



AMTRAK | Office of
Inspector General
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OIG STATUS REPORT:

APRIL 1 THROUGH JUNE 30, 2015



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OIG Status Report, April 1 through June 30, 2015

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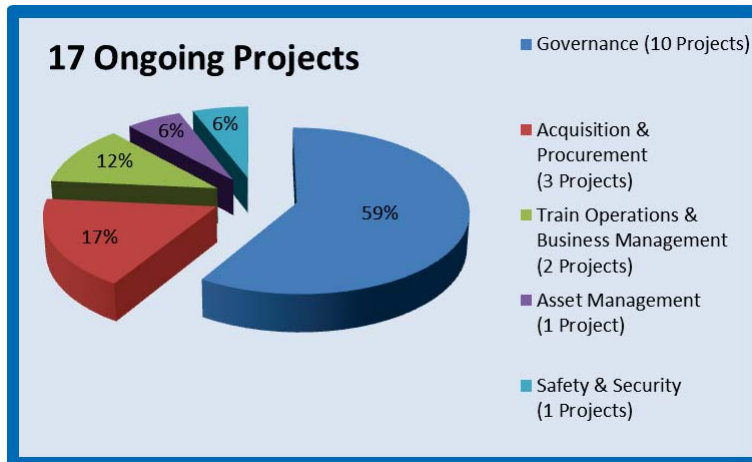
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ONGOING AUDIT PROJECTS

We had 17 ongoing audits addressing 5 focus areas of our Annual Audit Plan as of June 30, 2015.

Project Inventory by Category



Governance

Best Practices for Establishing and Operating Project Management Office – The objective of this audit is to review the extent to which best practices are being adopted into the project management office’s structure, as well as operation policies and practices. Analysis Phase

Monitoring the Work of Amtrak’s Independent Public Accountant Conducting the FY 2014 Financial Statement Audit – The objective of this audit is to determine whether the IPA performed the audit of Amtrak’s Consolidated Financial Statements in accordance with generally accepted government auditing standards. Analysis Phase

Monitoring the Work of Amtrak’s Independent Public Accountant Conducting the FY 2014 A-133 Audit – The objective of this audit is to determine whether the IPA performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133. Analysis Phase

Data Analytics – The objective of these audits is to assess the effectiveness of management controls in the corporation’s business processes; identify opportunities to control risks and improve efficiency and effectiveness of business operations; and prevent, detect, and deter instances of fraud, waste, and abuse in the company. We have

three data-analytics audits underway – (i) identifying fraud and abuse indicators in paid medical claims of agreement employees (Analysis Phase), (ii) identifying potential duplicate payments of medical claims of agreement employees (Analysis Phase), and (iii) determining whether medical healthcare claims are only paid for eligible agreement employees, and benefits are coordinated with Medicare or other medical coverage (Survey Phase).

Accounting for Business Lines of Operation – The objective of this audit is to review the effectiveness and efficiency of the company’s financial systems and data supporting the accumulation and allocation of costs for the company’s business lines of operation. We will also assess whether the company has implemented prior recommendations made by the Department of Transportation, Office of Inspector General, in its March 27, 2013 report to improve the effectiveness of the company’s cost accounting system. Survey Phase

Accuracy of Host Railroad Performance Reporting Data – The objective of this audit is to review the reliability and accuracy of the company’s reporting of host railroad on-time performance information. Analysis Phase

Top Management and Performance Challenges – The objective of this project is to update our September 2014 report that provided our assessment of the top challenges facing the company. Analysis Phase

Responding to Freedom of Information Act Requests – Our objective is to review the controls over processing FOIA requests. This audit is being performed at the request of the Senate Committee on Homeland Security and Governmental Affairs. Analysis Phase

Acquisition and Procurement

Assessing the Efficiency and Effectiveness of Management Processes for Overseeing the Siemens Locomotive Technical Support Contract – The objective of this audit is to review the adequacy of contract oversight and administration, focusing on cost, schedule, and performance issues. Survey Phase

Assessing the Efficiency and Effectiveness of Management Processes for Utilizing Master Service Agreements – The objective of this audit is to determine the efficiency and effectiveness of the use and management of master service agreements to procure such services as information technology support and management consulting services. Survey Phase

Assessing the Effectiveness and Efficiency of Management Processes for Overseeing the General Electric Diesel Locomotive Service Contract - The objective of this audit is to review the adequacy of contract oversight and administration, focusing on cost, schedule, and performance.

Train Operations & Business Management

Review of Long-Distance Car Manufacturing Contractual Performance – The objective of this audit is to assess the adequacy of the Mechanical department’s project oversight and administration of contractual requirements for the long-distance rail car purchase focusing on the areas of cost, schedule, and performance issues. Analysis Phase

Review of the Operations Foundation Program – The objective of this audit is to review the program’s cost estimate, implementation plan, progress, and oversight processes.

