



OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

AMTRAK:

Top Management and Performance Challenges—Fiscal Years
2019 and 2020

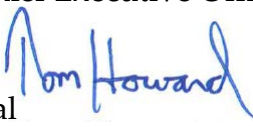
OIG-SP-2018-011 | September 28, 2018

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Memorandum

To: Richard H. Anderson
President and Chief Executive Officer

From: Tom Howard 
Inspector General

Date: September 28, 2018

Subject: *Amtrak: Top Management and Performance Challenges—Fiscal Years 2019 and 2020 (OIG-SP-2018-011)*

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.

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. We also solicited and considered comments from company executives in finalizing this report.

Summary

Fiscal year (FY) 2018 has been a year of significant change and improvement for the company. Most notably, the company has made progress on operating more like a business. This includes articulating a clear set of strategic goals and priorities, making decisions based on these priorities, and moving quickly to achieve bottom-line results. To sustain its progress, the company is proceeding vigorously on a wide range of concurrent initiatives. For example, the company took aggressive steps to improve

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its financial performance by streamlining the management headcount and scrubbing budgets to identify areas to reduce costs. These actions have contributed to recent trends of improved financial performance. The company's FY 2017 operating loss of \$194 million represented a \$167 million (46 percent) improvement over its FY 2013 loss. The company is forecasting a loss of about \$180 million for FY 2018 and is planning to eliminate the loss by the end of FY 2021.

The company has also focused more on taking care of customers, as evidenced by its decision to fund initiatives that address customers' needs. Notable initiatives include refreshing passenger car interiors, providing customers with cleaner bathrooms, and developing additional training for all customer-facing employees. In addition, the company is pursuing a once-in-a-generation upgrade to its diesel locomotives and passenger rolling stock, as well as major redevelopment initiatives at some of its largest stations.

However, the company continues to face several longstanding challenges. Chief among them is improving its safety record. According to the National Transportation Safety Board, the company has a weak safety culture that has contributed to a poor record. This record includes a series of train crashes, derailments, and other safety incidents that have killed 11 passengers and 9 employees since October 2012. The company is taking steps to improve its safety culture and performance, including implementing a safety management system and advancing positive train control implementation. The company also appointed a Chief Safety Officer at the Executive Vice President level to oversee and emphasize the importance of operating safely. These steps have yielded some results, including a recent reduction in major operating rules violations. However, the company has much more work to do to achieve a safety culture and record that is consistent with the Board of Directors' resolution that the company operate as the safest passenger railroad in the country.

While the company has made significant progress in reducing its operating loss, it will face difficulties in eliminating the loss without addressing the historically high costs incurred on its long-distance routes. In addition, the company and its partners have identified infrastructure needs that will require significant funding, but securing adequate resources is sometimes beyond their control.

Although the fast pace of changes in the company's business operations has resulted in many accomplishments, it is also creating some strains. Executives and senior officials have voiced concerns that the company may lack the capacity to handle so many initiatives simultaneously. For example, the size and scope of the company's ongoing

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and planned asset purchases would make managing any one of them challenging given the company's history of weaknesses in planning and managing major programs; therefore, pursuing them concurrently is a daunting undertaking.

Given the pace, volume, and scope of the ongoing changes, it will be important for the company to ensure that departments and employees embrace these transitions and that they crystallize into sustainable, institutional solutions.

In this environment, we have identified eight major management and performance challenges. The eight challenges are:

- **Safety and Security:** *Addressing Significant Risks to Employees and Passengers*
- **Governance:** *Institutionalizing More Effective Management Processes and Tools*
- **Financial Performance:** *Securing the Company's Financial Future*
- **Asset Management:** *Ensuring Capacity, Coordination, and Effective Planning for Major Asset Upgrades*
- **Customer Service:** *Putting Customers First*
- **Acquisition and Procurement:** *Strengthening Procurement Processes*
- **Information Technology:** *Effectively Delivering on Technology Projects While Minimizing Cyber-Security Risks*
- **Human Resources:** *Strategically Managing the Workforce*

We discuss each of these challenges in detail in this report, highlighting examples where our work illustrates the nature and extent of the challenges, the company's progress in addressing them, and additional actions the company can take to further address the challenges and their underlying causes.

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1. Safety and Security: Addressing Significant Risks to Employees and Passengers

The company is taking steps to improve its safety culture and performance, including implementing a safety management system and positive train control (PTC),¹ and has appointed an Executive Vice President to oversee these efforts. However, it is too early to tell whether these measures will result in sustainable improvements to the company's historically weak safety record. Further, challenges remain in deterring and detecting employees' drug and alcohol use, as well as funding and managing efforts to mitigate physical security vulnerabilities to protect passengers, employees, and infrastructure from terrorism and crime.



KEY ISSUES

- *Improving the company's safety culture and performance*
- *Deterring and detecting employees' drug and alcohol use*
- *Mitigating physical security vulnerabilities*

Improving the Company's Safety Culture and Performance

The company has had a longstanding challenge with its safety culture and performance. According to a 2017 report by the National Transportation Safety Board (NTSB), the company has a weak safety culture that has contributed to a poor safety record,² which included disturbing statistics for a company claiming its commitment to safety. Since fiscal year (FY) 2013, for example, train crashes, derailments, and other safety incidents have killed 11 passengers³ and 9 employees. Beyond the human toll, these crashes and derailments have had a significant financial impact on the company in terms of lost revenue and insurance claim payments to the victims and their families.

Further, the annual number of passenger and employee injuries has remained generally constant from FY 2013 through FY 2017, as shown in Figure 1. These injury trends have

¹ PTC systems are designed to automatically slow or stop a train when the train exceeds established speed limits or attempts to go through a stop signal.

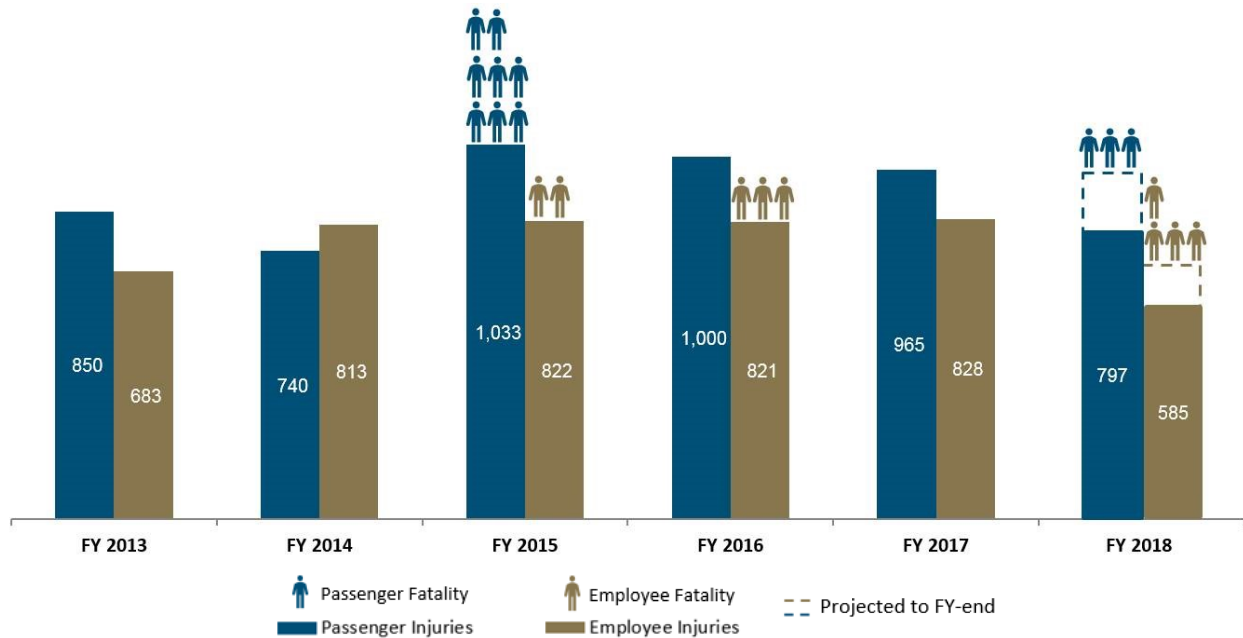
² National Transportation Safety Board Accident Report, *Amtrak Train Collision with Maintenance of Way Equipment, Chester PA, April 3, 2016* (NTSB/RAR-17/02, November 14, 2017).

³ By comparison, during the same time, the U.S. commercial airline industry had one passenger fatality. In 2017, Amtrak served about 32 million passengers, compared to approximately 850 million served by U.S. airlines.

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continued in FY 2018. Through the first 10 months of the fiscal year, 797 passengers and 585 employees were injured.

Figure 1. Passenger and Employee Injuries and Fatalities, FY 2013–FY 2018



Source: OIG analysis of company data as of July 2018

During this period, the company also reported a significant number of major operating rules violations that could have resulted in injuries—such as a train exceeding speed limits or failing to stop for a signal, or an employee tampering with a safety device. From FY 2013 through FY 2017, the company reported an average of about 115 major operating rules violations annually. For the first 10 months of FY 2018, these violations are trending downward, which the company attributes to better oversight and coaching of employees by front-line supervisors and a greater focus on reducing speeding incidents.

The actions the company has taken to reduce these violations are part of a broader company effort to improve its safety culture and performance. The President and Chief Executive Officer (CEO), and Board of Directors are setting a clear tone at the top regarding the importance of safety through company-wide communications, including the following:

- In March 2018, the Board of Directors, which includes the CEO, adopted a resolution committing the company to being the safest passenger railroad in the nation.

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- Shortly after the resolution, the CEO and the company's Executive Leadership Team signed a letter to all employees about the company's commitment to safety.
- In April 2018, the company updated its safety policy to reflect these enhanced safety commitments.

In addition, the CEO made other internal and external statements about the need to address the company's safety record and improve its safety culture. The Board of Directors' resolution, letter to employees, and updated safety policies have collectively elevated the discussion of safety issues within the company. The documents' tone and this direction were also positive steps toward addressing two major challenges to improving safety—successfully implementing a safety management system and completing the installation of PTC.

Successfully implementing a safety management system. The company has set clear goals for implementing a new safety management system—a proactive risk management system intended to move the company toward a more predictive safety management model. A similar system has been the cornerstone of improving safety in commercial aviation.

The safety management system will form the basis of a system safety plan that the company is required to submit to the Federal Railroad Administration by November 1, 2018. In January 2018, the company hired an experienced airline executive as the Chief Safety Officer (CSO) at the Executive Vice President level to lead this effort. The CSO is implementing the safety management system with the support of the company's Executive Safety Council, which is co-chaired by the CSO and the Chief Operating Officer and includes representatives from across the company.

The CSO told us that the company has several goals for the safety management system. Foremost among them is preventing further train crashes and accidents. To address this challenge, the company is attempting to develop the following capabilities:

- **Develop safety metrics.** This year, the CSO is focused on developing a "safety index" to measure safety issues on trains for passengers and employees regardless whether they result in a safety violation that the company would be required to report to the Federal Railroad Administration. These metrics will cascade from the executive level to the field level to provide expectations for employees. The company has also taken steps to enhance its safety testing for

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engineers and conductors, including using test results to drive safety improvements.

