and reliable operations continues to be a significant challenge. The company's owned and leased assets include:

- 623 miles of track, mostly in the Northeast Corridor
- 18 tunnels and 1,414 bridges
- 1,449 passenger cars, 313 locomotives, and 20 Acela trainsets in revenue service
- more than 2,500 road vehicles

In addition, the company owns real property assets—including land, stations, parking structures, maintenance facilities, rights-of-way, and air rights.

Modernizing and maintaining these assets should help optimize passenger rail service by reducing maintenance costs, improving service reliability, and increasing customer satisfaction and comfort. In addition, better management and oversight of real property assets could enable the company to capitalize on opportunities to generate additional revenues and reduce opportunities for asset misappropriation.

The company has made progress sharing the costs of basic infrastructure reinvestment needs with other Northeast Corridor stakeholders, advancing the Gateway Program, identifying opportunities to monetize underutilized real property assets, and advancing new equipment purchases; however, more challenges remain, including:

- addressing infrastructure needs in the Northeast Corridor
- leveraging the revenue potential of real property assets
- improving the age and use of rolling stock
- improving oversight of vulnerable corporate assets

Progress to Date

Cost-sharing agreements with states in the Northeast Corridor. Despite the challenges we noted in the Financial Excellence section of this report, the company has made progress finalizing bilateral agreements with other Northeast Corridor stakeholders to share equitably in the corridor's basic capital reinvestment costs, as required by

Section 212 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).[42] As of December 2016, a Finance department manager reported that all but two of the Section 212 agreements have been executed or are close to being finalized. These agreements will apply retroactively to October 1, 2015.

Gateway Program. In November 2016, the company announced a major milestone for the Gateway Program, an estimated $24 billion family of projects designed to double rail capacity between New York and New Jersey. The company announced the official formation of the Gateway Program Development Corporation, a key element of a framework announced a year earlier under which the federal government would cover at least 50 percent of the Gateway program costs using grants and other federal funding, with the remaining costs to be shared by the states of New York and New Jersey. The Gateway Program Development Corporation is a special-purpose entity charged with overseeing the construction and execution of the Gateway Project with a Board consisting of representatives from New York and New Jersey, the U.S. Department of Transportation, and Amtrak. The Amtrak Chairman of the Board is one of three trustees initially designated to oversee the activities of the Gateway Development Corporation.

As currently planned, the Gateway Program would increase track, tunnel, bridge, and station capacity—eventually creating four mainline tracks between Newark, New Jersey, and Penn Station, New York, including a new, two-track Hudson River tunnel. The program also includes (1) updating and modernizing existing infrastructure, such as the electrical system that supplies power to the roughly 450 weekday trains using this segment of the Northeast Corridor, and (2) rebuilding and replacing the damaged components of the century-old North River tunnel, which was inundated with seawater during Super Storm Sandy in October 2012. The program will also replace the century-old, swing-span Portal Bridge over the Hackensack River in New Jersey with a more reliable, fixed-span bridge. The aging mechanical components of the existing bridge sometimes malfunction while opening and closing for maritime traffic, creating frequent train delays. The estimated cost to replace the bridge is approximately $1.2 billion.

Over the past three years, we have reported on progress made by the company on an early Gateway project to construct box tunnels beneath Hudson Yards and 11th Avenue in New York City in order to preserve a right-of-way for the planned Hudson River

[42] Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, Div. B, 122. Stat. 4907 (2008).

Tunnels.[43] Despite some minor schedule slippages and cost increases, these projects are now substantially complete. Figure 3 illustrates work underway in 2014 to construct box tunnels under Hudson Yards.

Figure 3. Construction of Concrete Casings, or "Box Tunnels," to Preserve Right-of-Way for Hudson River Tunnels

Source: Amtrak OIG

Station redevelopment/real property management. This year, the company also took steps to extract more value from some of its underutilized real property assets. The company has begun to plan and oversee the redevelopment of five rail stations in major metropolitan areas—Baltimore, MD; Washington D.C.; New York, NY; Philadelphia, PA; and Chicago, IL—through partnerships with public- and private-sector stakeholders. By engaging private partners in mutually beneficial infrastructure projects, the company hopes to augment revenue, improve customer experience, and

[43] Amtrak OIG, *Acquisition and Procurement: Gateway Program Projects Have Certain Cost and Schedule Risks,* OIG-A-2015-002, December 19, 2014; *Acquisition and Procurement: Gateway Program's Concrete Casing Project Progressing Well; Cost Increases will Likely Exceed Project Budget,* OIG-A-2014-004, February 11, 2014.

leverage private dollars to meet some of the company's most critical—and costly—infrastructure needs.

Our December 2016 report highlighted the company's progress procuring a master developer to develop Baltimore Penn Station and surrounding assets.[44] We reported that the company adopted a number of leading practices to manage its procurement approach and has agreed to implement other practices to enhance its management and oversight of the project. Adopting these practices should help increase the likelihood of project success, fulfill the company's near- and long-term vision and goals for the station, and ensure a productive partnership with the master developer, once selected.

Fleet modernization. The company also made progress this year in modernizing its aging rail fleet, including integrating new equipment into its long-distance trains and embarking on the next generation of high-speed rail in the Northeast Corridor. Of the 130 single-level passenger cars the company procured from CAF USA, 70 have been delivered and have entered service on the company's long-distance routes. In addition, the company awarded a contract to Alstom to purchase 28 new high-speed trainsets to replace the aging Acela equipment beginning in 2021. Funding for this contract was obtained through a $2.45 billion Railroad Rehabilitation and Improvement Financing loan from the Federal Railroad Administration. The loan will also be used to make infrastructure improvements, including projects to improve safety, expand track capacity, and enhance ride quality.

Challenges

Addressing Infrastructure Needs on the Northeast Corridor

The Northeast Corridor has significant long-standing infrastructure needs, and the company faces a persistent challenge in securing long-term and reliable sources of funds to address them. The company's 2010 Northeast Corridor Capital Investment Strategy[45] calls for $151 billion in investment through 2040 to improve and expand the

[44] Amtrak OIG, *Acquisition and Procurement: Adopting Additional Leading Practices to Manage the Baltimore Penn Station Redevelopment Could Help Mitigate Project Risks*, OIG-A-2017-002, December 14, 2016.
[45] The 2010 Capital Investment Strategy was updated in July 2012 and re-issued as *The Amtrak Vision for the Northeast Corridor 2012 Update Report.* The 2012 Update Report highlighted options on how the company and other stakeholders could potentially fund, finance, and deliver the vision for the Northeast Corridor.

corridor.[46] The Northeast Corridor Infrastructure and Operations Advisory Commission (the Commission)[47] identifies a total of $23.8 billion in funding needs from FY 2017 through FY 2021, and a funding gap of nearly $18.5 billion to meet them.

As noted above, most states have agreed in principle to the cost allocation formula created by PRIIA, Section 212. However, the Commission emphasizes that the formula allocates only baseline capital costs—for example, normal replacement of basic infrastructure like rail ties and platform lighting. From FY 2017 through FY 2021, the Commission estimates that these baseline fees will provide only about $2.4 billion of the estimated $23.8 billion needed during this period to fund basic infrastructure. Other needs include the backlog of state-of-good-repair projects, service preservation and improvements, and special projects. After all current funding sources are tallied—the Section 212 agreements, some state funds, and a handful of other funding sources—the Commission identifies a gap of nearly $18.5 billion. Identifying sufficient funds to close this gap will likely continue to make addressing those needs a challenge.

Securing funds to complete the Gateway Program will also present a challenge. The program will require an estimated $24 billion to cover a family of projects, including constructing two new rail tunnels under the Hudson River, expanding Penn Station–New York, and replacing the century-old Portal Bridge to double capacity between Newark, NJ, and New York City. The new Gateway Program Development Corporation will be able to apply for and accept low-cost federal loans and grants; however, a major challenge will be identifying sources and securing funds to cover the remaining balance.

In addition to the challenge of securing funds to address infrastructure needs, our past work found that the company has not always served as a responsible steward of federal funds. As we highlight in the Governance section of this report, the company's poor management of large capital programs has undermined the effectiveness of those funds. For example, our report on New Jersey High-Speed Rail—the Raceway project—found that the company's weak project management led to schedule delays and cost

[46] Estimate includes costs associated with increasing speeds and capacity to reduce trip times between New York and Boston to 94 minutes through new and expanded right-of-way, dedicated and grade-separated tracks, and a new inland route alignment.
[47] Congress created the Northeast Corridor Infrastructure and Operations Advisory Commission in PRIIA and charged it with developing a formula to allocate corridor capital and operating costs based on usage, making recommendations to Congress, and facilitating collaborative planning. The Commission is made up of 18 members, including representatives from each of the 8 states in the Northeast Corridor, the District of Columbia, Amtrak, and the U.S. Department of Transportation.

overruns,[48] the effect of which was to reduce the number of miles of track on which a new catenary system was installed from 23 to 7. The extent to which the company can improve oversight of capital programs and related projects will help it achieve better results within constrained capital budgets.

Leveraging the Revenue Potential of Real Property

Amtrak has significant opportunities to leverage the revenue potential of its real property. The company owns real property, such as stations, parcels of land, rights-of-way, and other facilities. Some of these properties—especially those in growing urban centers—have untapped financial value. The company's challenge will be identifying alternate or complementary uses for its real property assets, and managing their development or disposition to bring the highest financial return while preserving or enhancing the company's operating interests.

As we noted earlier, the company is embarking on a broad effort to develop its facilities and land in and around five major metropolitan area stations. Our recent audit of the company's efforts to redevelop Baltimore Penn Station—discussed in more detail in the Acquisitions and Procurement section of this report—suggests that the company is progressing in the right direction toward effectively managing these efforts. The company is seeking a master developer to design and implement capital improvements and large-scale development opportunities at the station in order to enhance the customer's experience and stimulate ridership growth, company revenue, and Baltimore's economy. Potential targets for redevelopment include repairing and remodeling the main station, modifying and expanding existing retail business in the station, and developing two land parcels and the air rights above company-owned properties, including the main station rail yard.

As the company looks to develop these assets—especially in collaboration with private developers with financial interests—it could face the challenge of balancing two development goals that sometimes conflict: (1) increasing company revenues and (2) moving passengers and trains efficiently through the system with a minimum of distractions. For example, in our audit work related to boarding procedures this past year, we observed stations where the location and volume of retail and advertising displays interfered with passengers' ability to identify transportation-related information and navigate through a station, as shown in Figure 4 on the next page.

---

[48] Amtrak OIG, *Acquisition and Procurement: New Jersey High-Speed Rail Improvement Program Has Cost and Schedule Risks,* OIG-A-2015-012, June 17, 2015.