Asset Management

Review of the Management of Construction and Specialized Equipment – The objective of this audit is to assess the adequacy of the company’s management and oversight of its construction and specialized equipment and vehicles. Survey Phase

Safety and Security

Video Surveillance Systems – The objective of this audit is to assess the company’s efforts to implement and utilize video surveillance systems. Survey Phase

OFFICE OF AUDITS REPORTS ISSUED

We issued 4 reports since April 1, 2015 addressing 4 focus areas in our Annual Audit Plan.

Information Technology

OIG-A-2015-010

May 19, 2015, Reservation System Infrastructure Updated, but Future System Sustainability Remains an Issue

Amtrak's attempt to modernize its reservation system through the Res-NG program had mixed results, and the program will be terminated in FY 2015 without fully achieving its modernization objective.

The Res-NG program completed projects to update the reservation system's mainframe hardware, operating system, and network protocols, but did not complete 38 percent of its planned projects. The completed projects ensured the reservation system will continue to handle the current volume. However, the uncompleted projects did not deliver certain significant system improvements needed by the Operations, Marketing, and Finance departments, such as removing non-reservation functionalities. Weak program management such as inadequate tracking of costs and poor communication between the IT department and other departments within the company adversely affected completion of the program's projects.

More importantly, the company does not have a strategy to replace or significantly upgrade the reservation system to ensure its future sustainability and growth. For example, there is no plan to systemically improve the reservation system, and integrate it with technology improvement efforts being managed by other departments. This uncoordinated approach creates risks for the system's future viability and could result in inefficient expenditures and lost revenue.

The Chief Information Officer agreed with our recommendation to develop a comprehensive reservation system strategy to ensure performance sustainability and efficient integration with other company-wide IT modernization efforts.

Acquisition and Procurement

OIG-A-2015-012

June 17, 2015, New Jersey High-Speed Rail Improvement Program Has Cost and Schedule Risks

This report provides the results of our audit of the New Jersey High-Speed Rail Improvement Program (the program). Amtrak (the company) initiated the construction program to upgrade its rail infrastructure to support higher maximum train speeds, increase capacity, and improve service reliability over a 23-mile section of track between Trenton and New Brunswick, New Jersey. In August 2011, the Federal Railroad Administration (FRA) awarded the company a \$449.95 million grant to fund the program.

Some progress has been made in completing the program; however, significant unmitigated risks jeopardize the company's ability to complete the program by June 2017 within the amount of the grant.

Based on data as of February 28, 2015, we estimate that the cost to complete the program will exceed the amount of the grant by \$83.14 million as follows:

- \$46.71 million to complete two of the original projects that were deferred
- \$29.73 million in estimated cost overruns to complete the program
- \$6.70 million in anticipated cost overruns to complete the catenary, structure, and track work that has not been included in the estimate to complete the program

The amount of the cost overrun is likely to increase as work progresses because there are no contingency funds to absorb project cost increases, and about 60 percent of the grant funds remain to be spent over the next 27 months.

For the same reasons, the program's schedule estimates for completing the projects are highly optimistic and may not be achievable by June 2017 when the grant funding expires. If any of the projects are not completed by that date, the company will have to identify other funding sources to complete the program regardless of whether all the grant funds have been expended.

The program's cost and schedule problems are directly attributable to weaknesses in program management and oversight. We have previously reported on gross mismanagement of funds and resources by the former Deputy Chief Engineer, Section Improvements. Further cost and schedule estimates for the program were not sufficiently detailed, and accountability and oversight responsibilities were fragmented. The company is aware of these weaknesses and recently took action to strengthen the program management team, but additional action is needed to identify opportunities to reduce costs and achieve schedule estimates.

The Chief Operations Officer agreed with our recommendations to finalize a risk mitigation plan and to provide senior management information on program management variances from cost and schedule estimates. While the actions cited are improvements in project planning and reporting, additional actions are needed to meet the intent of our recommendations. Specifically, we continue to believe that the mitigation plan should identify additional funding sources for work that will not be completed by the June 2017 deadline, and that senior management needs information on cost and schedule progress more frequently than monthly to help ensure the effective and efficient use of the grant funds prior to expiration.

Governance

OIG-MAR-2015-011

June 18, 2015, Profile of Timesheet Data of Agreement Employees for Calendar Year 2014

One of Amtrak's (the company's) major expenses is labor. In Calendar Year (CY) 2014, the company paid more than \$1.2 billion in total wages to employees covered by collective bargaining agreements (union agreements)—about 29 percent of total annual expenses. Regular wages paid totaled \$829 million, and overtime wages totaled \$199 million.