- *Investigate accidents and evaluate safety programs.* The CSO is focused on establishing a process to formally review and investigate accidents and other safety incidents and to conduct internal evaluations of the company's safety programs.
- *Develop the safety culture.* The CSO is focused on communicating, demonstrating, and providing training on the company's safety values and expectations. In particular, the CSO intends to improve the company's Confidential Close Call Reporting System—a voluntary, confidential avenue for employees to report safety incidents. Specifically, the CSO said that the company is making improvements to ensure that this information is quickly communicated to safety decision-makers, as it is in the airline industry.

The company has publicly acknowledged that implementing a safety management system is a significant corporate undertaking, and the CSO told us that it would take five years to make an impact. However, the company could encounter challenges sustaining program implementation over the long term, as it has with other safety initiatives.

For example, adoption of the system by union employees and their representatives could be a significant challenge to full implementation. The NTSB reported that the unions representing the two employees killed in the 2016 accident in Chester, Pennsylvania, had opted out of the company's safety programs, which are negotiated as part of employee collective bargaining agreements.⁴ The NTSB concluded that this situation undermined the effectiveness of the company's safety efforts.

Completing the installation of PTC. The company identified PTC as its key safety system for preventing train collisions, and was one of the first railroads in the United States to have a functional PTC system on segments of track it owns, including

⁴ The NTSB reported that union officials said that one reason their members opted out was that they were fearful of being fired for reporting safety violations to Amtrak management. The NTSB also noted that the company's deficient safety program resulted, in part, from Amtrak's inadequate collaboration with its unions and from its failure to prioritize safety (NTSB/RAR-17/02, November 14, 2017). Since the NTSB report, the company and four unions publicly announced new safety standards for track workers in August 2018, including a voluntary safety reporting policy intended to enable workers to report safety situations without fear of discipline.

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about 510 miles in the northeast and about 230 miles in Michigan.⁵ The company plans to complete PTC implementation on tracks it owns in three other areas by the end of 2018, as required by federal law—on the Hudson line in New York (about 95 miles), on the Springfield line in Connecticut (about 60 miles), and at the Chicago Passenger terminal (about 2 miles).

However, the company has identified challenges in completing PTC installation on tracks owned by host railroads because completion is dependent on actions by those railroads. For PTC to become operational on host railroad tracks, the company is dependent on those railroads to install their own PTC systems and then synchronize them with Amtrak's onboard systems, which requires careful planning and testing. The company is making progress installing PTC on its locomotives that travel on host railroads' tracks, and it plans to have its onboard systems ready by the end of 2018.⁶ When host railroads complete their PTC requirements, the company will be able to activate its onboard systems. For example, company officials stated that their systems are now compatible with BNSF Railway, the host railroad that owns the majority of track on which the company operates the Southwest Chief and California Zephyr routes. This marks the first activation of PTC on host-owned routes that Amtrak uses.

However, this process still needs to occur with 19 other host railroad systems by the end of 2018—a formidable task. The company predicts that 13 of these host railroads will not be able to fully synchronize their systems or operate their PTC by the end of 2018.

The CSO stated that the company will assess the risks and the company's ability to mitigate them before deciding whether to continue operating trains on routes that do not have PTC after the deadline. The CSO told us that the company has established a process to identify and assess options for mitigating the risks associated with operating trains on these routes, including a mile-by-mile analysis of long-distance and state-supported routes. The CSO stated that the company can employ risk mitigation strategies before deciding whether to amend its service, but canceling service on some

⁵ The company installed and operates three different PTC systems: one system was installed in the northeast, another system was installed in Michigan, and a third system will be used onboard all locomotives that operate outside of the northeast, including Michigan.

⁶ The Positive Train Control Enforcement and Implementation Act of 2015, Pub. L. No. 114-73, § 1302, 129 Stat. 576 (2015) (codified at 49 U.S.C. 20157) extended the statutory deadline for implementing PTC from December 31, 2015, to December 31, 2018.

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routes remains a last resort option. This risk assessment was ongoing as of September 2018.

Deterring and Detecting Employees' Drug and Alcohol Use

Maintaining an effective drug and alcohol program has been a longstanding challenge for the company. In 2012, we reported that it was not exercising due diligence to control the use of drugs and alcohol by employees in safety-sensitive positions and that these employees were testing positive for drugs and alcohol more frequently than their peers in the railroad industry at that time.⁷

In 2017, the NTSB identified weaknesses in the company's drug and alcohol control program during its investigation of the 2016 accident in Chester, Pennsylvania.⁸ It reported that the three employees involved in this incident—two of whom were killed—had ingested drugs that could have negatively impacted their ability to safely perform their work. The report concluded that the company did not effectively ensure that its employees were drug-free while performing their duties, especially those working in safety-sensitive positions like the locomotive engineer involved in the crash.

Since the accident, the company updated its company-wide drug-and-alcohol policy in June 2017 and replaced the prior program with a new one that included the intent to test 80 percent of safety employees annually. However, it is too early to tell whether these changes will be effective in deterring and detecting employee drug and alcohol use.

Mitigating Physical Security Vulnerabilities

Securing the company's national network against terrorism and crime to ensure the safety of passengers, employees, and infrastructure is a significant challenge. Two factors increase the difficulty to monitor and secure tracks and stations—the size of the company's passenger rail network (more than 500 stations in 46 states) and the open nature of the network, including public access to tracks and stations.

⁷ *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.

⁸ National Transportation Safety Board Accident Report, *Amtrak Train Collision with Maintenance of Way Equipment, Chester PA, April 3, 2016* (NTSB/RAR-17/02, November 14, 2017).

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We previously reported on barriers that could hinder the company from meeting its physical security needs. For example, the company's organizational structure and authority for security operations were divided between the Amtrak Police Department and the company's Emergency Management and Corporate Security office (EMCS).⁹ To help address this challenge, in August 2018 the company moved EMCS to the Amtrak Police Department to create "one security team" for the company, gave the police department complete responsibility for the company's security efforts, and instituted a new Corporate Security Committee to assist in closing gaps and ensuring the company's focus on security threats.

In 2017, the company also initiated its triennial security review to identify significant vulnerabilities and potential physical security threats against company stations, office buildings, and other facilities, and it plans to complete the review by March 2019. This review will update the company's prior risk assessment and include updated estimates of the funding necessary to bring its security posture to an acceptable level of risk. In its 2014 review, EMCS estimated that it would cost \$750 million to \$900 million to mitigate the company's physical security risks; however, its budget for physical security projects was only \$5 million per year from FY 2013 through FY 2017, and about \$18 million in FY 2018. As a result, many of the vulnerabilities the company identified in previous reviews remain unaddressed.

For example, we recently reported on longstanding, unmitigated security weaknesses at the company's 30th Street Station and Penn Coach Yard in Philadelphia, many of which the company first identified in 2009.¹⁰ These weaknesses included the following:

- the inability to secure the station's exterior and interior doors
- poor controls over badging
- inadequate fencing and gates
- a lack of parking enforcement in the yard
- nonoperational video surveillance cameras

The estimated cost to address these vulnerabilities was about \$20 million. However, these projects were not completed because the company did not, among other reasons,

⁹ *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009), March 29, 2017.

¹⁰ *Safety and Security: Longstanding Physical Security Vulnerabilities in Philadelphia Pose Risks* (OIG-A-2018-007), April 24, 2018.

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prioritize them in its annual capital budgeting process. Company executives also cited a limited amount of federal funding as a challenge to completing these physical security projects. EMCS officials told us they are working with the Finance department to develop a five-year security spending plan to focus on projects to protect the company's infrastructure.

Further, our report found that the responsibility for managing projects needed to mitigate the security vulnerabilities at Philadelphia was diffused across several departments. To help address this, company officials told us they are creating a corporate standard for company facilities that will outline minimum security levels by location. The company stated it will also establish a central point within the Real Estate department to ensure that facilities meet those standards.

2. Governance: Institutionalizing More Effective Management Processes and Tools

Over the past two years, the company made internal changes intended to address longstanding challenges with its corporate governance framework, particularly its management structure, processes, and internal controls. However, given the pace, volume, and scope of these ongoing changes, it will be important for the company to ensure that departments and employees embrace these transitions and crystallize them into institutional solutions.



KEY ISSUES

- *Sustaining efforts to ensure that strategic goals drive priorities, decisions, and spending*
- *More effectively managing risks at all levels of the company*
- *More effectively managing programs and projects*

Sustaining Efforts to Ensure that Strategic Goals Drive Priorities, Decisions, and Spending

We previously reported that the company did not have an effective process for ensuring that strategic goals drove priorities and decisions.¹¹ Departments were not fully committed to strategic and long-range planning efforts, sometimes operating in silos, and they did not always use the company's strategies and goals as the basis for funding decisions. Also, executive leadership was not determining which of the hundreds of potential projects had priority for funding during the annual budget review process.¹² These shortcomings hindered the company's efforts to use its budget most effectively to help achieve its strategy and to secure its future.

Since then, the company has taken important steps to develop and articulate a set of strategic goals and use them to drive their priorities and decision-making. This appears to be helping drive change and instill a more disciplined management process.

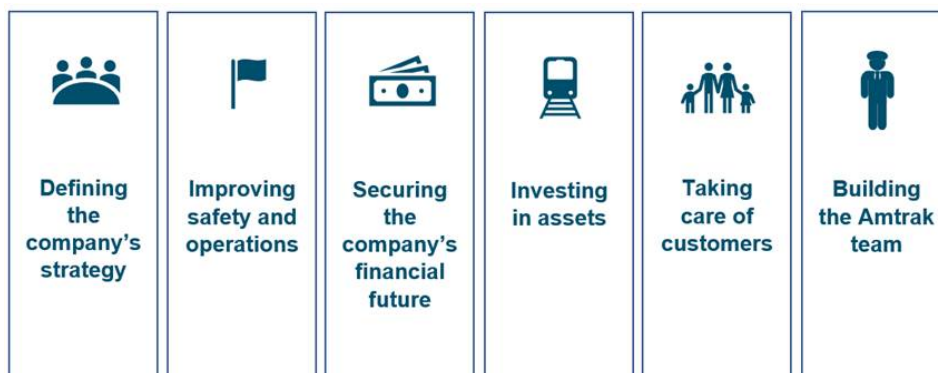
¹¹ *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009), March 29, 2017.

¹² *Governance: Addressing Remaining Shortcomings Would Lead to a Budget Development Process More Fully Aligned with Leading Practices* (OIG-A-2017-004), January 17, 2017.

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In October 2017, the company announced that it would focus on six strategic pillars, as shown in Figure 2.¹³

Figure 2. Amtrak’s Six Strategic Pillars



Source: OIG depiction of company information

To build management’s capacity to implement its strategy, the company moved quickly to reorganize and streamline its governance and management structure. Initially, the CEO reduced the number of direct reports, consolidated leadership with the Executive Leadership Team, and recruited several company executives with outside experience to manage or review key business functions and identify potential improvements.¹⁴ Through the Executive Leadership Team, the company implemented a number of initiatives to help attain its goals, including the following:

- **Enhancing safety.** As discussed, the company elevated the position of CSO to the Executive Vice President level, prioritized the implementation of its new safety management system, and is tracking incident data to measure progress. The CEO also regularly communicates the importance of safety to both company employees and external stakeholders in order to help build a culture of safety intended to, among other things, improve the company’s safety record.