Figure 4. Advertising and Retail "Clutter" in Boston South Station

Source: Amtrak OIG

Improving the Age and Use of Rolling Stock

The company owns and leases a fleet of 1,449 passenger cars, 243 diesel locomotives, 70 electric locomotives, 20 Acela Express trainsets, and 2 Cascades Talgo trainsets for revenue service; the average age of all equipment is 27 years.[49] Individual efforts to modernize the rail fleet are moving forward; however, these efforts are largely being pursued through isolated procurements because the company has not updated its fleet strategy since 2012. Failure to align rolling stock procurements with future needs could limit the company's ability to sustain current service levels or support future growth. Company executives agree that an integrated fleet acquisition strategy will be critical to cost-effective operations and acquisitions.

In 2009, Congress passed a law requiring the company to submit a comprehensive fleet plan to Congress detailing time frames for the maintenance, refurbishment, replacement, and expansion of Amtrak's fleet and its preferred method of financing these activities.[50] Later legislation further mandated that the company include its fleet plan in the annual budget and Five-Year Financial Plan.[51] Despite these requirements,

---

[49] Data current as of July 2016.
[50] Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3034.
[51] Consolidated and Further Continuing Appropriations Act, 2012, Pub. L. No. 112-115 Stat. 552.

the company has not updated its fleet plan since 2012, when it estimated it would need about $13 billion over the next 15 years to replace and augment most of its fleet. The company's most recent budget and 5-year plan—issued in February 2016—does not include a fleet strategy or plan, instead stating that there have been no significant changes to the inventory of rolling stock—or plans and time frames for maintenance, refurbishment, or replacement—since the publication of the March 2012 document.[52] Since that time, however, the company has deployed a new fleet of 70 electric locomotives on the Northeast Corridor, decommissioned at least 62 locomotives, deployed 70 new cars on its long-distance routes, and awarded a contract to replace the Acela fleet.

Our reviews of earlier fleet plans found that the company's planning process did not adequately account for future equipment needs, identify the most cost-effective approach to meeting these needs, or adequately incorporate financial planning to ensure that funds were properly budgeted and used most effectively.[53] Our reviews of recent fleet acquisitions reinforced these conclusions, finding that better strategies for aligning procurements with future needs could result in significant savings. For example:

- ***Siemens locomotives.*** In May 2013, we reported that the company spent $563 million for 70 new electric locomotives for the Northeast Corridor even though its own projections demonstrated the need for only 56. The excess cost associated with the additional 14 locomotives was estimated at $167 million. Additionally, in September 2016, we reported that the company did not decide on a maintenance strategy or develop a sound financing strategy for the spare parts for these new locomotives at the time of procurement as called for by leading practices.[54]

---

[52] Amtrak, *Amtrak Fleet Strategy: Building a Sustainable Fleet for the Future of America's Intercity and High-Speed Railroad Version 3.1*, March 29, 2012.
[53] Amtrak OIG, *Evaluation of Amtrak's FY 2010 Fleet Strategy: A Commendable High Level Plan that Needs Deeper Analysis and Planning Integration*, OIG-E-11-2, March 31, 2011; *Asset Management: Integrating Sound Business Practices into its Fleet Planning Process Could Save Amtrak Hundreds of Millions of Dollars on Equipment Procurements*, OIG-E-2013-014, May 28, 2013.
[54] Amtrak OIG, *Acquisition and Procurement: Opportunities Exist to Improve Management of Technical Support Services Contracts,* OIG-A-2016-013, September 30, 2016.

- ***CAF USA long-distance passenger cars.*** Our October 2014 report on the decision-making around the $343 million procurement of CAF USA single-level passenger cars also found that the company made costly decisions that were unsupported by sound financial analyses.[55] Specifically, the analyses did not fully account for increased fuel and maintenance costs. It also improperly attributed projected labor savings to the introduction of the new cars and based projected revenue enhancements on speculative and inconclusive studies.

- ***Alstom next generation high-speed trainsets.*** In May 2014, we reported on the company's efforts to replace the aging Acela trainsets on the Northeast Corridor, noting areas where the company could improve its business case and oversight process.[56] As discussed above, in August 2016, the company secured a $2.45 billion Railroad Rehabilitation and Improvement Financing loan from the Federal Railroad Administration to purchase 28 new high-speed trainsets from Alstom and advance related infrastructure projects. The new trainsets will add capacity and allow the company to increase frequency between Washington D.C. and New York City. Company executives charged with overseeing the Alstom contract agreed with our assessment of problems in prior procurements and committed to follow leading practices for overseeing and managing the current contract. We will continue to monitor and report on the company's progress in managing and overseeing the acquisition of these trainsets, and the related safety, station improvement, and technical support activities.

The company estimates that fleet acquisitions such as the next-generation high-speed rail trainsets will pay for themselves through increased revenues; however, a remaining challenge will be addressing fleet needs outside the Northeast Corridor, where net incremental revenues from the new equipment will likely fall short of the costs to purchase that equipment. The company's February 2016 financial plan states that key elements of the company's fleet strategy will be establishing the long-term equipment needs of the business lines, determining tradeoffs between continuing to invest in the existing fleet versus acquiring new equipment, and developing business cases

---

[55] Amtrak OIG, *Asset Management: Opportunities Exist to Enhance Decision-Making Process for Utilization of Long-Distance Equipment*, OIG-E-2015-001, October 23, 2014.
[56] Amtrak OIG, *Asset Management: Amtrak Followed Sound Practices in Developing a Preliminary Business Case for Procuring Next-Generation High-Speed Trainsets and Could Enhance its Final Case with Further Analysis*, OIG-E-2014-007, May 29, 2014.

consistent with the new requirement under the Fixing America's Surface Transportation Act.[57]

An additional challenge will be holding suppliers accountable to delivery schedules and budgets, which is further discussed in the procurement and contract management section of this report. For example, our February 2016 report found that weaknesses in CAF's process for identifying defects in baggage cars and quality issues in the construction of the diner, baggage-dormitory, and sleeper cars have led to delivery delays that extend more than two years beyond the original due date. [58]

Improving Oversight of Vulnerable Corporate Assets

The company owns $14.1 billion in assets, including real property, materials and supplies, equipment, and vehicles.[59] In FY 2016, we testified before Congress and issued two management advisory reports on weaknesses in the company's oversight of its inventory of more than 2,500 road vehicles.[60] Citing internal company reports and metrics, we questioned the adequacy of vehicle fleet management controls in specific areas, including the size of the fleet, lease-vs-purchase decisions, controls over fuel procurement cards, and the driving records of employees.

Our investigative cases this past year also highlighted weaknesses in management controls over company assets and documented numerous cases of employees exploiting these weak controls to misappropriate assets for personal gain, including the following:

- ***Theft of copper cable, batteries, and scrap metal.*** In 2015, two employees were fired after we found that the employees had stolen more than four tons of copper cable, valued at more than $10,000, from a track area under Chicago Union Station. In addition, in 2016, a former employee pleaded guilty to stealing batteries and scrap metals and selling them to a recycling center.

---

[57] Pub. L. No. 114-94 (2015).

[58] Amtrak OIG, *Asset Management: Additional Actions Can Help Reduce Significant Risks Associated With Long-Distance Passenger Car Procurement*, OIG-A-2016-003, February 1, 2016.

[59] Amtrak, *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2016 and 2015, With Report of Independent Auditors*, January 27, 2017.

[60] Amtrak OIG, Testimony before the Subcommittee on Transportation and Public Assets, Committee on Oversight & Government Reform, U.S. House of Representatives, *Vehicle Fleet Management: Opportunities to Improve Utilization, Leasing Practices, and Fuel Card Oversight*, OIG-T-2016-006, February 26, 2016; *Asset Management: Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management*, OIG-MAR-2016-005, February 19, 2016; and *Asset Management: Observations on Vehicle Fleet Management*, OIG-MAR-2016-001, October 16, 2015.

- ***Theft of electrical power.*** In 2015, a Connecticut man was ordered to pay restitution for using the company's electricity account to supply power to a facility he had purchased from the company. The fact that the new owner never changed the utility account to his own name went undetected for 18 years.

- ***Theft of fuel.*** In October 2016, an employee was charged with using a government-issued fuel procurement card to purchase fuel for two personal vehicles. The loss associated with the misuse was $5,776.

- ***Theft of equipment and tools.*** In August 2016, an employee was indicted for theft after pawning company-owned power tools and welding equipment for cash.

Further discussion of management controls is included in the Governance section of this report.

4. Acquisition and Procurement: Effectively Managing the Company's Processes

Effectively managing and overseeing its acquisition and procurement processes remains a challenge for the company. These processes are important to helping advance its strategic goal of financial excellence, which calls for the company to be profitable on an operating basis and be good stewards of funds available for capital investment. The company annually purchases goods and services valued at about $2.6 billion. Its planned capital program for fiscal year (FY) 2017 through FY 2020 is estimated at $13.4 billion.

For several years, we have identified significant opportunities to improve the company's acquisition and procurement of goods and services, including its oversight and enforcement of contracts, the quality of business cases used for major capital initiatives, and its purchasing and payment practices. Over the past two years, the company made progress strengthening its acquisition and procurement activities, including augmenting the procurement expertise of staff, updating procurement policies and procedures, and reducing its inventories. However, the company continues to face a number of challenges in its acquisition and procurement practices, including the following:

- facilitating access to contract information
- effectively managing, overseeing, and enforcing contracts
- developing and refining sound business cases for capital projects
- effectively managing "shadow procurement" conducted by departments without the involvement of the Procurement department

Progress to Date

As we reported in 2015, the company implemented 14 actions of a 16-point action plan it developed to improve its procurement functions and operations.[61] The company developed the plan in response to recommendations in our May 2014 report that highlighted weaknesses in organizational alignment and leadership, policies and processes, human capital, and knowledge and information management.[62]

---

[61] Amtrak OIG, *Amtrak: Top Management and Performance Challenges—Fiscal Year 2016 and Beyond*, OIG-SP-2015-015, September 30, 2015.
[62] Amtrak OIG, *Acquisition and Procurement: Closer Alignment with Best Practices Can Improve Effectiveness,* OIG-A-2014-006, May 7, 2014.

Examples of the company's efforts to improve the procurement function over the past two years include the following:

Augmenting procurement staff and skills. In FY 2015, the Procurement department created a Strategic Acquisition and Contracts group of skilled, senior-level staff to manage high-profile procurements (contracts of $75 million or more) from cradle to grave. As part of that effort, the department augmented the staff levels and skills in this group and embedded Procurement directors within departments that are key end-users of procurement services, such as Engineering, Human Resources, and Information Technology (IT). During FY 2016, Procurement also hired two attorneys and staff with experience in the company's procurement, accounts payable, and inventory management systems.