¹³ At the June 2018 Amtrak Leadership Conference, the CEO stated that the company’s mission is clearly set forth in the Passenger Rail Investment and Improvement Act of 2008, which provides the foundation for the business. He stated that the six strategic pillars elaborate on how the company will fulfill this mission.

¹⁴ As of September 2018, the Executive Leadership Team consisted of the CEO, Chief Administration Officer, Chief Commercial Officer, Chief Financial Officer, Chief Information Officer, Chief Marketing Officer, Chief Operating Officer, Chief Safety Officer, and General Counsel.

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- *Eliminating the net operating loss.* The company set a goal of eliminating its net operating loss by the end of FY 2021 and identified company-wide actions to achieve that goal. These actions focus on increasing revenue and reducing costs, including eliminating some customer discounts and implementing a voluntary separation program and a reduction in force of about 400 management employees.
- *Improving customer service.* The Executive Leadership Team monitors trends in customer satisfaction scores and gives funding priority to initiatives that address customers' needs and preferences, despite cuts elsewhere. These initiatives include refreshing passenger car interiors, providing cleaner bathrooms, and training staff to better interact with customers.

The company has also taken steps to better align spending with the short- and long-term priorities in the corporate budget process. Executives told us that the company will only fund budget requests that align with one of the six strategic pillars.

Accordingly, the CEO and company executives reviewed the FY 2019 capital budgets for all departments to identify the highest priority projects, defer funding for projects that were not ready, and use the resulting savings to fund other company priorities.

In addition, to advance the company's goals of defining a strategy and securing its future, the company is undertaking a strategic assessment of its nationwide route structure, which has remained largely unchanged since the company began operations in 1971. Under this initiative, the company intends to identify options for optimizing routes to help stem operating losses, define a fleet strategy to support those options, and provide proposals for Congress to consider when making decisions about the company's future funding needs.¹⁵ If implemented, this package of changes could have an extraordinary and lasting impact on the company's operations and finances.

To succeed, the CEO and Executive Leadership Team will need to ensure that departments and employees embrace these strategies and priorities and that they develop into institutional solutions. However, company executives told us that the amount and pace of these changes and the expectation for more and faster change has created anxiety among some employees, which can lead to resistance. For example, executives told us that some employees may choose to "wait out" the current CEO

¹⁵ The company intends to provide these proposals for Congress to consider as part of the authorization of Amtrak and intercity passenger rail programs in the FAST Act in FY 2020, which will set both policy and funding levels for the future of the company.

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if they believe his tenure will be relatively short. To maintain progress, it will be important for the company to establish and continually enforce policies and processes that support the company's strategic goals.

More Effectively Managing Risks at All Levels of the Company

Longstanding issues in managing day-to-day operational, financial, legal, and other risks further complicate efforts to institutionalize company-wide change.

The company is taking steps to mitigate these risks, including developing an ethics program, revamping its Enterprise Risk Management (ERM) process, and closing gaps in internal controls over its functions and activities. But to be effective, the company must still complete steps in each area.

Enhancing employee integrity to reduce financial, legal, and reputational risks.

We continue to identify criminal behavior and ethical lapses at all levels across the company. These activities include employees accepting gifts from vendors, steering contracts to particular vendors for personal gain, committing timecard fraud, and stealing company property.¹⁶ These criminal and administrative violations cost the company money, pose legal risks, and cause reputational damage.

In 2017, we found that the company lacked a comprehensive and effective ethics program. We recommended that it implement key components of a robust program,¹⁷ including establishing a tone at the top to encourage a culture of ethical conduct, developing an ethics code, and establishing an organizational structure to operate the program.

The company committed to establishing an effective ethics program and is taking a number of actions consistent with our recommendations. This includes issuing a Code of Ethics, publishing information on ethical violations to serve as a deterrent, and creating the Ethics Corner (an internal website that includes active links to the Code of Ethics and business conduct policies) and an ethics helpline.

¹⁶ *Employee Dismissed in Corruption Case Involving Construction Supply Vendor* (OIG-WS-2018-310), January 30, 2018; *Former Employee Sentenced for False Statements to Amtrak OIG Agents Involving Investigation of Contract Steering* (OIG-WS-2018-314), February 27, 2018; *Supervisor Terminated for Time and Attendance Fraud* (OIG-WS-2018-324), May 24, 2018; *Employee Theft* (OIG-I-2016-526), September 21, 2016.

¹⁷ *Governance: Better Adherence to Leading Practices for Ethics Programs Could Reduce Company Risks* (OIG-A-2017-012), June 26, 2017.

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In addition, to set the tone at the top, the Chairman of the Board sponsored an effort, which the General Counsel led, to significantly upgrade the ethics policies for the Board of Directors to ensure it operates in accordance with the key components of a robust ethics program.

To date, however, the company has not implemented one key element we consistently found in other organizations' successful ethics programs—appointing a manager to implement and oversee the day-to-day program activities. Instead, the program resides personally with the General Counsel, which appears to be an extraordinary burden given the breadth of this executive's other responsibilities. As the program is expanded, this gap could hinder the company's ability to further improve its ethics culture and to prevent the continued lapses in ethical conduct that we have identified.

Establishing a process to diagnose and mitigate the company's key corporate risks.

In response to our 2012 report on managing risk, the company took initial steps to implement an ERM process.¹⁸ These steps included establishing an office to manage the process, working with the Executive Leadership Team to conduct a company-wide assessment to identify and rank the company's key risks, and working with departments to mitigate those risks. After some initial progress, however, the effort stalled and in 2018 the company began reassessing its ERM process. This included hiring a new manager with ERM experience to guide its efforts, developing an ERM strategy for 2019, and updating the Executive Leadership Team's risk assessment process. Our research on the efforts of other leading organizations to implement an ERM framework shows that progress often stalls when companies move from the startup phase to the more difficult implementation phase. The company's challenge, therefore, is to overcome its uneven progress implementing ERM over the past six years.

Implementing effective internal controls. In addition to building a culture of integrity to deter employees from unethical behavior and criminal lapses, successful organizations establish effective internal controls to help prevent and detect fraud, waste, and abuse, and to ensure effective business operations. Our work shows that the company continues to struggle in this area. For example, we recently reported that the company has weak internal controls for managing contracts because it relies on inefficient methods for maintaining contract records. The company is procuring an automated contract management system to address this issue; nevertheless, until such a

¹⁸ *Amtrak Corporate Governance: Implementing a Risk Management Framework is Essential to Achieving Amtrak's Strategic Goals* (OIG-A-2012-007), March 30, 2012.

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system is operational, existing weaknesses will hinder efforts to effectively protect the company's legal interests, leaving the company vulnerable to financial risks.¹⁹

Similar to its efforts with ERM, the company has taken steps over the past few years to create an internal controls framework, including developing an inventory of its existing controls, identifying control gaps, and working with departments to address these gaps. However, department responses have been mixed, and the company's efforts to focus on this framework have stalled. The Finance department's Controls group is responsible for reinvigorating these efforts. As an initial step, the group is asking departments to conduct self-assessments of their controls as a baseline to help determine where improvements are needed. The group is also giving priority to ensuring that departments implement recommendations from our work—especially those related to improving poor controls.

More Effectively Managing Programs and Projects

The company has had longstanding problems successfully managing programs and projects to ensure that they are completed on time and within budget, and that they deliver high-quality results. Each year, the company spends over \$1 billion on more than 400 capital projects, making it critical that the company apply an effective and structured approach to manage them.

In 2016, the company established an Enterprise Program Management Office (EPMO) to develop and implement critical company-wide elements for successful program and project management. These elements included policies, standards, processes, and the training and tools managers need to succeed. After some initial uncertainty about its role and authority, the EPMO established its structure and these elements. The office also developed an inventory of ongoing projects across the company to provide visibility on company activities and to enable better alignment between spending and priorities.

Despite this progress, company executives told us that departments have mixed opinions about the EPMO: some embrace its principles, and others resist them because they do not believe the EPMO is necessary. Our July 2018 report on upgrades to Washington Union Station identified similar issues. We found that managers for

¹⁹ *Acquisition and Procurement: Contracts Included Key Provisions to Reduce Risks, but the Company Lacks an Efficient and Effective Contract Management System* (OIG-A-2018-003), February 22, 2018.

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the station's near-term projects had not consistently implemented EPMO guidelines.²⁰ As a result, schedules were incomplete and not integrated for a number of these projects, and cost estimates were not up to date and well supported. These gaps could lead to delays and cost overruns. Such inconsistency in adopting strong project management principles presents risks to the company's current and future programs and projects.

²⁰ *Asset Management: Better Schedules, Cost Estimates, and Project Management Could Help Mitigate Risks to Washington Union Station Projects* (OIG-A-2018-008), July 24, 2018.

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

The company has taken steps to reduce its net operating loss by increasing revenues and reducing costs. However, the company will face difficulties eliminating the loss without addressing the consistently high costs incurred on its long-distance routes. In addition, the company and its partners have identified infrastructure needs that will require significant funding, but securing adequate resources is sometimes beyond their control.



KEY ISSUES

- *Eliminating the company's net operating loss given the costs of providing long-distance service*
- *Securing sufficient funds for infrastructure needs*

Eliminating the Company's Net Operating Loss Given the Costs of Providing Long-Distance Service

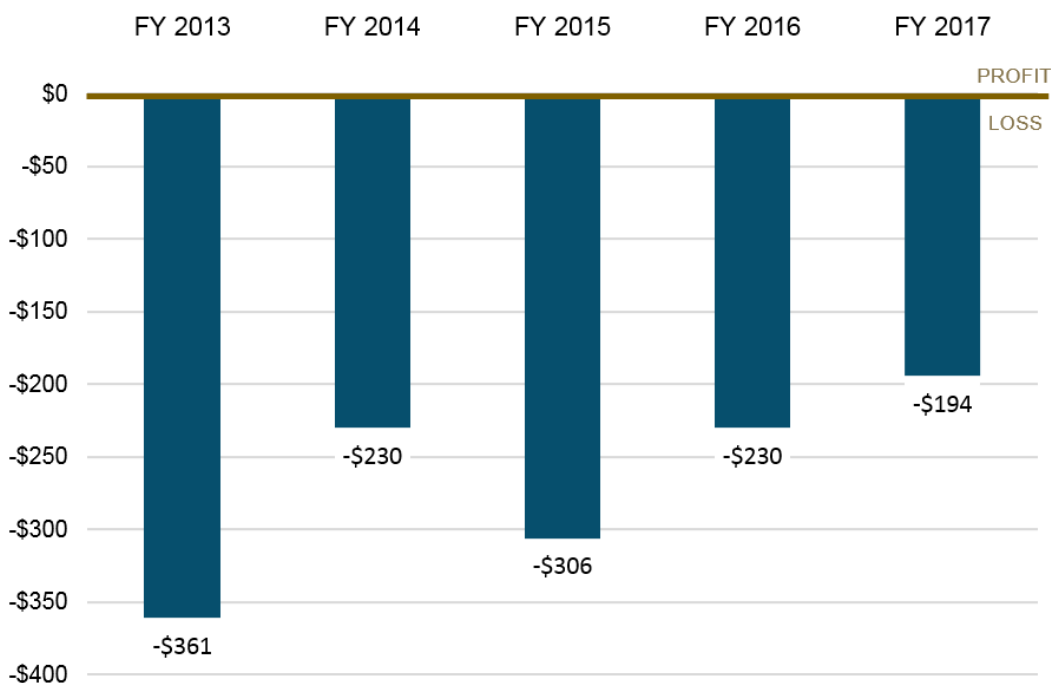
The company's reported financial position is the strongest in its history; however, the company recognizes that the high cost of long-distance routes will continue to challenge its efforts to eliminate its net operating loss.

The company has always operated at a net loss but has significantly improved its financial performance over the last five years. In FY 2017, the company's adjusted net operating loss²¹ was \$194 million—an improvement of \$167 million (46 percent) over its \$361 million loss in FY 2013, as shown in Figure 3.

²¹ Adjusted Operating Earnings (loss) is the net loss determined on the basis of generally accepted accounting principles but excluding the following: (1) certain non-cash items, such as depreciation and income tax expense and (2) income statement items funded by capital and debt service grants.

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Figure 3. Adjusted Net Operating Loss, FY 2013–FY 2017 (\$ millions)



Source: OIG analysis of Finance department data

The company's goal is to eliminate the loss by the end of FY 2021. To achieve this goal, the company is engaged in a number of initiatives to increase revenue and reduce costs.

Increasing revenue. To increase ticket revenue and better leverage its assets, the company is pursuing multiple options, including the following:

- In FY 2013, the company launched the Revenue Growth Initiative to partner with the private sector to capture untapped commercial value from its stations, rights of way, and space above property it owns.²² Under this initiative, the company is planning redevelopment efforts at five of the busiest stations it owns or partially owns: Baltimore Penn Station, Chicago Union Station, Philadelphia 30th Street Station, New York Penn Station, and Washington Union Station. Although its efforts at stations are in various stages of development, the company estimates that the initiative could help generate nearly \$850 million over the coming decades from activities such as real estate development, efficiency improvements in station operations, and increased advertising.

²² The Revenue Growth Initiative is a combination of two prior initiatives—the Terminal Development Initiative and the Asset Monetization Initiative.

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- In FY 2018, the company reduced or eliminated certain passenger discounts, such as those for seniors and students, and replaced them with more targeted sales. By reducing instances in which passengers paid less for tickets than the market would bear, the company estimates it could generate up to \$15 million in additional annual revenue.

Reducing costs. In FY 2018, the company has undertaken a series of cost-cutting initiatives, including the following:

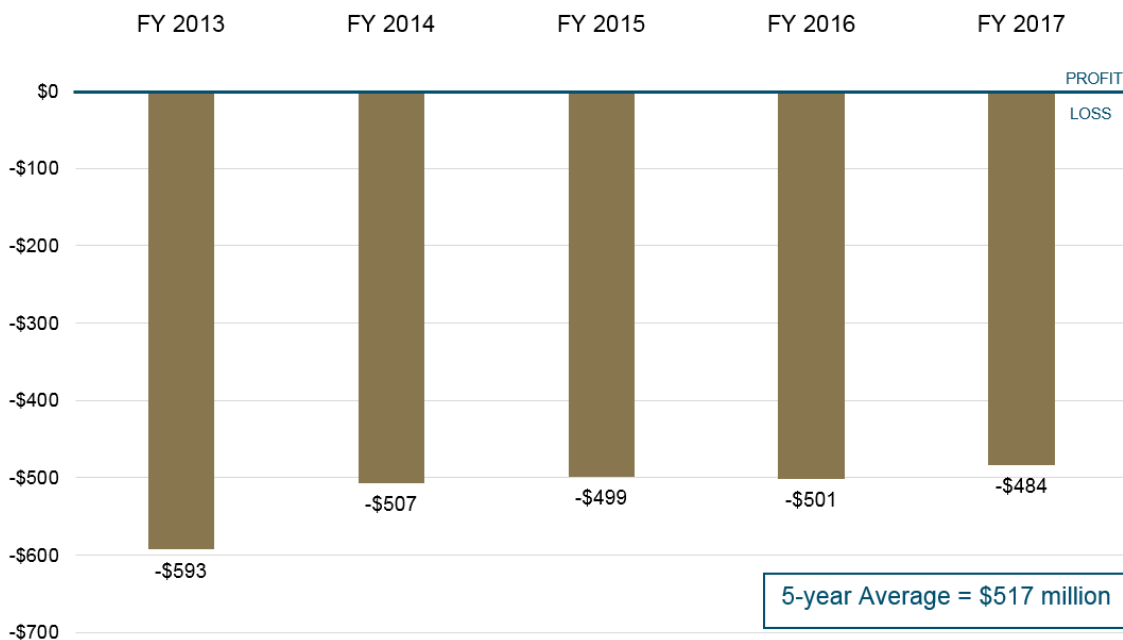
- The company worked with a consultant to identify about \$60 million in annual and one-time savings on contracted services, such as mainframe support, server and network services, and food and beverage services.
- It negotiated new collective bargaining agreements with 14 unions that represent company employees to reduce wage rates, for a one-time savings of about \$69 million.
- It reduced the management headcount by about 400 through a combination of voluntary and involuntary separations. The company estimates that these actions will save \$7.9 million in FY 2018, and \$36.7 million in FY 2019.
- The company reduced marketing and advertising sales expenses, which it estimates will yield about \$5.5 million in annual savings.

The company is forecasting an adjusted net operating loss of about \$180 million for FY 2018—an almost \$14 million improvement from FY 2017. According to company officials, this improvement is largely due to lower wage costs and ancillary expenses, partially offset by increased expenses from fuel and injury claims.

Despite the success of these initiatives, the company has recognized that it could have difficulties eliminating its net operating loss without significant changes to its long-distance service model. Losses on long-distance routes have been an enduring issue for the company. Over the past five fiscal years, these routes have lost an average of \$517 million annually, as shown in Figure 4. These losses have been large enough to significantly offset the company's net earnings from other routes.

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**Figure 4. Adjusted Net Operating Loss on Long-Distance Routes,
 FY 2013–FY 2017 (\$ millions)**



Source: OIG analysis of Amtrak Route Performance Reports

Note: This figure does not include capital costs associated with long-distance routes.

To help stem long-distance operating losses and to further increase the company's utility for the traveling public, the company's corporate planning group is reassessing the entire nationwide route structure. However, adjusting the route structure in ways that would reduce operating losses could be difficult. Making these changes will require balancing the company's historical role of providing reliable intercity passenger rail service on a nationwide basis against the need to operate efficiently. For example, the company is considering a plan to eliminate part of its service on the Southwest Chief route between Albuquerque, New Mexico, and Dodge City, Kansas, and instead to bus passengers between the two cities. The company has identified the Southwest Chief as among the routes that generate the most losses—almost \$56 million in FY 2017. As the company proceeds with its strategic assessment, it will likely encounter similar difficult choices that have substantial cost and customer service implications.

Securing Sufficient Funds for Infrastructure Needs

The company faces a gap between its planned infrastructure projects and its available funds. However, securing adequate funds is sometimes beyond the company's control.

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The company has a backlog of projects to bring the Northeast Corridor (NEC) to a state of good repair, as well as an inventory of major infrastructure projects, including those needed to ensure the continued viability of the NEC. To fund its projects, the company traditionally relies on a mix of federal grants and loans, as well as contributions from state partners that use Amtrak services. In FY 2018, the company received a \$1.5 billion federal capital grant. In addition, the company recently signed cost-sharing agreements with its state partners totaling about \$350 million annually in operating and capital subsidies for the NEC, as required by the Passenger Rail Investment and Improvement Act, Section 212.²³ However, the Northeast Corridor Infrastructure and Operations Advisory Commission estimates that bringing the NEC to a state of good repair alone will cost about \$38 billion, indicating a significant funding gap.

The company and other NEC users—state and local governments, freight railroads, and commuter railroads—are also planning major infrastructure improvements to replace century-old bridges and tunnels, and to support intercity and commuter rail growth. For example, the multi-billion-dollar Gateway Program will cover several projects around New York City, including constructing two new rail tunnels and rehabilitating a tunnel under the Hudson River, and replacing the Portal Bridge in New Jersey. For these projects, the company and its external partners, which include the states of New York and New Jersey, have identified state and local funds and are looking to federal grants as a significant source for funding any gaps. However, the extent to which the federal government makes funding available, if at all, is beyond the partners' control.

²³ Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, Div. B, Title II, 122 Stat. 4907 (2008) (codified at 49 U.S.C. § 24101).

4. Asset Management: Ensuring Capacity, Coordination, and Effective Planning for Major Asset Upgrades

Over the next decade, the company plans to upgrade or replace a number of major fleet and infrastructure assets, including Acela trainsets, diesel locomotives, passenger cars, train stations, tunnels, and bridges. However, the size and scope of these efforts would make managing any one of them challenging, particularly given the company’s history of weaknesses planning and managing major programs; therefore, pursuing them concurrently is a daunting undertaking.






 **KEY ISSUES**

- *Ensuring that the company has the capacity to concurrently manage programs to upgrade major assets*
- *Ensuring effective coordination*
- *Effectively planning for fleet upgrades and replacements*

Ensuring that the Company Has the Capacity to Concurrently Manage Programs to Upgrade Major Assets

The company is simultaneously pursuing a series of major initiatives to upgrade assets that will involve billions of dollars in internal and external sources of funding over the next 10 years as shown in Figure 5.

Figure 5. Concurrent Major Asset Programs

Program	2018	2019	2020	2021	Beyond	Size
Replacing High-speed Acela Fleet	Acquiring 28 new trainsets and related infrastructure upgrades to operate them 					\$\$
Upgrading the Long-Distance and Single-Level Coach Fleet	Upgrading the rolling stock fleet, including replacing 202 diesel locomotives and 458 single-level passenger cars 					\$\$
Procuring Engineering Equipment	Updating a significant amount of equipment needed to repair track and related infrastructure 					\$
Redeveloping Major Stations	Development activities at five major stations in coordination with private real estate developers 					\$\$\$
Improving Existing Infrastructure	New projects along the Northeast Corridor, including replacing bridges, building tunnels, and other complex infrastructure upgrades 					\$\$\$\$

\$ less than \$1 billion \$\$\$ \$10 billion to \$20 billion

\$\$ \$1 billion to \$10 billion \$\$\$\$ more than \$20 billion

Source: OIG analysis of company documents

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We previously reported on challenges the company faced in managing individual major asset programs. In November 2017, we reported on the company's efforts to replace its Acela trainsets, noting that the company put in place an effective management structure and tools for obtaining the new equipment, but not for the accompanying 10 infrastructure upgrades.²⁴ We also noted issues with the availability of some labor resources in high demand throughout the company, such as those needed for safety and track work. As a result, the company was vulnerable to schedule delays that could prevent the trainsets from entering revenue service on time.

Given these past challenges, ensuring that the company has sufficient staff and effective structures to manage and oversee these asset programs concurrently will be crucial to success. During our interviews, the majority of company executives stated that the company may not have the staff capacity to successfully implement all of them at once. Some cited the recent reduction in force and exacerbated resource gaps; others cited a lack of internal expertise and skills needed for certain programs, such as for the fleet upgrades and the major station redevelopment efforts. Also, in its assessment of the company's project management skills, the EPMO concluded that only 56 of 124 project managers had the certifications necessary to do their jobs. In response, the company established a deadline for all project managers to become certified and is actively tracking progress against that goal.