Additionally, in response to one of our recommendations,[63] the company hired an enterprise program management executive and several staff with specialized project management experience to help oversee capital projects company-wide. Executives of the newly created Enterprise Program Management Office and the Procurement department have been meeting monthly on program management and procurement matters, according to the Vice President/Chief Procurement and Logistics.

Updating procurement policies and procedures. As part of its 16-point action plan to improve the functions and operations of the Procurement department, the company updated its procurement manual in December 2015. The manual identifies Procurement as the organization "responsible for the development of strategic contracts for goods and services in support of the Company's plans, goals, and objectives." The updated manual also provides instructions and guidance on how to prepare for, conduct, and conclude the procurement of goods and services. The manual outlines the general responsibilities and delegated authorities of personnel associated with the procurement process, and it also includes guidance for soliciting and selecting contractors. The Procurement department posted the manual on the company intranet to provide better visibility.

Using competitive processes to award Americans with Disabilities Act (ADA) contracts. Our congressionally mandated review of contracts awarded under its ADA program found that the company used competitive, market-driven processes for most

---

[63] Amtrak OIG, *Governance: Improved Policies, Practices, and Training Can Enhance Capital Project Management*, OIG-A-2014-009, July 15, 2014.

facility-related contracts.[64] We reported that, from October 2012 through March 2016, the company used competitive processes for 42 of its 45 ADA contract awards. These 42 contracts were valued at $76.8 million—98 percent of the total amount awarded for all 45 contracts. For each of these contracts, we found that there were at least two bidders, the bidders were mutually independent, and the bids were responsive to the solicitation requirements. For the small number of contracts for which there was only one bid, the company took action to ensure that the bid price was fair and reasonable.

Continuing efforts to reduce inventories. The company is continuing to improve its processes for inventory planning and to reduce inventory levels. Maintaining excess inventory—such as spare locomotive parts—has significant costs, including financing the purchase, the labor to manage it, and the space to store it. In FY 2014, the company established a steering committee headed by the Chief Financial Officer to reduce inventory. By the end of FY 2015, the company had successfully reduced its inventory by about $26.6 million, using monthly reduction targets and disposition alternatives, and by focusing on improving inventory planning and ordering processes. In FY 2016, the company was able to further reduce its inventory by more than $10 million, according to the Vice President/Chief Procurement and Logistics.

Challenges

Facilitating Access to Contract Information

A key challenge to the company's ability to efficiently and effectively manage its contracts is the lack of readily available contract information provided through a centralized contract management system. The Vice President/Chief Procurement and Logistics told us that without such a system, the Procurement department must manually perform many tasks, functions, and analyses that could be easily automated. For example, a centralized management system could provide instant access to contract agreements; automated reminders of key contract dates, such as auto-renewal dates, performance reviews, and contract end dates; and other tools to efficiently track and monitor contracts. A senior executive in the Law department also reinforced the need for such a system, reiterating a concern voiced to us in 2015 that the lack of a centralized contract management system has undermined the company's efforts to ensure that contract terms and conditions are being met.[65] However, as of January 2017, the

---

[64] Amtrak OIG, *Acquisition and Procurement: Adequate Competition for Most Contracts Awarded Under Americans with Disabilities Act Program, but Procurement Policies Could be Improved*, OIG-A-2016-008, June 8, 2016.

[65] Amtrak OIG, *Amtrak: Top Management and Performance Challenges—Fiscal Year 2016 and Beyond*, OIG-SP-2015-015, September 30, 2015.

company had not yet acquired such a system, and a senior IT director told us it was not among the company's top IT funding priorities for FY 2017.

Effectively Managing, Overseeing, and Enforcing Contracts

It is critical that the company maintain effective accountability, oversight, and enforcement of the company's contracts to ensure their cost-effectiveness—as well as the timely receipt of goods and services purchased. Since 2013, we have issued 14 reports that identify systemic weaknesses in the company's management and oversight of key contracts, including poor planning, inadequate estimates and monitoring of contract cost and schedules, and insufficient oversight and enforcement of contract terms. As we previously reported, company policies give authority to the Procurement department to execute contracts; however, the policies and procedures do not clearly state the requirements for monitoring and oversight.[66] Our reports within the past year continue to identify opportunities for the company to improve its management, oversight, and enforcement of contracts, including the following:

- ***Effectively managing and overseeing Master Services Agreements.*** Our February 2017 report on the company's use of Master Services Agreements (MSAs) identified additional opportunities to improve its processes for MSA award and oversight.[67] We found that the company did not fully adhere to certain contract award requirements or use leading practices when awarding MSAs. For example, it did not include cost-saving procurement approaches commonly used in the private and public sectors, such as early payment discounts or firm-fixed pricing. In addition, we also identified significant weaknesses in the company's management controls for overseeing post-award MSA activities. For example, the IT department was not effectively overseeing hours billed by contract staff acquired under the MSA contracts, particularly beyond the 40-hour work week, because the department does not have a method for approving the hours in advance or validating the accuracy of hours billed. We attributed many of these weaknesses, in part, to company policies that allow departments to award follow-on contracts and task orders subsequent to the initial MSA without the assistance, or potentially even the knowledge of, the Procurement department.

---

[66] Amtrak OIG, *Acquisition and Procurement: Closer Alignment with Best Practices Can Improve Effectiveness,* OIG-A-2014-006, May 7, 2014.
[67] Amtrak OIG, *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved*, OIG-A-2017-006, February 22, 2017.

- ***Purchase of duplicate spare parts.*** In September 2016, we reported that the company and Siemens—the manufacturer of the ACS 64 locomotives for the Northeast Corridor—are maintaining duplicate inventories of spare locomotive parts. This occurred because four years after purchasing the locomotives, the company decided it would be beneficial to award Siemens a separate sole-source maintenance contract for the locomotives, which includes providing the parts used for maintenance. In the interim, the company used about $3.2 million in loan funds to purchase spare parts for the locomotives. If the company had used the maintenance contract at the time of the original procurement, it could have avoided this unnecessary duplicate expenditure and put the $3.2 million to better use.[68]

- ***Defining requirements for contracts awarded under Master Services Agreements.*** In June 2016, we identified opportunities for the company to help ensure that competition occurs on a more consistent basis when using MSAs—a type of contract typically used to engage staff with special skillsets and acquire professional services, such as IT support or maintenance activities. We found that the extent of competition on task orders issued under MSAs varied because (1) the Amtrak Procurement Manual does not define MSAs, and (2) the company has no clear policy stipulating the extent to which competition should occur with these types of agreements. Additionally, we could not assess the extent of competition on all task orders issued under MSA awards for designing and commissioning the Passenger Information Display System because of the lack of documentation for most of the task orders. Clarifying the requirements for documenting task orders could ensure more effective project monitoring and oversight.[69]

- ***Accountability for CAF contract.*** In February 2016, we reported that the company's procurement of long-distance passenger cars under a contract with CAF USA has experienced significant delivery delays that are likely to continue, increasing project costs beyond the original budget and delaying expected financial benefits. We identified a number of opportunities for the company to improve its management of this contract and further mitigate risk by clarifying

---

[68] Amtrak OIG, *Acquisition and Procurement: Opportunities Exist to Improve Management of Technical Support Services Contracts*, OIG-A-2016-013, September 30, 2016.

[69] Amtrak OIG, *Acquisition and Procurement: Adequate Competition for Most Contracts Awarded Under Americans with Disabilities Act Program, but Procurement Policies Could be Improved*, OIG-A-2016-008, June 8, 2016.

project accountability, enforcing contract terms, and developing a risk mitigation plan. For example, establishing (1) an executive steering committee to provide senior management oversight of the project and (2) a project charter that describes the committee's purpose, authority, organization, and responsibilities would enhance the company's ability to effectively manage the contract.[70]

- ***Procurement planning and management of vehicle fleet.*** In FY 2016, we issued two reports identifying weaknesses in the company's procurement management and oversight of its vehicle fleet. In an October 2015 report, we identified planning weaknesses that resulted in costly commercial leases and missed opportunities to conserve funds by either obtaining vehicles from more economical sources or purchasing new vehicles. In February 2016, we issued a follow-on report and testified before Congress on cost-saving opportunities for vehicles used on the company's New Jersey High-Speed Rail Improvement Project. For example, we reported the company could save as much as $212,000 per year by leasing common vehicles from the General Services Administration. The company also could have reduced costs by purchasing—rather than leasing—some vehicles used on the project.[71]

Developing and Refining Sound Business Cases for Capital Projects

We previously reported that the company was not consistently following sound business practices in developing proposals for its capital projects, including its development of business cases.[72] A high-quality business case—which includes an analysis of the costs, benefits, alternatives, return on investment, and schedule estimates for each potential project—is essential for informed decision-making. We found that when the company followed sound practices in developing business cases, the projects generally met their intended outcomes. However, when such practices were not followed, schedule delays and other problems occurred that resulted in lost revenues and unrealized cost reductions. In a subsequent review, we reported that the company followed sound practices in developing a preliminary case for procuring its next generation of high-speed trainsets, but opportunities existed for the company to

---

[70] Amtrak OIG, *Asset Management: Additional Actions Can Help Reduce Significant Risks Associated with Long-Distance Passenger Car Procurement*, OIG-A-2016-003, February 1, 2016.
[71] Amtrak OIG, *Asset Management: Observations on New Jersey High-Speed Rail Improvement Program (NJ HSRIP) Vehicle Management*, OIG-MAR-2016-005, February 19, 2016.
[72] Amtrak OIG, *Corporate Governance: Planned Changes Should Improve Amtrak's Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds*, OIG-E-2013-020, September 27, 2013.

enhance its business case by refining forecasts, addressing issues associated with each preferred alternative, and integrating planning for Northeast Corridor equipment.[73]

More recently, the Finance department has also been critical of the company's process for developing business case for capital projects. In a September 2015 assessment, the department reported that, across the company, business case financial justifications for capital projects needed to be strengthened by providing better justification of the assumptions used for estimating operating costs, revenue impacts, and cost savings. The department also noted that business cases submitted by the Engineering department, which has the largest portfolio of capital projects in the company, lacked project-specific details and written business justifications for large projects.[74] The Finance department's January 2017 update of its 2015 assessment noted minor improvements in the quality of financial justifications company-wide; however, it noted that the quality of Engineering's business cases had not improved, and the overall quality and financial justification for these cases were still assessed as "needs work."

Effectively Managing Shadow Procurement

A number of organizational units within the company have entered into contracts and procured goods and services without involving the Procurement department, a practice sometimes referred to as "shadow procurement." Bypassing Procurement and its policies and processes can expose the company to unnecessary risks and lead to outcomes such as:

- poor cost controls
- uneven oversight of contract processes
- missed opportunities to negotiate better procurement terms and pricing
- insufficient monitoring of contracts
- difficulties pursuing legal action for non-performance

Although the extent of shadow procurement is unknown, executives and an external study have identified it as a challenge for the company.