The company also faced challenges ensuring that it had effective management structures in place for such programs. For example, in our review of the company's planning for the redevelopment of Baltimore Penn Station, we noted that the company had not finalized a structure to manage and oversee the project, including developing a plan and dedicating resources for managing and overseeing project implementation.²⁵ We identified this same structural weakness in a number of prior reviews of company programs and projects.

Ensuring Effective Coordination

The success of the company's major asset programs also depends on effective coordination to ensure each external and internal party understands its respective role

²⁴ *Train Operations: The Acela Express 2021 Program Faces Oversight Weaknesses and Schedule Risks* (OIG-A-2018-002), November 16, 2017.





²⁵ *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.

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and responsibilities and can execute them to ensure that projects are completed as planned.

Working with external partners. Federal, state, and local governments and agencies; commuter and freight railroads; and private-sector developers have roles in implementing the company’s major asset programs, as shown in Figure 6.

Figure 6. The Company’s External Partners for Major Asset Programs

Program	External Partners 	
Fleet Replacement Program 	<ul style="list-style-type: none"> • Federal government • State governments 	
Major Station Redevelopment 	<ul style="list-style-type: none"> • Federal government • State governments • Local governments • Commuter railroads 	<ul style="list-style-type: none"> • Real estate developers • Development agencies • Colleges and universities
Improving Existing Infrastructure 	<ul style="list-style-type: none"> • Federal government • State governments • Local governments • Commuter railroads 	<ul style="list-style-type: none"> • Port authorities • Freight railroads • Non-profit organizations

Source: OIG analysis of company documents

The company has experienced challenges coordinating with external partners. For example, the largest infrastructure project supporting the Acela 2021 trainset depends on the New York Metropolitan Transit Authority demolishing structures it owns. But as we reported in November 2017, the company did not fully coordinate with this party to ensure it would take the actions on time, potentially delaying progress.²⁶ The company also has not been consistent in using key project management tools—such as project charters, quality cost estimates, and schedule estimates—to ensure that external partners clearly understand their roles and responsibilities and can carry them out on time.

Coordinating internally. The company’s key asset programs also require significant coordination within the company. The Engineering, Procurement, Finance, Law, and Information Technology departments play important roles in these programs.

²⁶ *Train Operations: The Acela Express 2021 Program Faces Oversight Weaknesses and Schedule Risks* (OIG-A-2018-002), November 16, 2017.

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Additionally, the Mechanical department is involved in programs related to rolling stock, and the Marketing department is a key player in programs that involve customer-facing assets, such as stations and passenger cars. Further, the Chief Engineer told us that extensive coordination between the Engineering and Transportation departments is required to schedule and obtain track time for state-of-good-repair work while maintaining the necessary level of customer service. Thus, the Engineering department has been improving its planning to provide advance notice of work and outages to allow stakeholders time to plan service adjustments.

However, departments have not always worked together to ensure that needed resources are in place to move projects forward. For example, as we recently reported, the Engineering department and managers for the Washington Union Station projects did not coordinate early enough. As a result, the Engineering department did not have enough advance notice to ensure that it procured certain resources in time to meet one of the project's schedules, delaying it by nine months. According to an executive, the company has done a better job coordinating across departments for its major station redevelopment efforts, but coordination has been more limited for other major asset programs.

Effectively Planning for Fleet Upgrades and Replacements

The company is pursuing a new and faster-paced fleet replacement strategy that will require effective and comprehensive planning. To execute this strategy, the company developed a 10-year, multi-billion-dollar plan to replace and upgrade the fleet and presented it to the Board of Directors, which approved it in May 2018. In June 2018, the company took its first implementation step with a request for proposals to upgrade its diesel locomotives. This request for proposals explores the options of either rebuilding locomotives in the company's current diesel fleet or purchasing 75 new locomotives, with options for additional units. In June 2018, the company also issued a request for information to explore options to replace its single-level passenger cars. The company determined that accelerating a fleet replacement would be more cost-effective than spending money to sustain aging cars and locomotives; however, the company has faced challenges with past fleet purchases.

Defining fleet requirements. In exploring these fleet options, the company must adequately assess its equipment needs—an activity our prior work identified as a challenge in past fleet upgrades. For example, in May 2013, we reported that the company bought 70 new electric locomotives even though it projected that it needed

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only 56. As a result, the company spent \$167 million more than necessary.²⁷ Likewise, in October 2014, we reported that the company did not accurately estimate the number of cars it would need as part of its long-distance fleet upgrades, leading to costly contract modifications.²⁸

Estimating the company's fleet requirements is complicated by another factor: the company is actively reassessing which routes to operate in the future and which trainsets would support them. This reassessment could lead to a fundamental realignment of the company's route structure, which has remained relatively stable since the company began operations. To provide additional flexibility in the company's long-term planning, the fleet strategy includes contracting for a base number of units, with options to buy additional units if needed. Traditionally, the company has contracted to purchase all locomotives and cars up front; therefore, this strategy will be a new approach for departments to plan and manage.

Using an options-based contract may allow the company to better align its fleet purchases with its needs, and company executives believe strongly that this strategy will allow for better capital deployment. However, Federal Railroad Administration officials told us that without adequate planning, the company's long-term expenses could be greater because of the potential hidden costs of such flexibility. For example, the company likely will pay a premium for the ability to adjust its order, which could require the manufacturer to stop and re-start its production line.

Timely planning for related maintenance and spare parts. Planning for the maintenance of the new equipment could also be a challenge. In September 2016, we reported that the company did not decide on a maintenance or financing strategy for spare parts for new electric locomotives until four years after signing the locomotive purchase contract, which is contrary to leading practices.²⁹ As a result, the company used a loan to purchase some capital and spare parts in the interim, which cost the company about \$6.8 million in unnecessary interest charges.

The company has built some maintenance and support considerations into its fleet strategy, which may help to avoid past problems. For example, the company plans

²⁷ *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.

²⁸ *Asset Management: Opportunities Exist to Enhance Decision-Making Process for Utilization of Long-Distance Equipment* (OIG-E-2015-001), October 23, 2014.

²⁹ *Acquisition and Procurement: Opportunities Exist to Improve Management of Technical Support Services Contracts* (OIG-A-2016-013), September 30, 2016.

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to purchase technical support from the manufacturers and enter into long-term agreements with them to supply spare parts, which it hopes will help control maintenance costs. Further, the company is considering procuring off-the-shelf rolling stock—locomotives or passenger cars that are not custom-made to the company’s specifications. This approach could further reduce maintenance costs because the product has an established maintenance history for the company to consider. However, the company may not realize these benefits if it substantially modifies this equipment for its operating and regulatory environment. As we have reported previously,³⁰ such modifications increase the costs and decrease the benefits of purchasing off-the-shelf; therefore, controlling these modifications will be important. Company executives agreed with this assessment.

Preparing for the decommissioning of the current fleet. Planning early to decommission the equipment being replaced is an important step that the company has not always executed effectively. We previously reported that a lack of adequate planning could put the company at risk of spending more money than necessary to maintain the fleet that it is replacing.³¹ For example, untimely decommissioning could result in the company incurring additional maintenance costs to keep the unused equipment in good operating condition. In addition, the equipment could take up limited facility space.

³⁰ *Strategic Asset Management Program: Opportunities to Improve Implementation and Lessons Learned* (OIG-E-2012-012), May 31, 2012.

³¹ *Asset Management: Amtrak is Preparing to Operate and Maintain New Locomotives, but Several Risks to Fully Achieving Intended Benefits Exist* (OIG-E-2013-021), September 27, 2013.

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5. Customer Service: Putting Customers First

The company is instituting a series of initiatives to improve the customer experience, such as refreshing passenger car interiors, providing cleaner bathrooms, and training staff to better interact with customers. Further, the company is taking actions to address threats to its brand, such as negative perceptions of safety and on-time performance. However, because the company has historically struggled to provide consistent, high-quality customer service, ensuring that employees at all levels embrace and institutionalize these efforts will be essential to sustaining improvements.



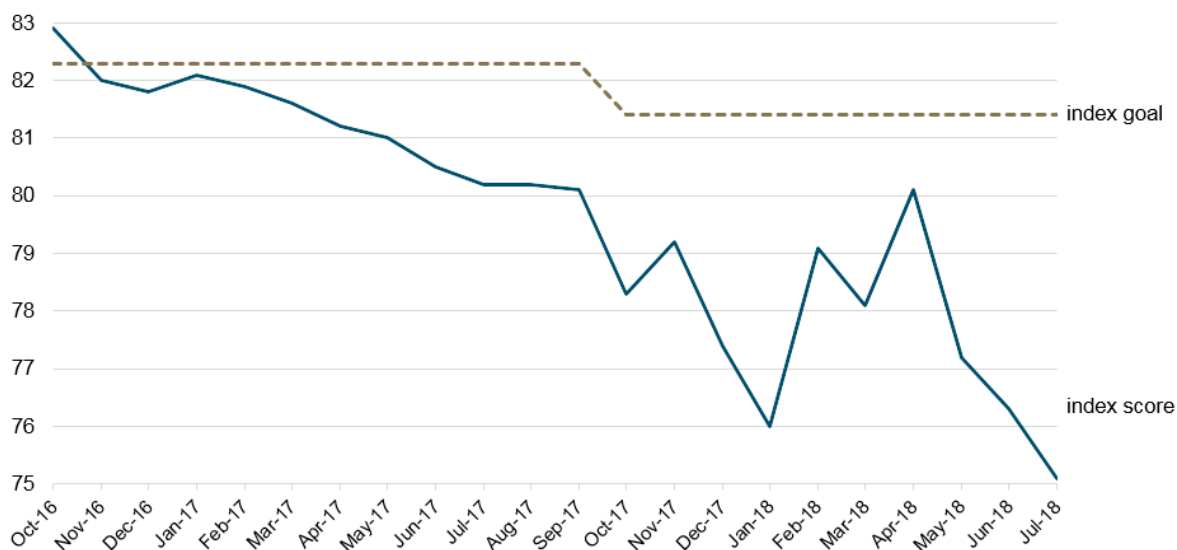
KEY ISSUES

- *Improving the customer service culture*
- *Protecting and enhancing the company's brand*

Improving the Customer Service Culture

The company's key metric for gauging customer satisfaction is its electronic Customer Satisfaction Index, which has consistently remained below the company's goals and has trended downward over the past two fiscal years, as shown in Figure 7.

Figure 7. Customer Satisfaction Index Scores, FY 2017–FY 2018



Source: OIG analysis of Amtrak Customer Satisfaction Report

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To improve customer service, the company is instituting a number of projects. For example, the company added staff on NEC regional trains to ensure that cars and bathrooms are clean because these types of issues lead the list of passenger complaints. The company also replaced the seats and carpets on NEC regional and Acela trains, and contracted with a vendor to upgrade the interiors of its trains on long-distance and state-supported routes. Further, to better communicate information to passengers, including train status, the company created a 10-person team to monitor and coordinate train information, and communicate it through social media, direct messages, and in-station signage and announcements.