[73] Amtrak OIG, *Asset Management: Amtrak Followed Sound Practices in Developing a Preliminary Business Case for Procuring Next-Generation High-Speed Trainsets and Could Enhance its Final Case with Further Analysis*, OIG-E-2014-007, May 29, 2014.
[74] Amtrak Finance department, *FY 2016 Capital Business Case Update*, September 18, 2015.

Our February 2017 report on the company's use of MSAs illustrates some of the inherent risks when contracts and purchases are made without the full involvement of the Procurement department. Five departments spent at least $404 million on 76 MSA contracts, valued at an estimated $654.7 million, from October 2008 through September 2016.[75] Although the Procurement department awards the initial MSA contract, it has limited involvement and visibility regarding the end-user departments' subsequent contracting activities, such as issuing follow-on task orders and ensuring that the work and deliverables are appropriately completed. In the 17 MSAs we reviewed, we identified a number of weaknesses in the post-award oversight of MSA activities by end-user departments. As a result, the company could not ensure that it had procured services at a competitive price, verify the justification for extra hours billed by contractors for contracted services, or ensure that contractors were delivering required results.

[75] Amtrak OIG, *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved*, OIG-A-2017-006, February 22, 2017.

5. Safety and Security: Ensuring the Safety and Security of Passengers, Employees, and Infrastructure

One of the company's three strategic goals is to provide superior safety and security; however, in the past two years, two major accidents have resulted in fatalities, and employee injuries remain far above industry norms. In addition, the persistent threats of terrorism, cyber-attack, and other man-made disasters in the United States and abroad highlight the need for continued vigilance. The company operates a national network of trains serving more than 500 stations in 46 states, and providing a safe and secure travel environment is the foundation of the company's viability.

Although Amtrak continues to pursue safety and security improvement programs and has made progress in passenger and employee safety, as well as physical security, company executives continue to question the company's overall commitment to safety and security. Major challenges include the following:

- instilling a culture of safety
- ensuring timely completion of positive train control (PTC)
- reducing drug and alcohol use in the workforce
- countering terrorism, cyber-attack, and other man-made threats

Progress to Date

Passenger safety. Amtrak has made significant progress implementing PTC. As of October 2016, the company completed the installation of PTC systems on track it owns or operates along the Northeast Corridor and in Pennsylvania and Michigan, and these systems are operational. This represents about 67 percent (about 608 of 901 route miles) of its total planned trackside installations nationwide. In addition, as of October 2016, the Mechanical department had completed installation of the onboard portion of PTC on all 168 locomotives that operate in revenue service on the Northeast Corridor and the Keystone Line.

Employee safety. In March 2016, the company implemented new "Cardinal Rules" to encourage safer behavior by its workforce. These rules consist of 10 specific actions or behaviors that the company explicitly characterizes as potentially putting "life and limb at risk."[76] The rules state that behaviors such as using a cell phone when operating equipment or tampering with a safety device will be handled with zero tolerance.

Executives say it is too early to draw conclusions about the success of the Cardinal Rules; however, company safety metrics indicate that trends are moving in the right direction. For example, in FY 2016, the company reduced the number of severe injuries or fatalities by 24.7 percent from its 5-year average, exceeding its goal of a 15-percent reduction. The company also decreased its Federal Railroad Administration (FRA) reportable injury ratio—the number of employee injuries per 200,000 hours worked—by 9 percent. In addition, the company expanded the scope of its Drug and Alcohol-Free Workplace Policy in November 2016 to include prescription medications, and it also reinforced consequences and disciplinary actions for employees who violate the policy. The company is also working to expand the scope of its drug-screening program to include maintenance-of-way employees, in accordance with FRA's April 2017 deadline.

Security. In 2016, Amtrak became the first private-sector entity to receive accreditation from the Emergency Management Accreditation Program,[77] signifying that the company meets or exceeds national emergency preparedness standards. In addition, the company has made progress installing modern video surveillance systems throughout its passenger rail system, including stations, tunnels, and bridges. Since 2005, the company has invested about $91 million in these systems, including surveillance cameras, video recorders, display monitors, video management software, and networking hardware. As we reported in August 2016, these systems are used by a variety of company departments.[78] For example, the Amtrak Police department and Emergency Management and Corporate Security (EMCS) department use the video surveillance system to monitor and respond to security incidents and related emergencies. In addition, Law department staff use the video surveillance system to review incidents related to employee and passenger injury claims, and the Operations department uses it to monitor train and passenger movements.

---

[76] Amtrak Engineering department, *Guidelines for Formal Discipline Related to Operating Rule Violations and Standards of Practices*, March 15, 2016.
[77] The Emergency Management Accreditation Program is an independent assessment and peer review accreditation process for government emergency management programs. Accreditation is based on compliance with national standards and is open to all U.S. states, territories, and local governments.
[78] Amtrak OIG, *Information Technology: Progress Made Installing Video Surveillance Systems, but Coverage and Performance Could be Improved*, OIG-A-2016-010, August 9, 2016.

Challenges

Instilling a Culture of Safety

Although the company's recent safety metrics demonstrate progress, several executives noted that making additional improvements in the company's injury and accident performance will require greater emphasis on developing a culture of safety. In 2015, we found mixed results with the company's Safe-2-Safer program—a behavior-based safety program introduced in 2009 to transform the company's safety culture.[79] We found that not all employees were fully engaged in achieving program goals or were held accountable for reducing injuries. In FY 2016, the company's FRA-reportable injury ratio was 3.6 per 200,000 employee hours—which we noted earlier is an improvement over prior years, but is still nearly three times the average of other Class I railroads. The new Cardinal Rules the company adopted this year were designed to improve compliance with safety rules; however, the relatively high rate of FRA-reportable injuries indicates that instilling a true culture of safety remains a challenge.

In addition, executives have pointed to occasions when supervisors have engaged in unsafe behaviors alongside employees, including the Train 89 accident last spring that resulted in two employee fatalities. Both track workers—one a supervisor—tested positive for prohibited substances. Supervisors are not only the first line of defense for enforcing safe behaviors: they also model corporate safety values through their actions. When supervisors ignore or personally engage in risky on-the-job behaviors, it becomes challenging to build a culture that adequately prioritizes safety.

Ensuring Timely Completion of Positive Train Control

As noted above, the company made significant progress over the past year implementing PTC. However, in October 2016, we reported that the number and complexity of tasks the company needed to complete by the December 2018 deadline pose challenges. PTC represents a critical link in the company's overall safety systems, as demonstrated by the crash of Train 188 in May 2015 that resulted in 8 fatalities and 185 injuries. According to the National Transportation Safety Board, the accident was likely caused by the engineer's loss of situational awareness after his attention was diverted to an emergency involving another train, and that a fully implemented PTC system could have prevented the accident.

---

[79] Amtrak OIG, *Safety and Security: Opportunities Exist to Improve the Safe-2-Safer Program*, OIG-A-2015-007, February 19, 2015.

As of October 2016, the company had not completed 33 percent of its planned trackside installations, all of which are outside the Northeast Corridor (about 293 route miles).[80] In addition, the company had not installed the onboard portion of the system on the 303 locomotives that travel over its long-distance and state-supported routes. Other remaining tasks included submitting a safety plan to FRA for approval of the PTC system used on the Northeast Corridor, resolving issues of potential radio frequency interference on the northern end of the corridor, and installing interoperable systems on the corridor so that railroads with differing PTC systems can operate safely. As we reported, completing all these tasks on time could be challenging given their complexity and the company's program management approach, which diffuses accountability and leaves the company vulnerable to cost and schedule risks.

Reducing Drug and Alcohol Use in the Workforce

Reducing drug and alcohol use among the company's workforce has been and remains an ongoing safety challenge. For example, in 2012, we reported that Amtrak employees in safety-sensitive positions tested positive for drugs and alcohol more frequently than their peers in the railroad industry.[81] We also noted earlier in this section the positive drug test results for workers involved in the Train 89 accident. The company's stated position is that any use of illegal drugs or certain prescribed drugs by company employees risks the safety and well-being of passengers and is therefore not acceptable. According to company executives, Amtrak has increased its random drug and alcohol testing over the past year, but drug and alcohol abuse remains an issue. In particular, executives noted a recent increase in the abuse of prescription drugs.

In addition to random testing, the company maintains a drug and alcohol prevention and intervention program called Operation RedBlock. The program emphasizes awareness, education, and prevention to employees and aims to change attitudes toward the use of drugs and alcohol on the job. However, FRA—as well as our own prior work—has questioned whether the program is meeting its goal of discouraging on-the-job drug and alcohol use. Our 2011 report on Operation RedBlock cited concerns that employees processed through the program were not receiving proper evaluation, treatment, and follow-up before and after they returned to safety-sensitive positions.[82]

---

[80] Amtrak OIG, *Safety and Security: Progress Made in Implementing Positive Train Control, but Additional Actions Needed to Ensure Timely Completion of Remaining Tasks*, OIG-A-2017-001, October 6, 2016.
[81] Amtrak OIG, *Railroad Safety: Amtrak is Not Adequately Addressing Rising Drug and Alcohol Use by Employees in Safety-Sensitive Positions*, OIG-E-2012-023, September 27, 2012.
[82] Amtrak OIG, *Operation RedBlock: Actions Needed to Improve Program Effectiveness*, OIG-E-11-01, March 15, 2011.

We have initiated follow-up work on the company's management of its drug and alcohol prevention program, particularly for employees in safety-sensitive positions, including engineers and signalmen. Our work will focus on the company's testing and risk-mitigation efforts in three areas: illegal drug use, prescription drug use, and the management of employees with diagnosed medical conditions that could create safety hazards.

Countering Terrorism, Cyber-Attack, and Other Man-Made Threats

The Federal Bureau of Investigation characterizes the threat of terrorism in the United States as "persistent and acute." Although there have been no terrorist attacks against Amtrak, the company's stations and trains are vulnerable in part because the system is open, making them difficult to monitor and secure. Most stations have multiple access points and have limited mechanisms for barring public access to either stations or trains. The threat of cyber-based attacks is also serious and growing. Given these realities, the company must remain vigilant in guarding against and preparing for a range of man-made threats to both physical security and cybersecurity.

Physical security. We recently initiated work surveying the company's physical security efforts and have preliminarily identified some barriers that could hinder the company from meeting its physical security goals. For example, the organizational structure and authority for security operations are divided between the Amtrak Police department and EMCS. Historically, the process of allocating Transportation Security Administration security grants between these departments has been contentious, according to officials in both departments. In the interest of expediency, Transportation Security Administration grants are now divided evenly between the two departments; however, this arrangement does not take into account which department can best use these limited funds to mitigate security risks ($10 million in FY 2016). Moreover, the total amount of funding for physical security may not be sufficient to address identified risks, regardless of how it is divided. EMCS officials stated that they have identified $750 million to $900 million in unmitigated physical security risks, but their department's yearly counter-terrorism funding has averaged only about $5 million. As a result, EMCS funds the highest-risk projects it can afford, which may not align with what the company has identified as its top infrastructure security risks.