However, company executives noted that implementing some planned efforts—such as empowering onboard staff to directly handle passenger problems—could be difficult given the historical resistance of customer-facing personnel to change existing operations. Our work has also identified this issue. For example, we reported in September 2016 that the quality of customer service during the boarding process at the company’s 20 busiest stations was inconsistent, and that some customer-facing employees resisted assuming different responsibilities or changing longstanding practices even if these actions would improve the customer experience.³²

Company executives told us that this resistance results in part from the fact that management has not consistently communicated the importance of providing high-quality customer service through the ranks of customer-facing personnel or held them accountable for providing this level of service. Executives noted that, as a result, the workforce historically has not maintained a strong spirit—or culture—of customer service, including a strong sense of personal responsibility for meeting or exceeding customers’ expectations.

To change the organization’s customer service culture, the company is taking the following broad actions:

- ***Setting the tone at the top.*** The CEO included customer service as one of the company’s six pillars and has prioritized funding for customer service initiatives.
- ***Improving training.*** The company is developing additional training for all customer-facing employees that emphasizes courtesy, helpful announcements, and the cleanliness of the company’s amenities.

³² *Train Operations: Adopting Leading Practices Could Improve Passenger Boarding Experience*, (OIG-A-2016-011), September 7, 2016.

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- **Improving accountability.** The company has made efforts to improve executive-level accountability. For example, it assigned a selection of stations to each of the company's executives and made them responsible for identifying basic deficiencies, with a focus on the customer experience. In addition, marketing, planning, and operations officials told us they now coordinate better to ensure that their customer service responsibilities are clearly delineated and assigned.

However, changing the motivations and behavior of employees—in effect, changing the organization's culture—can take years and will likely require a sustained, long-term commitment.

Protecting and Enhancing the Company's Brand

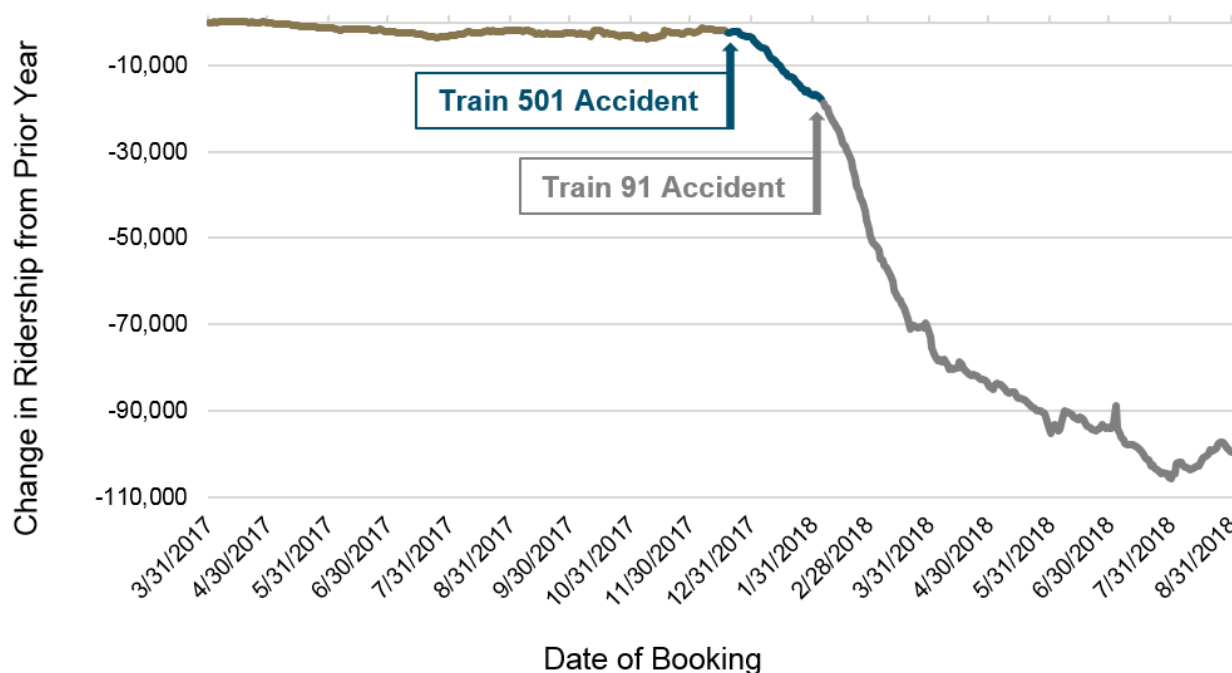
The company is taking actions to address three broader threats to its brand: first, the negative perceptions of its safety record; second, its poor on-time performance, especially on long-distance routes; and third, demographic shifts toward younger riders who have different customer service preferences than older riders.

Restoring the brand after recent safety incidents. The company's ridership data show that recent crashes and derailments have likely impacted the public's perception of the company. After the December 2017 accident near DuPont, Washington, and the February 2018 accident in Cayce, South Carolina, bookings for long-distance travel decreased significantly compared with the prior year, as illustrated in Figure 8. According to the Chief Marketing Officer and officials with the Pricing and Revenue Management group, this decrease is the direct result of the company's recent accidents. If bookings remain at the August 2018 level for the rest of the fiscal year, total ridership on long-distance routes will be about 4.6 million—down from 4.7 million the prior year.³³

³³ This assessment does not account for all factors that could affect long-distance ridership, such as recent service disruptions on the Coast Starlight.

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Figure 8. Difference in Bookings, Year-Over-Year, Long-Distance Routes



Source: OIG analysis of Pricing and Revenue Management group data

Note: This figure shows the difference in bookings for 13 of the company's long-distance routes for travel from March 2018 to September 2018, when compared to the same period for the prior year.

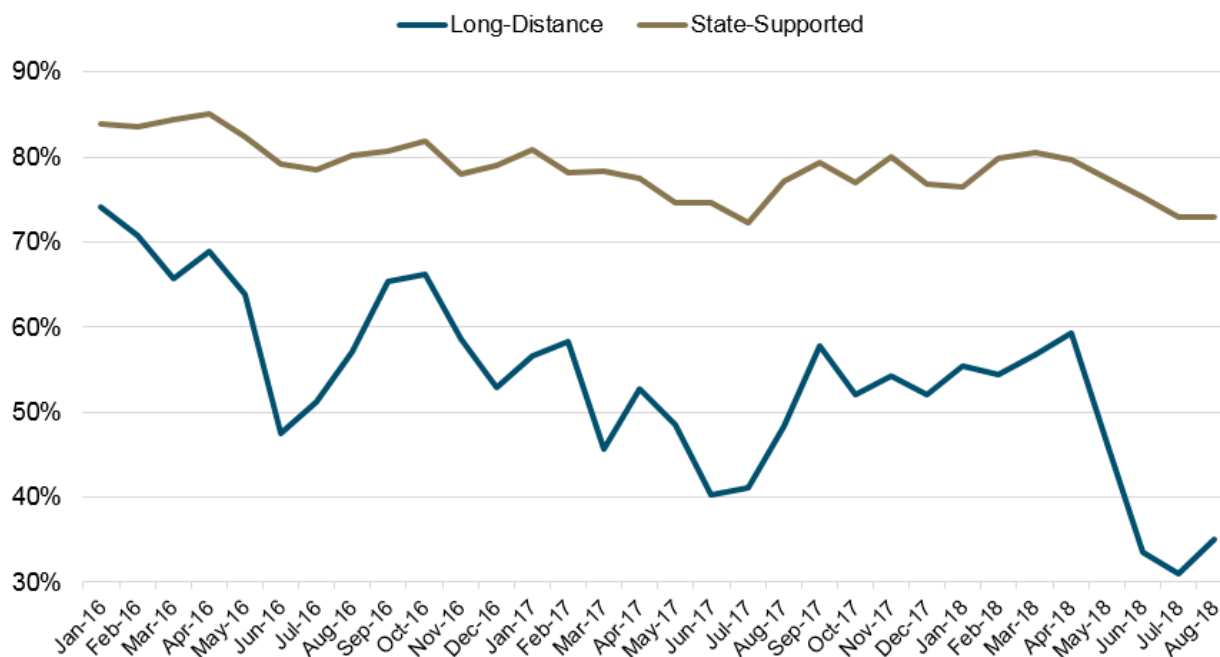
In response, the company is taking actions intended to improve the safety of its train operations, including setting a clear tone at the top about the importance of safety, completing installation of positive train control, and implementing a new safety management system. The company is also taking actions to mitigate the revenue impacts of decreased long-distance bookings by increasing the number of promotional sales, expanding the availability of lower-price tickets, and allowing passengers to purchase shorter trips on long-distance routes than the company would normally offer. These actions appear to be having a positive effect. For example, as of August 2018, ticket purchases for coach trips on long-distance routes increased 3 percent over the last calendar year. This equates to 38,000 additional coach tickets sold, according to the Pricing and Revenue Management group.

Improving on-time performance. Customer service data shows that the timeliness of trains can directly influence passengers' perception of—and satisfaction with—their entire journey. This satisfaction, or lack thereof, is directly correlated with a first-time passenger's likelihood of returning as a customer. However, since January 2016, end-point, on-time performance on long-distance routes declined an average of

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41 percent, and on state-supported routes it declined an average of 9 percent. In July 2018, the company’s long-distance trains reached their last destination on schedule only 31 percent of the time, on average, as shown in Figure 9.

Figure 9. Average End-Point, On-Time Performance, All Long-Distance Routes, January 2016–August 2018



Source: OIG analysis of Amtrak Operations department data

The performance of some individual routes has been even worse. For example, as of August, trains on the Crescent route—from New York to New Orleans—reached their last destination on schedule about 13 percent of the time in FY 2018.

The company’s core difficulty with on-time performance is that it operates its long-distance and state-supported routes on host railroad tracks, where the host makes all dispatching decisions. As a result, the company’s on-time performance is heavily affected by the extent to which host railroads prioritize their own trains over Amtrak trains when schedule conflicts arise. Federal law requires Amtrak passenger trains to receive preference over freight transportation; however, this right is seldom enforced. According to company data, the largest factor affecting on-time performance on host railroad tracks is interference from freight trains, typically caused by a freight railroad requiring an Amtrak train to wait so that freight trains can proceed first. In some of

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the most notable cases in FY 2018, host railroads have stopped individual Amtrak trains for more than three hours during their routes before allowing them to proceed.

The company is taking actions to address this problem. For example, the company has been engaged in federal litigation to determine the validity and proper development of metrics and standards for intercity passenger rail operations under Section 207 of the Passenger Rail Investment and Improvement Act.³⁴ In July 2018, a federal appeals court ruled that the Federal Railroad Administration, in coordination with Amtrak, will be allowed to develop on-time performance metrics for passenger-rail service.

The company is also attempting to raise the public profile of this issue to combat the damage done to its brand. For example, the company issued a host railroad “report card” for 2017, which identified freight railroads whose actions have substantially delayed Amtrak trains. However, until the freight railroads’ statutory duty to give preference to Amtrak is enforced, the company’s on-time performance will continue to suffer.