One effort the company has taken to aid its law enforcement and corporate security personnel in achieving their mission is the installation of a modern video surveillance system, as noted previously. However, our work found that the company did not take a strategic approach to planning the network's design and implementation, leading to coverage gaps in high-risk stations. In commenting on our draft report, the company agreed to revise its strategic plan for video surveillance and to develop cost estimates and performance measures to measure the plan's success.

Cybersecurity. The recent proliferation of cyber-attacks against U.S. companies and institutions—combined with Amtrak's reliance on numerous independent information technology (IT) and operations systems, some of which are decades old—generate significant security risks. According to the company's Chief Information Officer, these risks are heightened by the fact that individual departments have sometimes developed systems without the IT department's guidance or assistance. The Chief Executive Officer's recent directive to consolidate budgets and control over all technology projects within the office of the Chief Information Officer may help mitigate some risks; however, cyber-related vulnerabilities remain an ongoing challenge in both security and IT. We discuss this issue further in the Information Technology section of this report.

6. Information Technology: Improving the Integrity, Security, and Utility of Technology Systems

When managed effectively, information technology (IT) systems can help the company attain its strategic goals of achieving financial excellence through operating efficiencies, improving customer experience, and enhancing the safety and security of its operations. However, failing to maintain effective controls over the development and management of IT systems can leave the company vulnerable to security breaches and increased costs, and can limit company efforts to enhance customer experience.

In November 2016, the company took action to improve controls over the development and management of IT systems. For example, the President and Chief Executive Officer (CEO) initiated an effort to centralize control over IT system development in the IT department and also tasked the IT security group with conducting a comprehensive review to assess and reduce the company's vulnerability to cyber-attacks. These efforts are important steps forward; however, the company faces persistent and formidable challenges in ensuring the integrity and security of its IT systems. For example, many of the company's IT systems and infrastructure—like the 30-year old ARROW reservations system—are outdated, inefficient, and becoming prone to failure. In addition, the company has not effectively managed past IT projects, resulting in cost overruns, schedule delays, and deliverables that did not fully meet project goals and user requirements. Until it addresses these weaknesses, the company will continue to face major challenges, including the following:

- centralizing control over the development of major IT systems
- protecting company operating systems and data from cyber-attacks
- using technology to improve customer experience
- improving the integrity of data systems
- streamlining operations through IT advancements

Progress to Date

Centralizing control over IT. The company has begun addressing the issue of "shadow" IT, where control and funding for technology projects is decentralized throughout the company, increasing the potential for systems that are redundant or not interoperable. In November 2016, the CEO directed that all IT projects will reside within the IT department, thus improving accountability and IT management. Furthermore, he directed business units to transfer all supporting capital and operating budgets to the IT department, and that all new technology projects be initiated by the IT department.

Assessing vulnerabilities to cyber-attacks. In November 2016, the company initiated a cybersecurity review and assessment to benchmark its structure, resources, policies, and tools against a nationally recognized cybersecurity framework developed by the National Institute of Standards and Technology. The goal is to use the assessment to develop a plan to ensure that appropriate information security processes and tools are in place to protect the company's critical technology assets. The company's IT security group is conducting the assessment, which is planned to be completed by March 2017.

Challenges

Centralizing Control over the Development of Major IT Systems

In fiscal year (FY) 2016, the company's IT capital budget was $224.2 million. Of this amount, the Chief Information Officer controlled only $54 million—about 24 percent. Vesting the majority of the IT capital budget with departments outside IT increases the potential for system redundancy and inefficiency. In addition, decentralized, autonomous systems can make it more difficult and expensive to share and manage data across the company.

Over the past few years, we have reported that shadow IT activities within the company have led to increased costs and program mismanagement. For example, our 2015 report on the company's efforts to replace its outdated reservations, sales, and ticketing platform (ARROW) found that integration issues with systems managed by other departments created risks for ARROW's future viability, including potential negative cost and revenue impacts.[83]

As noted above, the company is in the process of centralizing control over the development of major IT systems. However, this change will likely present new challenges for the company. The near-term challenge will be carrying out an orderly transfer of IT projects from their existing departments to the IT department—including project budgets and related governance structures. This centralization will also require departments to develop effective partnerships with the IT department to ensure that projects meet established goals and end users' requirements. Over the longer term, the

[83] Amtrak OIG, *Information Technology: Reservation System Infrastructure Updated, but Future System Sustainability Remains an Issue*, OIG-A-2015-010, May 19, 2015.

company's challenge will be to realign resources and staff and increase its capacity to effectively manage the IT department's expanded portfolio of projects.

Effectively navigating this transition could prove difficult, particularly for projects already experiencing development and implementation challenges. For example, in 2015, the company launched the EPIC program[84] to redesign the company's customer-facing web portal and reservation system. However, as discussed in more detail below, the project is already over budget and behind schedule, in part due to the lack of IT involvement in the technical design and development. Reassigning responsibility for delinquent projects, while a prudent course of action, may result in additional delays as the project management team adjusts to new roles and responsibilities.

Protecting Company Operating Systems and Data from Cyber-Attack

According to the Federal Bureau of Investigation, cyber-attacks are "serious, pervasive, and evolving" and present a growing threat to our nation's critical infrastructure. The Federal Bureau of Investigation also notes that sophisticated hackers are able to overcome even the best network security measures to infiltrate computer networks and access trade secrets, personally identifiable information, and other critical data. Company executives believe that Amtrak is not exempt from these risks and stated that more attention is needed to protect the company's operations and data systems from malicious cyber-attacks. For example, executives noted that a breach in one of the company's train operating systems—such as trackside communications or signal equipment—could have significant public safety impacts.

Although not unique, the company's reliance on dozens of legacy IT and operating systems—some of which are decades old—increases its vulnerabilities to attack. The Chief Information Officer stated that these vulnerabilities are magnified by the fact that some departments have developed IT systems without the IT department's full involvement, guidance, or assistance. For example, the company's Supervisory Control and Data Acquisition systems—such as those used in train operations—were developed independent of the IT department. Industry security experts note that the most serious threats to these systems are those that attempt to disable or commandeer the systems to cause damage.

The CEO's November 2016 directive to centralize budgets and control over all IT projects under the IT department should help mitigate some of these potential cyber

[84] EPIC is an acronym for "Easy, Personal, Intuitive, and Compelling."

risks. In addition, the company-wide cybersecurity review and operations assessment is a good first step to understanding the scope of the company's vulnerabilities.

Using Technology to Improve Customer Service

As the company's customer base becomes more tech-savvy, technological tools and services will play an increasingly important role in ensuring that the company remains competitive by meeting customers' expectations. For example, one of the company's three strategic objectives is to deliver a consistent, high-quality customer experience that fulfills the company's brand promise. To meet this objective, the company has stated that it must understand how customer needs are evolving and how it can better meet them.

The company has two large technology programs underway with the goal of meeting customers' evolving technology needs: EPIC and Trackside Wi-Fi. In 2015, the company launched the EPIC program to improve the customer experience by redesigning the customer web portal and parts of the company's reservation system. In December 2015, the company completed the pilot for Trackside Wi-Fi to provide faster, more reliable onboard Internet in response to customer demands, and it signed a contract for full installation in May 2016.

Both programs are over budget and behind schedule, and they face significant risks of not achieving their objectives. In July 2016, the company hired an outside consultant to conduct a comprehensive quality assessment of the two programs. In both cases, the consultant found that budgeting problems and schedule delays stemmed from weak project management. Programs that are behind schedule and do not deliver timely results on promised benefits undermine the company's campaign to become a leader in customer service.

For EPIC, the assessment identified significant problems related to program governance—especially the process of planning, coordinating, and monitoring the program to achieve objectives. The consultant noted that the roles and responsibilities of IT, Marketing, and suppliers were unclear, resulting in ineffective oversight and accountability. Further, the assessment found that the IT department was not sufficiently engaged in program planning, development, and oversight. The consultant recommended that the program be reorganized and that the IT department become more heavily involved in the program "re-boot."

For Trackside Wi-Fi, the consultant noted that the company had no comprehensive strategy to implement the service and lacked an appropriate governance structure to monitor and assess program targets, timelines, and performance. The consultant recommended that the company develop an end-to-end vision for the program that included elements such as station Wi-Fi and onboard entertainment. They also recommended that the company reorganize its program governance structure, reassess program targets and timelines, and work with the Enterprise Program Management Office and other stakeholders to monitor performance.

Improving the Integrity of Data Systems

Independent audits of the company's FY 2014, FY 2015, and FY 2016 financial statements reported a material weakness[85] related to the company's controls over users' access and operations of information systems that impact financial reporting.[86] Specifically, auditors found that internal controls were not sufficient to prevent or detect unauthorized access or changes to key company systems—such as purchasing and claims—or to the data housed in them. Because of the weaknesses and potential vulnerabilities identified, the auditors were required to perform extensive manual testing to verify data integrity, and the company suffered lost productivity and increased costs to facilitate the additional testing.

In response to the independent auditors' recommendations, management stated that the company implemented several corrective action plans. For example, it enhanced user access controls for purchasing systems to ensure that access rights match job responsibilities. Management also resolved issues with respect to the segregation of duties in the claims system.

Streamlining Operations through IT Advancements

The company continues to pursue development of its multi-year Operations Foundation program (estimated $427 million) to automate and modernize a series of activities in the department; however, our ongoing work in this area has preliminarily identified program weaknesses. The program's goals are to improve operating efficiency, reduce costs, and increase revenues. The program consists of 15 "themes,"

---

[85] A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material financial misstatement will not be prevented, or detected and corrected on a timely basis.

[86] Amtrak, *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2016 and 2015, With Report of Independent Auditors*, January 27, 2017; *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2015 and 2014, With Report of Independent Auditors*, August 3, 2016; and *Consolidated Financial Statements, National Railroad Passenger Corporation and Subsidiaries (Amtrak), Years Ended September 30, 2014 and 2013, With Report of Independent Auditors*, October 1, 2015.

which include crew scheduling, fleet maintenance, baggage tracking, and food and beverage inventory management.

We have preliminarily observed that by the time of completion, the Operations Foundation program will be over budget and behind schedule. Our early observations also indicate that the company is not following leading practices in cost and schedule estimating, is not effectively monitoring the program's progress against established milestones, and did not sufficiently involve the IT department in project design and execution.

In November 2016, the Operations Foundation program began migrating to the IT department as part of the IT centralization directive, and the Operations Foundation program office began working with the company's Enterprise Program Management Office to develop a transition plan. Although the company anticipates that this move will address issues related to insufficient IT involvement, the company has also engaged an external consultant to conduct an overall quality review of the program, similar to the comprehensive reviews of the EPIC and Trackside Wi-Fi programs. Although these are positive steps, the company's history of weak IT management suggests it may still face challenges delivering large IT projects such as these on time, on budget, and with the intended results.

7. Customer Service: Putting Passengers First

One of Amtrak's three strategic goals is "acquiring and retaining the most satisfied customers of any travel company in the world," and although service has been improving, opportunities exist for the company to do better. In fiscal year (FY) 2016, the company set a new ridership record by transporting more than 31 million passengers throughout its system. In FY 2016, customer satisfaction with the service also improved: customer service scores increased by 4 percentage points over FY 2015.

Although customer service scores improved, executives attribute some of this improvement to factors outside the company's control, such as fewer freight trains competing for track access, leading to better on-time performance. However, many aspects of the customer experience *are* within the company's control: ticketing, boarding, onboard services, and web and mobile communications all contribute to customers' perception of the Amtrak brand. Nonetheless, providing reliable, high-level service in these and other customer-facing operations has proved a persistent challenge. Without a consistent, company-wide commitment to improving the customer experience, shortcomings in service could interfere with the company's ability to retain existing passengers, attract new riders, and improve revenues.

Major customer service challenges include the following:

- making facilities and equipment accessible to passengers with disabilities
- attracting new riders, particularly a new generation of passengers
- sustaining and further improving customer satisfaction
- improving accountability for customer service initiatives

Progress to Date

Passenger ridership and revenue. In FY 2016, the company recorded its highest-ever ticket revenue—$2.14 billion—a $12 million increase over FY 2015. The company also set ridership records, transporting 31.3 million passengers in FY 2016—nearly 400,000 more than in FY 2015. These ridership gains were especially notable because the company operated in difficult market conditions, and historically low gas prices likely made auto travel more attractive for some would-be riders of Amtrak.

Customer satisfaction scores. FY 2016 customer satisfaction scores improved by 4 percentage points over FY 2015, and 81.3 percent of customers who responded to a survey saying they were highly satisfied with their experience on Amtrak. This is the highest customer satisfaction score the company has ever achieved, allowing it to exceed its customer satisfaction goal for the first time. Other recent efforts are also receiving high marks from passengers, including acquiring new passenger cars, introducing mobile ticket agents, enhancing Wi-Fi on Acela trains, allowing pets on board, and expanding bicycle service.

Amtrak Customer Experience program. In FY 2015, the Human Capital department—now Human Resources—introduced the Amtrak Customer Experience program to help educate customer-facing employees on concepts essential to providing excellent service. These concepts include instilling a better understanding of Amtrak's values, customers' needs, and the importance of working across departments. Through this training program, the company also hopes to communicate its expectation that all employees are to be held accountable for the customers' experience. The program appears to be paying off: executives noted that the customer service skills of onboard employees have improved and are the subject of fewer complaints. The company plans to provide Amtrak Customer Experience training to all customer-facing employees over the next four years.

Challenges

Making Facilities and Equipment Accessible to Passengers with Disabilities

Enacted in 1990, the Americans with Disabilities Act (ADA)[87] required that intercity rail stations be made accessible to persons with disabilities by July 26, 2010. Our 2011 and 2014 reports[88] highlighted the limited progress made and the continuing challenges the company faces in achieving ADA program goals. In June 2015, the protracted delays in meeting the statutory requirements led the Department of Justice to find that the company had not made all of the existing rail facilities for which it is responsible readily accessible and usable by individuals with disabilities. [89] Since 2015, the company has been in negotiations with the Department of Justice to resolve the issues and reports that they are close to reaching an agreement.

Our August 2014 report on the company's progress addressing ADA requirements attributed program delays and cost overruns to the lack of an effective program

---

[87] Americans with Disabilities Act of 1990, Pub. L. No. 101-336 (1990).
[88] Amtrak OIG, *Americans with Disabilities Act: Leadership Needed to Help Ensure That Stations Served By Amtrak Are Compliant*, Report No. 109-2010, September 29, 2011; and *Train Operations and Business Management: Addressing Management Weaknesses is Key to Enhancing the Americans with Disabilities Program*, OIG-A-2014-010, August 4, 2014.
[89] As of May 2016, the company reported that 491 stations in the national system were required to be made accessible. Amtrak has sole responsibility for 130 of these, shared responsibility for 236, and no responsibility for the remainder.

management structure and poor decision-making. The company subsequently consolidated responsibility for ADA program operations and oversight within the Engineering department, and it developed a plan to prioritize stations with known deficiencies in train access, passenger information, and station access and amenities. However, several challenges remain, including allocating adequate funding and addressing the limitations of current infrastructure and passenger equipment. The company also shares responsibility for some facilities with other stakeholders—such as state departments of transportation and freight railroads—and must coordinate priorities, planning, and funding with these stakeholders.

Attracting New Riders, Particularly a New Generation of Passengers

Although Amtrak saw record ridership in FY 2016, the company could benefit from attracting a younger cohort of new riders to meet future growth targets.[90] The company's 2016 budget and five-year financial plan note that current ridership is heavily skewed toward older age groups. However, company research shows that, within the next 5-8 years, consumers who are 18 to 34 years old will account for approximately half of all business travel, while business travel by older travelers will drop sharply. To grow ridership, the company's challenge will be to appeal to this new generation of passengers.

To appeal to younger customers, the company acknowledges it will need to accommodate their different preferences. For example, these younger travelers want fast, accessible, and reliable technology, including the ability to use mobile devices to book travel and the availability of high-speed Internet connections on board for work and entertainment. Research also indicates that younger passengers have a higher desire for comfort and legroom during their journeys.

The company has initiatives underway to meet these customer desires; for example, the EPIC and Trackside Wi-Fi programs discussed in the Information Technology section of this report aim to improve the pre-trip and en-route experience through technology enhancements. The company is also adding business class accommodations on select routes to provide a more comfortable environment and better onboard amenities. However, as we discussed earlier, the company has opportunities to better manage these technology projects to ensure that they deliver more timely results and meet their intended goals.

---

[90] The company's growth projections also depend on having sufficient infrastructure and equipment capacity to support significantly increased ridership. Fleet and infrastructure capacity are discussed in more detail in the Asset Management section of this report.

Sustaining and Further Improving Customer Satisfaction

Opportunities exist to improve other aspects of the passenger travel experience that drive overall customer satisfaction. For example, in September 2016 we reported that the company could improve the train boarding process by focusing on three areas: (1) maximizing the use of physical facilities, (2) establishing customer-friendly processes, and (3) communicating clearly with passengers. [91] Although individual station characteristics prevent the application of a one-size-fits-all approach, we identified room for improvement at all of Amtrak's 20 busiest stations. At some stations, significant improvements can be achieved at low cost and with minimal effort.

For example, Figure 5 on the next page illustrates an opportunity to improve queue management for a Northeast Corridor train in Washington Union Station by using existing space more efficiently. The picture on the left shows that available space at the gate is not being used efficiently; the picture on the right shows the resulting impact, which is a queue stretching into the concourse that is heavily used by retail traffic and other passengers. Using space more efficiently and improving queue management are both low-cost, leading practices that could improve the experience of station users.

[91] Amtrak OIG, *Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience*, OIG-A-2016-011, September 7, 2016.

Figure 5. Two Views of Same Queue, Washington Union Station

Source: Amtrak Office of Inspector General

At other stations, however, improving the boarding process will require management to change long-standing processes, procedures, and attitudes, as well as to invest in more costly improvements to station and platform infrastructure.

A key challenge facing the company will be sustaining and increasing customer satisfaction given the variable nature of its trains' on-time performance, a key driver of customer satisfaction. The company estimates that almost half of the four-percentage-point increase in customer satisfaction scores between FY 2015 and FY 2016 came from improved on-time performance. Outside the Northeast Corridor, the company's on-time performance is often influenced by freight traffic and the scheduling demands of host railroads. The improvement in its trains' on-time arrivals likely resulted from reduced freight traffic on Amtrak routes that operate over host railroad tracks, which account for about 72 percent of the miles traveled by the company. Given that on-time performance generally fluctuates with the rise and fall of freight traffic, the company will need to develop elements of customer service within the company's control that can be improved to sustain or increase customer satisfaction.

Improving Accountability for Customer Service Initiatives

Opportunities also exist to better assign responsibility and authority for customer service initiatives and to hold employees at all levels of the company accountable for providing consistent, high-quality customer service. As noted above, customer service is one of the company's three strategic goals; however, executives stated that emphasis on the goal is not consistently reinforced from top management down through the ranks of customer-facing personnel. For example, as we reported in September 2016, the lack of a senior accountable official for passenger boarding limits the company's ability to improve the boarding experience. Without a senior accountable official, the boarding process is determined station by station, resulting in uneven attention to boarding issues across the company. Some station managers actively look for ways to improve customers' experiences, but others do not, and the resulting conditions can lead to passenger frustration, anxiety, and confusion. In addition, there is no single accountable official to encourage solutions that would require coordinated efforts across departments. For example, separating the boarding gates for crowded trains would require coordination between terminal dispatchers, station personnel, and onboard crew managers.

Executives told us that because customer service has not always been a top priority for management, the company workforce has not developed a strong spirit—or culture—of customer service. This is especially problematic onboard trains and in smaller stations where management oversight is more limited. The Amtrak Customer Experience program described earlier could help in this regard, but changing the culture—for example, instilling a stronger sense of personal responsibility for the customer experience—would likely require a sustained, long-term commitment. More discussion of workforce culture is included in the Human Resources section of this report.

8. Human Resources: Refocusing Priorities to Build a Quality Workforce

One of the company's strategic objectives is to acquire, develop, and retain talent to achieve its mission and financial goals. However, with a diverse workforce of about 3,100 management[92] and 16,800 union agreement employees, the company faces some of the same human capital challenges as similarly sized private-sector firms and federal agencies.

In 2012, the company developed a human resources strategy for building and sustaining a high-quality workforce while supporting the company's financial goals. The company made progress on initiatives supporting financial goals—such as restructuring management benefits, linking pay to performance, and reducing overtime costs—but it has been slower to achieve results addressing workforce quality issues. Some executives attribute the slow progress to the large number of company-wide initiatives that have sometimes made it difficult for managers to focus on workforce quality issues, and funding decisions to cut training short or abandon it altogether. Some executives also noted that successful efforts to reduce human capital costs, such as limiting healthcare benefits, have made it more difficult to attract and retain top talent at all levels within the organization.