Meeting the needs of younger riders. The company is also attempting to increase ridership in the face of changing demographics. In FY 2017, the company’s ridership was heavily skewed toward older riders. But company research on demographic trends shows that, within 5 years, consumers who are 18 to 34 years old will account for approximately half of all business travel. Meanwhile, business travel by older passengers is expected to drop sharply. Moreover, executives told us that younger passengers do not have the same nostalgia for trains and may not be as interested in long-distance trains as a mode of travel.

To grow ridership, particularly on long-distance routes, the company’s service will need to evolve to appeal to this new generation of passengers by accommodating their preferences, according to company officials. For example, company research indicates that younger passengers have a higher desire for comfort and choice during their journeys. Research also indicates that younger travelers generally want fast, accessible, and reliable technology. This includes the ability to use mobile devices to book travel and access to high-speed internet connections onboard. In response, the company recently revamped its mobile booking app and is trying to improve its Wi-Fi service on the NEC. Other initiatives to meet evolving customer demands include offering more options for where and how passengers dine on long-distance trains, and refreshing the food options.

³⁴ Pub. L. No. 110-432, Div. B (2008).

6. Acquisition and Procurement: Strengthening Procurement Processes

Over the years, our work has documented a pattern of weak procurement practices. The company acknowledges these weaknesses and recently began efforts to address some of them. However, weaknesses remain in the Procurement department and the end-user departments³⁵ that oversee the company's contractors at a time when the company is planning increases in the scope and speed of procurements.



KEY ISSUE

- *Addressing weaknesses in procurement management and oversight*

Addressing Weaknesses in Procurement Management and Oversight

The company has about 1,200 active contracts and typically spends more than \$2 billion a year on procuring goods and services. This procurement activity includes contracts for manufacturing trainsets, augmenting the company's staff, procuring spare parts, and executing construction projects. Given the large expenditures involved and the importance of the goods and services that contractors provide, it is critical that the company builds and maintains a strong contracting oversight capability. In the past, however, the company has struggled to effectively develop, manage, and oversee contracts.

Longstanding procurement weaknesses. Since 2013, we published 18 reports identifying weaknesses in the company's acquisition and procurement efforts, including the following:

- weak contract development and award processes, which increased costs to the company
- poor contract management, which resulted in schedule delays
- inconsistent contract oversight, especially by end-user departments, which left the company vulnerable to poor contractor performance

³⁵ End-user departments are the company departments that identify the need for contracted goods and services—such as Engineering, Mechanical, Human Resources, Marketing, and Information Technology. They are also responsible for conducting the day-to-day oversight of company contracts.

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For example, in February 2018, we reported that the company lacked a contract management system and relied on methods for keeping contract records that were decentralized, ad hoc, and sometimes paper-based.³⁶ In response, the company is procuring a contract management system—a leading practice in most organizations—which is intended to provide instant access to contract agreements, automate reminders of dates for key contract actions, and provide other tools the company could use to efficiently track and monitor contracts. The company estimates that the system will be ready around May 2019; however, the company’s ability to efficiently manage and track its contracts will remain limited until then.

As another example, in February 2017, we reported that end-user departments were not always aware of their responsibilities for managing and overseeing master services agreements (a type of services contract) or how to accomplish this. In addition, end-user departments were able to enter into follow-on contracts under the agreements without involving the Procurement department, which limited the company’s ability to collect the information necessary to track and monitor them.³⁷ In March 2018, the company established a new process intended to address this issue for master services agreements and increase the rigor around awarding these follow-on contracts. However, the company had not rolled out the new process as effectively as it had hoped, and additional end-user training is needed.

More broadly, end-user departments are inconsistent in their contract oversight practices, which hinders the company’s ability to ensure that contractors provide quality goods and services. For example, one of our recent reports identified a variety of shortcomings in the company’s oversight of contracts with medical claims administrators.³⁸ In this case, the company was not monitoring the contracts to guarantee their performance, including the effectiveness of administrators’ fraud prevention and detection controls. As a result, we questioned whether \$23.4 million in medical claims that the company paid was proper.

Initiatives to improve contract development, management and oversight.

In June 2018, an external consultant completed its review of the company’s procurement

³⁶ *Acquisition and Procurement: Contracts Included Key Provisions to Reduce Risks, but the Company Lacks an Efficient and Effective Contract Management System* (OIG-A-2018-003), February 22, 2018.




³⁷ *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.

³⁸ *Governance: Opportunities to Improve Controls over Medical Claim Payments* (OIG-A-2018-005), March 14, 2018.

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processes and capabilities and identified areas for improvement.³⁹ In response, the company implemented a series of initiatives to strengthen contract development, management, and oversight, as shown in Figure 10. For example, the Procurement department is updating its policies to more clearly define the procurement process and reduce the number of steps needed for an effective procurement. This may help address concerns from company executives who told us that the process was unclear and lengthy, and sometimes delayed operations.

Figure 10. Ongoing Initiatives to Strengthen Procurement Capabilities

Procurement Area	Examples of Improvement Initiatives
<p>Contract Development</p> 	<ul style="list-style-type: none"> • Trained company buyers on core negotiation skills • Developed templates to help ensure consistent treatment of bid proposals during the contractor selection phase • Developed tools aimed at strengthening bid evaluation
<p>Contract Management</p> 	<ul style="list-style-type: none"> • Started implementing a procure-to-pay system aimed at providing visibility over the steps and costs of a procurement • Established monthly meetings between the Vice President of Procurement, Chief Administration Officer, and Chief Financial Officer to discuss contract challenges
<p>Contract Oversight</p> 	<ul style="list-style-type: none"> • Centralized review and tracking of end-user task orders awarded under master services agreements • Procured software that includes contractor performance reporting and monitoring

Source: OIG analysis of Procurement department documents

More recently, in August 2018, the company moved responsibility for overseeing the Procurement department from the Chief Administration Officer to the Chief Financial Officer to improve the company's ability to identify potential procurement cost savings across the organization. Because many of the company's improvement efforts are either underway or were recently completed, it is too soon to assess the extent to which these changes have strengthened the company's procurement capabilities and improved its procurement outcomes.

Further, while the Procurement department is working to implement these improvements, it is also tasked with executing the most significant set of procurements in the company's history, as discussed in the Asset Management section of this report.

³⁹ The consultant also identified potential cost savings across the company's contracts. We report on the results of these cost savings initiatives in the Financial Performance section of this report.

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Company executives voiced concerns about the department's lack of a "deep bench" to support these large, upcoming acquisitions. Executives also noted that the department lost more staff and expertise than it anticipated in the company's recent workforce reduction—16 percent of its workforce. To address this, the company is assessing the skills and capabilities the department needs to manage the company's acquisition agenda and ways to fill gaps.

7. Information Technology: Effectively Delivering on Technology Projects While Minimizing Cyber-Security Risks

The company has centralized its information technology (IT) services as part of an effort to address longstanding weaknesses in its IT practices, including an inability to consistently deliver meaningful results on large-scale projects. However more work needs to be done, including bolstering the company’s cyber-security efforts.



KEY ISSUES

- *Building an IT department that delivers results*
- *Improving cyber-security*

Building an IT Department that Delivers Results

The IT department is attempting to transform into an organization that can deliver on large-scale projects, but it has yet to build the capacity it needs to deliver these results. In the past, other departments independently completed their technology projects because they did not trust the IT department to provide all the services they needed. We previously reported on this issue, including how the IT department’s uncompleted projects affected other departments and also how other departments’ “shadow IT” activities led to cost increases, system redundancies, and program mismanagement,⁴⁰ as demonstrated in the following examples:

- In June 2017, we reported that the Operations Foundation program—a complex technology and business process initiative to improve train operations that the company estimated would cost \$427 million—was over budget and behind schedule more than two years into its implementation.⁴¹ We noted that departments developed projects without fully considering how the projects may have affected other company systems, resulting in a duplicative “stove-piped” approach rather than a company-wide approach.

⁴⁰ *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009), March 29, 2017

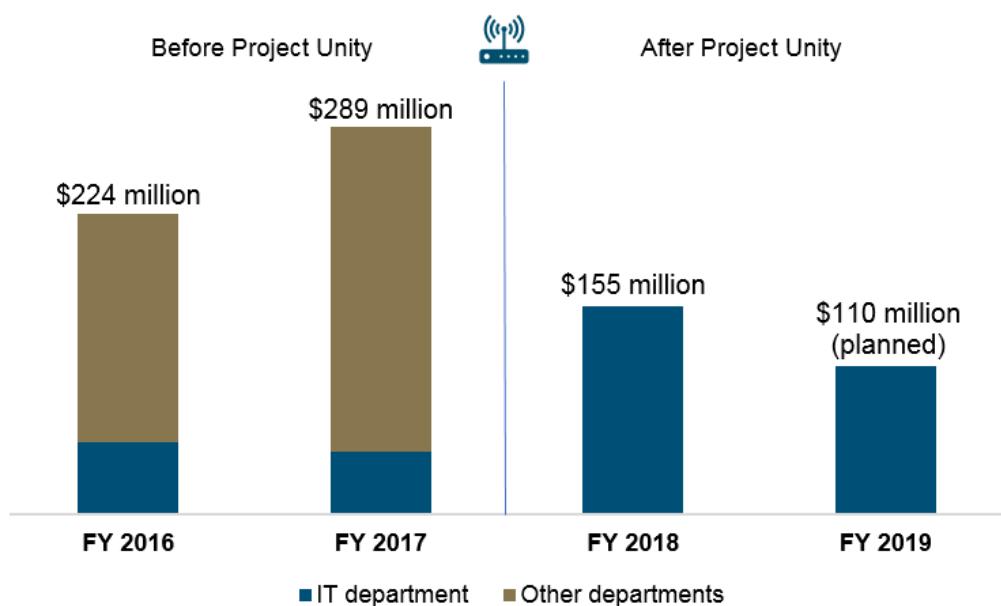
⁴¹ *Information Technology: Operations Foundation Program—Restructuring Could Help Control Costs and Limit Risks* (OIG-A-2017-011), June 19, 2017.

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- In May 2015, we reported that the company’s project to redesign its customer-facing web portal and reservation system was over budget and behind schedule, in part because of the IT department’s limited involvement.⁴²

In FY 2017, the company completed Project Unity, a company-wide effort to centralize its IT functions and budget under the IT department to better prioritize spending and avoid the above problems. By doing so, the company cut other departments’ funding for IT projects and reduced the company’s overall IT capital budget by about half— from \$289 million in FY 2017 to about \$155 million in FY 2018— giving the IT department full control over IT spending. This is a change from recent years, when other departments controlled most of the company’s IT capital budget, as shown in Figure 11.

Figure 11. IT Capital Budget, FY 2016–FY 2019



Source: OIG analysis of IT department data

As part of its consolidation efforts, the department is working with the Amtrak Technology Investment Committee to reduce the number of IT projects throughout the company and reorienting itself to focus on fewer mission-critical projects and deliver them successfully. The department is in the process of reducing the number of applications used across the company because they are redundant or are no longer

⁴² *Information Technology: Reservation System Infrastructure Updated, but Future System Sustainability Remains an Issue* (OIG-A-2015-010), May 19, 2015.

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needed. Accordingly, the department is retiring, consolidating, or migrating them to a limited number of key platforms. For example, company executives stated they have utilized key technology platforms to support expense management, training, and mobile applications, among others.