In January 2017, the company announced a reorganization of its human resource function. As part of this reorganization, the company established a new Human Resources department to replace its former Human Capital organization and appointed a new Vice President for Human Resources. The department is aligned under the recently established Administration group, which reports directly to the President and Chief Executive Officer (CEO). This reorganization provides an opportunity to address long-standing human capital challenges and realign the department's mission and priorities to ensure that it is adequately supporting corporate goals and strategies. Nonetheless, the department will face key challenges, including the following:

- refocusing the human resources department on key priorities
- building business acumen in the company's leaders and managers
- managing human capital costs
- addressing cultural resistance to change

[92] For purposes of this report, "management employees" refers to all full-time managers and employees who are not covered by one of the company's collective bargaining agreements, also referred to as non-agreement employees.

Progress to Date

Restructuring benefits for management employees. In fiscal year (FY) 2015, the company completed a redesign of its benefits programs for management employees to support the company's financial goals. The company projects that the redesigned programs will result in more than $2.1 billion in financial benefits over 20 years, including $1.4 billion in savings, by excluding new management employees from participating in the company's pension and retirement health plans. The financial benefits also include a projected $655 million in short-term cost savings by freezing pension accruals and transitioning older retirees to a private health exchange.

Measuring and linking pay to performance. The company continues to refine the performance management process—Performance Conversations—which it implemented in 2013 to establish clear performance goals and expectations for management employees and provide timely and meaningful feedback. As part of this program, supervisors are helping employees establish individual career development plans and identify resources and tools needed to improve performance. The company also redesigned its pay-for-performance processes for management employees to strengthen the link between individual performance, customer service, and organizational outcomes.

Reducing overtime expenses. In FY 2016, the company reversed an escalating trend in overtime expenses. Overtime expenses decreased from $210.5 million in FY 2015 to $193.7 million in FY 2016, an 8 percent reduction.

Challenges

Refocusing the Human Resources Department on Key Priorities

Our reports from 2009 and 2011[93] identified substantial opportunities to improve the company's human capital programs, including addressing many of the same challenges targeted by the recent restructuring—building and sustaining a high-quality workforce while supporting the company's financial goals, providing sufficient technical and professional training, and planning for succession. In response to our recommendations, the company reorganized the Human Capital department and initiated a number of actions to support the financial and workforce quality goals of the

---

[93] Amtrak OIG, *Training and Employee Development*, E-09-06, October 26, 2009; *Human Capital Management*, E-09-03, May 15, 2009; and *Human Capital Management: Lack of Priority Has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices,* E-11-04, July 8, 2011.

company. The financial initiatives—including an overhaul of pay and benefits—have yielded positive financial results; however, executives told us that the workforce quality initiatives were at times burdensome and not fully in line with departmental needs.

The January 2017 restructuring of the Human Resources organization and leadership provides an opportunity for the company to bring fresh ideas and approaches to address these challenges. As part of this reorganization, the new Vice President for Human Resources began identifying gaps in non-technical training, reviewing existing human resource processes and controls, evaluating succession planning efforts, and assessing the company's recruiting activities. With this assessment complete, the Vice President announced a major office reorganization in February 2017, complete with new functional groups, redefined positions, and personnel changes. He also announced new priorities for the office, including creating and delivering a new employee orientation program, building manager development programs, and investing resources to improve workforce diversity at all levels in the company. These developments are encouraging, but their success will depend on sufficient time, financial support, and commitment from senior leadership.

Building Business Acumen in Leaders and Managers

The company continues to face challenges in hiring, developing, and retaining leaders, managers, and a skilled workforce. One specific workforce challenge that the company identified in its FY 2017 budget justification is a "lack of deep business acumen throughout the enterprise." Executives told us that agreement employees are too often promoted to managerial positions without the requisite leadership skills and abilities, which interferes with their ability to embrace and enforce corporate priorities. Specifically, the company faces challenges in training and developing business acumen in its leaders and managers, and in planning for their succession.

Leadership training and development programs. Company executives, including the new President and CEO, acknowledge that the company has not adequately funded its human capital functions, including efforts to hire, train, and address gaps in employee knowledge and skills. For example, the former Chief Human Capital Officer noted that company-wide budgeting decisions led to the early termination of the Amtrak Leadership Development Excellence program, a three-phase program launched in May 2015 to help management and agreement supervisors develop the knowledge, skills, and abilities to become effective leaders. The program was halted after the first phase. He also attributed budgeting decisions to the cancellation of another program in which the company sent management employees to the University of Virginia's Darden School of Business to develop and expand their business skills.

At a town hall meeting with company managers in January 2017, the CEO acknowledged that in the past the company has canceled training and development activities to offset revenue shortfalls; however, he pledged that workforce development programs would not be sacrificed going forward. To that end, the CEO committed to developing a management training program for new management hires and new supervisors promoted from within the ranks of agreement employees. In February 2017, the company's new Vice President for Human Resources confirmed this commitment, prioritizing the establishment and delivery of a comprehensive manager development program. He also announced the creation of a new unit—Organization Planning and Support—to focus on strategically identifying long-term talent and workforce needs, risks, and gaps.

Succession planning for key positions. The new Chief Administrative Officer also targeted succession planning as a key priority for the new Vice President for Human Resources. At the town hall meeting with company managers in January 2017, the new CEO noted the need for the senior leadership team to periodically assess succession needs, identify available talent to fill those needs, and implement actions to develop talent where it is lacking.

Other departments and organizations have also identified succession planning as a challenge. For example, the Vice President for Labor Relations expressed concern that a flattening of the management structure in his office has left few mid-level managers with sufficient knowledge and experience to replace senior managers who will soon be eligible for retirement. We also identified a similar need for succession planning in the Operations department's Research, Planning, and Scheduling group. In particular, we reported in February 2017 that the company has no succession plan for the sole manager responsible for resolving host railroads' challenges to the company's on-time performance and delay data.[94] If this individual left the company, the management and resolution of host railroad challenges to these data could be disrupted.

Managing Human Capital Costs

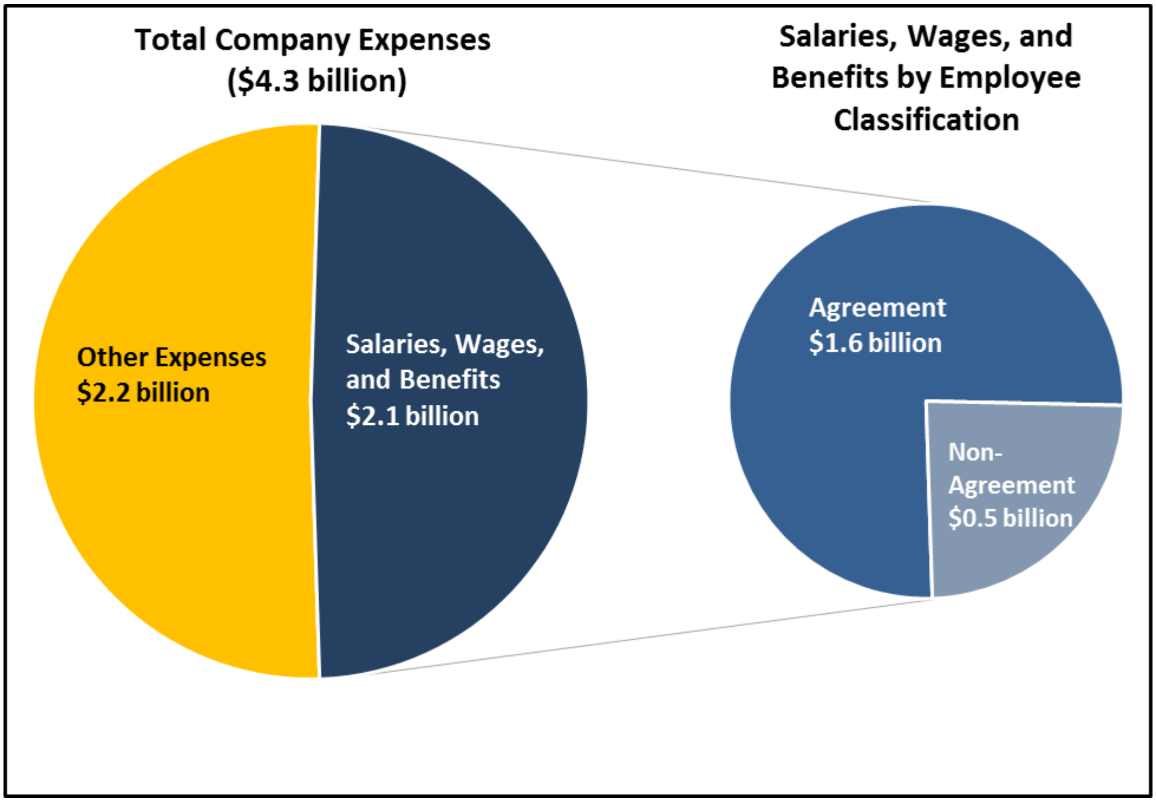
Effectively managing and controlling human capital costs is essential to achieving the company's financial goals. Although we note that the company has made progress advancing elements of its 2012 human capital strategy that supported financial goals, other human capital costs could be better managed or controlled. As shown in Figure 6 on the next page, the costs of salaries, wages, and benefits for the company's workforce

---

[94] Amtrak OIG, *Train Operations: On-Time Performance Reporting Generally Accurate; Additional Actions Could Enhance Delay Reporting*, OIG-A-2017-007, March 2, 2017.

accounted for about $2.1 billion—49 percent of its $4.3 billion expenses in FY 2016. Agreement employees accounted for $1.6 billion of these costs (75.9 percent). Healthcare and overtime costs for agreement employees remain particular challenges for the company.