For example, as we recently reported, the department is in the process of migrating most of its applications to internet-based platforms (the cloud) to improve the company's ability to continue operations during a disruption and to reduce operating costs.⁴³ However, our report found that the company did not have comprehensive plans and timelines to guide this migration or the supporting analysis to prioritize the migration of the most critical applications. The Chief Information Officer told us that not completing this migration correctly could have a significant impact on company operations. In response to our report, company officials told us they were analyzing existing applications to develop a prioritized migration plan and schedule for moving the applications to the cloud. As of September 2018, company officials stated that a detailed plan was in place.

Consolidating the company's IT function is a positive step toward reducing duplication and inefficiencies; however, the IT department still struggles to deliver on large projects, with ongoing staffing shortfalls exacerbating the problem. For example, 68 of the department's 357 positions (19 percent) were open as of July 2018. The department planned to hire 30 more employees in 2019, according to the Chief Information Officer. In the meantime, the company plans to rely on contractors to fill this gap.

Improving Cyber-Security

Like other large organizations, the company faces challenges securing its IT systems and data from cyber-attacks. From 2012 through 2017, cyber-security breaches reported by private-sector companies nearly doubled,⁴⁴ and the average cost for businesses to manage cyber-crime rose by 63 percent.⁴⁵ Given these risks, we recently provided a restricted report to company management on the company's cyber-security vulnerabilities and recommended specific improvements, which the company agreed to

⁴³ *Information Technology: Opportunities Exist to Improve the Company's Ability to Restore IT Services After a Disruption* (OIG-A-2018-010), September 10, 2018.

⁴⁴ World Economic Forum, *The Global Risks Report 2018, 13th Edition*.

⁴⁵ Accenture, *2017 Cost of Cyber Crime Study*.

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address.⁴⁶ In addition, a study by 31 offices of inspectors general found that their respective agencies' web applications were at risk of unauthorized access because of unresolved security vulnerabilities and because agencies did not properly implement applications. The joint study identified the following common cyber-security challenges:⁴⁷

- ***Incomplete and inaccurate inventories.*** Of the agencies reviewed, 75 percent did not have complete and accurate inventories of their web applications, which is essential to identifying the applications to protect.
- ***Critical vulnerabilities.*** Almost 50 percent of the thousands of security vulnerabilities identified posed substantial risks.
- ***Inconsistent and poorly implemented web security policies and processes.*** In general, agencies were not consistently implementing web security policies and processes critical to reducing the risk of an attack.

Company executives acknowledge that the company is not exempt from these risks and needs to devote attention to mitigating them to protect operations, web applications, and data systems from cyber-attacks. To address these issues, the IT department developed a five-year strategic plan to improve cyber-security and regularly briefs the Executive Leadership Team and the Board of Directors.

⁴⁶ *Information Technology: Improving Security of Publicly Accessible Websites Could Help Limit Cyber Risk* (OIG-A-2018-001), October 23, 2017. Given the sensitivity of information in the report, access to it is restricted.

⁴⁷ Council of the Inspectors General on Integrity and Efficiency, *Web Applications Security Cross-Cutting Project—A Federal Government Assessment of Publicly Facing Web Applications*, October 3, 2017.

8. Human Resources: Strategically Managing the Workforce

Because of the recent workforce reductions and the increasing scope and pace of strategic initiatives, it is important for the company to align its workforce with its newly articulated strategic priorities. The company has taken steps to achieve this alignment but has much more work to do to ensure that it does so effectively while containing workforce costs.



KEY ISSUE

- *Aligning the workforce to achieve the company's strategic priorities*

Aligning the Workforce to Achieve the Company's Strategic Priorities

The company's workforce includes about 16,800 union (agreement) employees and 2,700 management employees.⁴⁸ In FY 2017, these employees' salaries, wages, and benefits totaled about \$2.1 billion. And since FY 2012, these costs have consistently accounted for about 50 percent of the company's overall expenses. The company also employs at least 3,100 contractors who help meet its workload demands.⁴⁹

However, our past work has shown that departments have had difficulties aligning their workforces with the work needed to achieve the company's strategic priorities, as shown in the following examples:

- **Engineering department.** In November 2017, we reported that the limited availability of some agreement personnel in the Engineering department—particularly those needed for safety and track work—created a schedule risk for 8 of the 10 infrastructure projects needed to operate the new Acela trainsets starting in 2021.⁵⁰ In addition, company executives told us that the Engineering department has more projects to support than available personnel. The projects include the work required to achieve a state of good repair—the CEO's top priority for the department—and infrastructure projects in other departments. The company is taking steps to address this issue including transferring jobs

⁴⁸ 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; they are also referred to as non-agreement employees.

⁴⁹ The company reported this figure in March 2018; however, the number of contract employees is likely higher because this number only included contractors obtained under certain types of contracts.

⁵⁰ *Train Operations: The Acela Express 2021 Program Faces Oversight Weaknesses and Schedule Risks* (OIG-A-2018-002), November 16, 2017.

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to higher priority projects, upgrading older equipment, and an initiative to update work rules.

- ***Mechanical department.*** In April 2018, we reported that two of the Mechanical department's three back shops—major maintenance facilities that repair trains and rebuild component parts—had more staff than needed. We estimated that the department could save about \$3 million annually by better aligning its workforce to its workload, and that it could put as much as \$23 million to better use by contracting out portions of the work.⁵¹ Since then, the Chief Mechanical Officer stated that all three back shops have excess capacity, and that the department plans to reduce overtime as one way to address this issue. Further, in response to our report, the Mechanical department established a process to evaluate whether to perform work with internal or external resources.

As highlighted in the example above, another key step in aligning the company's workforce is determining when it is possible and cost-effective to use contractors to meet workload demands instead of hiring or redeploying full-time staff. To that end, the company is conducting analyses to better identify how many contractors it has and how the company is using them. Part of this effort could involve converting some long-term contractors to permanent staff when it is cost-effective to do so. For example, the IT department has begun doing this in response to our report assessing the company's use of master services agreements.⁵² However, until the company completes its analyses for the rest of the contractor workforce, it will not have a full picture of the number and types of contractors working for it. This will hinder efforts to cost-effectively align the contractor workforce to support strategic priorities.

Further, effectively using and controlling overtime to complete the work required to achieve strategic priorities is an ongoing challenge.⁵³ Company officials stated that straight time hours and the number of agreement employees have decreased for several

⁵¹ *Train Operations: Opportunities to Reduce the Cost of Rebuilding and Manufacturing Components at Maintenance Facilities* (OIG-A-2018-006), April 16, 2018. Company executives told us that contracting out this work may be a challenge because labor rules prevent them from taking this action if it results in furloughing employees, but that they could use alternative approaches to achieve this.

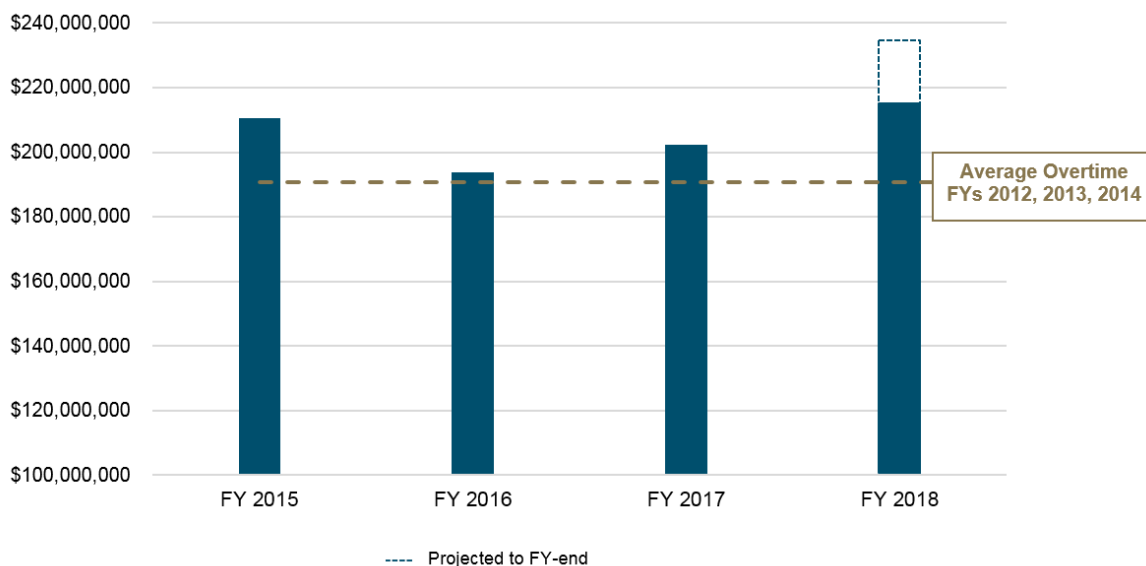
⁵² *Acquisition and Procurement: Master Services Agreements Are Not Strategically Managed, and Award and Oversight Processes Can Be Improved* (OIG-A-2017-006), February 22, 2017.

⁵³ In addition, our office continues to identify fraud and abuse in the use of overtime. For example, the company recently terminated an employee who we found had claimed 28 hours of work in one day—14 hours of regular time and 14 hours of overtime. *Supervisor Terminated for Time and Attendance Fraud* (OIG-WS-2018-324), May 24, 2018.

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years but that opportunities exist to reduce overtime. From FY 2015 through FY 2018, overtime costs exceeded the preceding years' average, and have been trending upward in recent years, as shown in Figure 12. Through the first 11 months of FY 2018, overtime costs totaled nearly \$215 million.

Figure 12. Overtime Costs for Agreement Employees for FY 2015–FY 2018 Compared to Prior Average



Source: OIG analysis of Finance department data as of August 2018

In FY 2016, the company committed to identifying the root causes of overtime and reducing any unnecessary expense.⁵⁴ Although overtime may be the most cost-effective option in some instances,⁵⁵ company executives told us the company has not systematically evaluated the use of overtime to determine if it is appropriate and needed to meet work demands. To help address this, the company has taken action on a recommendation we made in March 2013 to institute a company-wide policy for approving and managing overtime.⁵⁶ As of August 2018, the company had drafted the policy, which was awaiting executive-level approval. In addition, company officials stated that they discuss the use of overtime at all Operations Performance reviews.

⁵⁴ Amtrak, *FY 2017 General and Legislative Annual Report*, February 12, 2016.

⁵⁵ For instance, in FY 2017, the Mechanical department used overtime at one of its back shops to meet its workload, which we confirmed was less expensive than hiring additional personnel to meet the demand. *Train Operations: Opportunities to Reduce the Cost of Rebuilding and Manufacturing Components at Maintenance Facilities* (OIG-A-2018-006), April 16, 2018.

⁵⁶ *Management of Overtime: Best Practice Controls Can Help in Developing Needed Policies and Procedures* (OIG-A-2013-009), March 26, 2013.

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APPENDIX A

Acronyms and Abbreviations

CEO	President and Chief Executive Officer
CSO	Executive Vice President, Chief Safety Officer
EMCS	Emergency Management and Corporate Security office
EPMO	Enterprise Program Management Office
ERM	Enterprise Risk Management
FY	fiscal year
IT	Information Technology
NEC	Northeast Corridor
NTSB	National Transportation Safety Board
OIG	Amtrak Office of Inspector General
PTC	Positive Train Control
the company	Amtrak

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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.

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