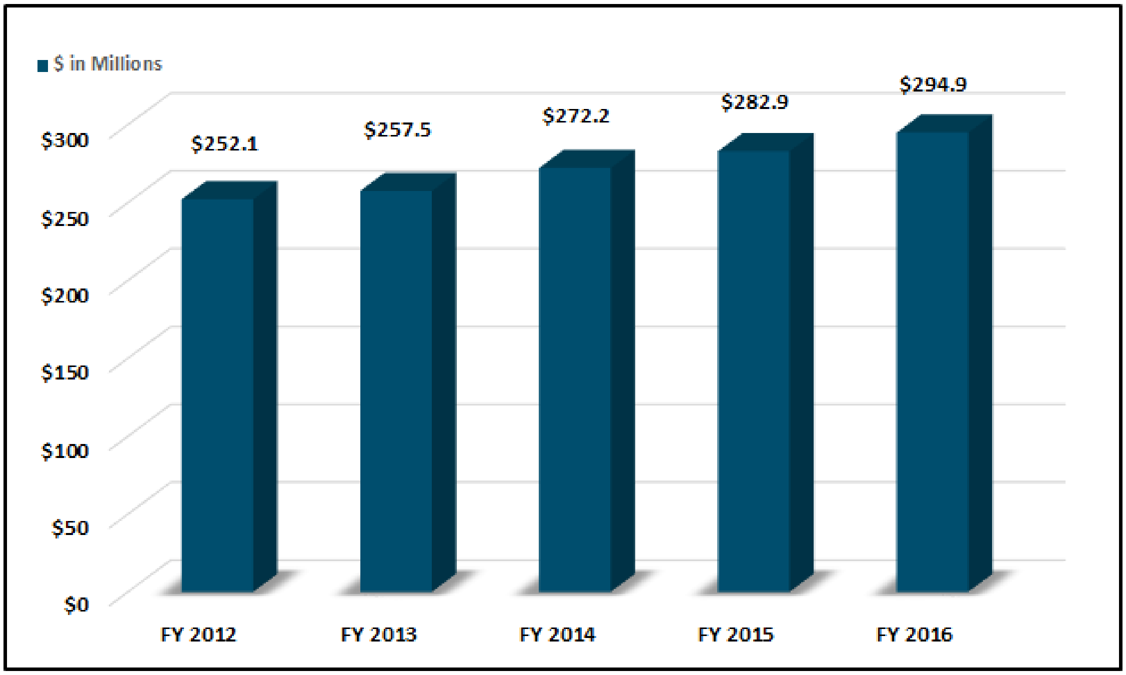
Figure 6. Agreement and Non-Agreement Human Capital Costs, FY 2016



Source: OIG analysis of Amtrak's Finance department data

Healthcare costs. Agreement employees' healthcare costs accounted for about 19 percent of the human capital costs for these employees in FY 2016. As illustrated in Figure 7 on the next page, the agreement workforce's healthcare costs have increased from $252.1 million in FY 2012 to $294.9 million in FY 2016—a 17 percent increase. Executives told us that a key element of the company's current labor strategy is to address escalating healthcare costs by attempting to garner union support for consumer-directed health plans, which would provide employees lower premiums and higher deductibles than traditional health plans. However, some executives have noted they are not optimistic about this succeeding based on the early rounds of labor negotiations.

Figure 7. Agreement Employees Healthcare Costs, FY 2012 through FY 2016

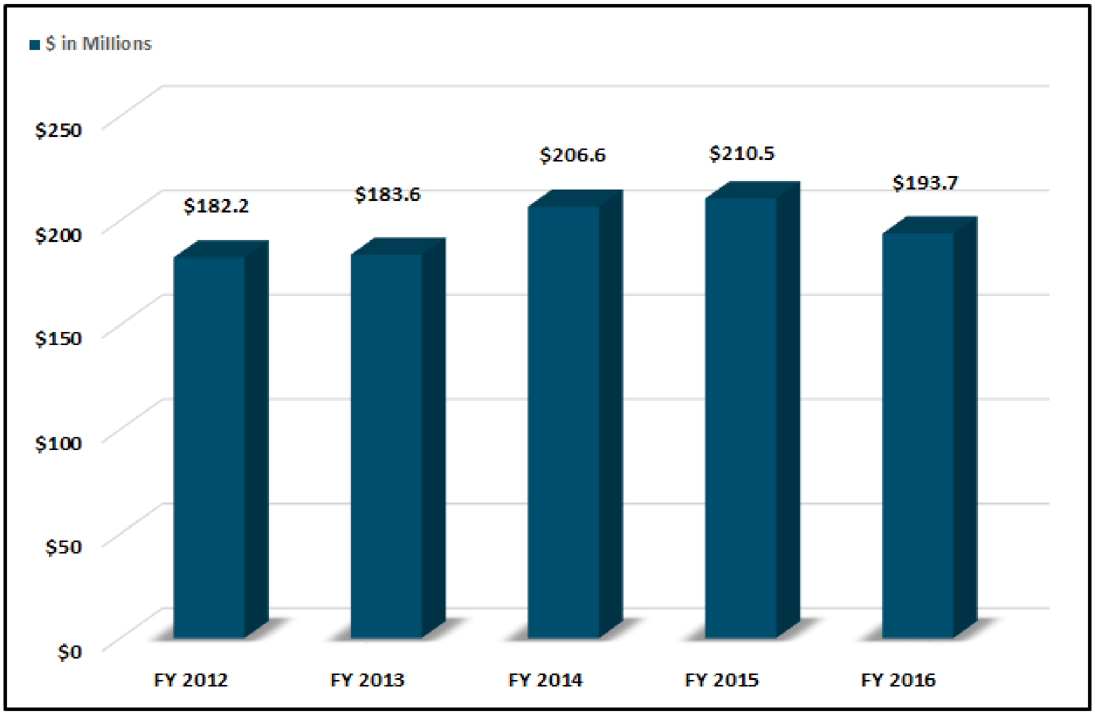


Source: OIG analysis of Amtrak's Finance department data

Overtime costs. Managing overtime costs has also been a perennial challenge for the company. As illustrated in Figure 8 on the next page, overtime costs for agreement employees increased from $182.2 million in FY 2012 to $210.5 million in FY 2015—a 15.5 percent increase. In 2013, we reported that the company lacked effective policies and procedures to oversee the use of overtime.[95] We also reported on several occasions that employees' fraudulent claims of hours worked have led to unwarranted overtime payments. The company addressed some of the underlying issues we identified by establishing an Overtime Working Group and certification process for individuals who are paid more than $35,000 per year in overtime. However, the company has yet to develop a company-wide policy for approving and managing overtime, as we recommended.

[95] Amtrak OIG, *Management of Overtime: Best Practice Controls Can Help in Developing Needed Policies and Procedures*, OIG-A-2013-009, March 26, 2013.

Figure 8. Overtime Wages, FY 2012 through FY 2016



Source: OIG analysis of Amtrak's Finance department data

Even with the company's recent progress reducing overtime expenses, overtime is still a significant cost, and improvements in this area have been challenging. The new President and CEO is taking an active interest in labor issues and, according to one executive, is considering all potential options for achieving increased labor cost efficiencies.

Addressing Cultural Resistance to Change

Over the past five years, company documents, executive statements, and our work have identified the existing company culture as a factor hindering the company's ability to advance its strategic goals related to safety, customer service, and financial excellence, as follows:

- ***Safety.*** Several executives remarked that the company lacks a strong safety culture, which has led to accidents and workplace injuries. In January 2017, a National Transportation Safety Board investigation released a medical report for the two track workers killed in the April 2016 crash of Train 89 in Chester, Pennsylvania. According to the report, both track workers—one of them the shift supervisor—had evidence of prohibited drug use, including cocaine, codeine, and oxycodone. An environment in which supervisors tolerate and even engage in on-the-job drug use or other unsafe behaviors is, by definition, evidence of a poor safety culture. In our 2012 report on employees' drug and alcohol use, we also found that senior managers were not fully informed about the incidence of drug and alcohol use among company employees, which raises further questions about the company's safety culture.[96] The company's new President and CEO recently identified the need to build "a world-class safety culture with a relentless focus on training, risk-reduction, positive reinforcement, and personal accountability" as a key objective critical to the company's long-term success.

- ***Customer service***. Although one of the company's three strategic goals emphasizes the importance of customer service, the company's workforce has not always prioritized customer needs. In 2014, the company began using a new Culture Fit Assessment Tool to help identify well-qualified candidates whose behaviors align with the company's culture. As previously reported, executives note that this tool has been effective in selecting new employees with the right skills and temperament to interact with passengers. However, executives also stated, and we observed, that service issues still remain. For example, our review of the company's boarding procedures found that some employees were resistant to increasing their interaction with passengers, and some lacked critical skills in customer service. We identified proactive passenger interaction as a leading practice for improving the train boarding process.[97]

- ***Financial excellence***. Executives told us that, despite corporate directives to reduce costs to meet operating loss targets, some managers believe there are few or no consequences for failing to meet those goals because Congress has continued to provide assistance when the company's actions fall short. Executives also point to the culture as a factor in the company's ability to materially reduce overtime wages, stating that many agreement workers expect overtime work and pay, and that some believe it is an entitlement. A recent financial presentation prepared for the company's Board of Directors showed that agreement employees worked an average of 180 hours of overtime in FY 2016—the equivalent of 4.5 weeks.

Culture—or the ingrained way of doing business—also influences managers' attitudes and decision-making. We have noted and executives told us that some

---

[96] Amtrak OIG, *Railroad Safety: Amtrak is Not Adequately Addressing Rising Drug and Alcohol Use by Employees in Safety-Sensitive Positions*, OIG-E-2012-023, September 27, 2012.
[97] Amtrak OIG, *Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience*, OIG-A-2016-011, September 7, 2016.

managers' primary concerns are to keep the trains running, with less emphasis on protecting the company's financial interests. Over the past few years, we have reported on programs in which this attitude resulted in waste, inefficiencies, and mismanagement. For example, company managers paid little attention to contract costs and internal controls in managing its Acela parts contract, resulting in unreasonably high prices for repaired parts, a failure to assess penalties for late delivery of parts, and a backlog of unsettled warranty claims. We concluded that these issues went largely unaddressed because the focus was on whether parts were available, with little or no concern about cost.[98]

We also reported that the company's weak oversight of the Master Services Agreements used to obtain professional services, such as information technology support, led to mismanagement and waste.[99] We found that some departments used staff augmentees obtained under these agreements for prolonged periods of time, despite the fact that using these contract staff were at times more costly than using full-time employees.

Changing an organization's culture is difficult because it involves pervasive attitudes and actions that are often motivated by intangible or subconscious factors. Although it can take years to change a corporate culture, failing to address cultural obstacles can undermine a company's ability to significantly advance its corporate mission, strategies, and goals.

---

[98] Amtrak OIG, *Acquisition and Procurement: Improved Management Will Lead to Acela Parts Contract Cost Savings*, OIG-A-2015-008, March 10, 2015.

[99] Amtrak OIG, *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved*, OIG-A-2017-006, February 22, 2017.

APPENDIX A

Acronyms and Abbreviations

ADA	Americans with Disabilities Act
APT	Amtrak Performance Tracking
CEO	President and Chief Executive Officer
EMCS	Emergency Management and Corporate Security
ePMO	Enterprise Program Management Office
FAST Act	Fixing America's Surface Transportation Act
FRA	Federal Railroad Administration
FY	fiscal year
IT	Information Technology
MSA	Master Services Agreements
OIG	Amtrak Office of Inspector General
PRIIA	Passenger Rail Investment and Improvement Act of 2008
PTC	Positive Train Control
the company	Amtrak

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

Contact Information

Tom Howard

Inspector General

Mail: Amtrak OIG

10 G Street NE, 3W-300

Washington D.C., 20002

Phone: 202-906-4600

Email: Tom.Howard@amtrakoig.gov