During CY 2014, the company employed personnel belonging to 14 unions. The company and these unions have entered into 23 bargaining agreements, representing crafts such as locomotive engineers, onboard service crew members, maintenance of way crews, coach cleaners, and police department employees. Each agreement includes specific rules for calculating an employee's time charges and associated pay. The company uses six timekeeping systems to process timesheets and calculate wage payments.

Analysis of CY 2014 timesheet data revealed trends and patterns that indicate potential fraud, waste, and abuse in the reporting of overtime and regular time. Some of these trends and patterns may be justified because of the complexity of union agreement rules, the nature of jobs, and the functions employees perform. However, our prior investigative work has shown instances in which employees have fraudulently reported hours not worked. We believe that these trends and patterns merit further analysis and, if appropriate, action by management. We identified a number of trends and patterns, including:

- Employees reported working 2,381 weeks with at least 40 overtime hours in addition to their 40 regular hours. Five employees reported 22 or more weeks in

which they worked at least 40 overtime hours in addition to 40 regular hours. Some employees reported working 74 or more overtime hours in a week in addition to 40 regular hours.

- Employees reported working 957 weeks with overtime hours but no regular hours. In nine instances, employees reported more than 100 hours of overtime. Some employees repeatedly reported working overtime but no regular hours, including five employees who reported at least five weeks with overtime but no regular hours.
- Employees reported 1,357 days in which they worked more than 24 regular and overtime hours. Ten employees reported working at least 40 hours in a day.
- Employees reported 280 instances in which they worked 31 or more consecutive days. Eight employees reported working 100 or more consecutive days.

Moreover, although 57 percent of agreement-covered employees earned \$40,000 to \$80,000, 46 employees earned more than \$160,000 in 2014 compared to 32 employees in 2013. This includes 18 employees who earned more than \$160,000 in both 2013 and 2014.

The company agreed to further analyze this data and alert us to any cases that appear to involve fraud.

Safety and Security

OIG-A-2015-013

June 19, 2015, Progress Made Implementing Positive Train Control, but Significant Challenges Remain

The Rail Safety Improvement Act of 2008 requires Amtrak (the company) and each railroad hosting intercity or commuter rail passenger service to install and operate an approved Positive Train Control (PTC) safety system by December 31, 2015. The Federal Railroad Administration (FRA) has issued performance-based safety standards and requirements for developing and implementing PTC systems, including a process for obtaining regulatory approval of the system. In response to FRA requirements, the company developed a PTC implementation plan that detailed how it would meet the federal requirements. In 2010, FRA approved the company's plan.

The company has an ongoing program to implement its FRA-approved plan (the plan) by installing new equipment on its property and locomotives. In December 2012, we reported on the progress made and the significant challenges the company faced in

implementing its FRA-approved plan (OIG report no. OIG-E-2013-003). In October 2014, we started a follow-up review of our 2012 report.

The tragic derailment of Amtrak Train 188 in Philadelphia on May 12, 2015, continues to raise many questions, ranging from causation to safety systems that could have mitigated the excessive speed. In view of the current interest in the company's progress implementing PTC, we are issuing this interim report on the results of our work to date. Our reporting objective was to provide a point in time assessment of the company's progress implementing its FRA-approved plan, with a specific emphasis on the Northeast Corridor (NEC). We also generally discuss implementation progress on routes off the NEC and overall program management issues. We are continuing our work and plan to issue a final report at a later date.

Since we last reported on the plan for implementing PTC in December 2012, the company has made progress implementing the plan and addressing the challenges we identified at that time. Nonetheless, the company faces significant challenges in fully implementing its FRA-approved plan on the NEC by the deadline.

The company plans to have the major components of its PTC system—an upgraded Advanced Civil Speed Enforcement System (ACSES)—installed on its property and locomotives on the NEC by the December 2015 deadline. However, the company's installation and testing schedule allows for little or no delays. For example, new radios are being installed in its locomotives, and the installation schedule calls for this to be completed in December 2015, the deadline date. The company faces other challenges to fully implementing the plan on the NEC, including testing the radio frequency spectrum that it acquired for the south end of the corridor and mitigating any interference identified. The company is also working with its state partners to implement ACSES on two feeder routes on the NEC. These projects are currently estimated to take two to three years beyond the deadline to complete.

Interoperability with freight and commuter railroads remains a key challenge. For example, the company does not have a firm plan for deploying an alternative PTC system on the southern end of the NEC for one freight and one commuter railroad that run on that section of track but do not plan to use ACSES. On the northern end of the NEC, recent testing identified that there is a material chance that the radios that the company plans to use will generate interference that will cause the company's and the freight railroad's systems to not operate because they will use the same radio frequency spectrum.

It is also important to note that the company's plan only includes installing ACSES on the company's NEC property. This does not include the heavily travelled 56 miles of

track owned by Metro-North Railroad in New York, most of which is between New York City and New Haven, Connecticut. In April 2014, Metro-North Railroad informed FRA that PTC implementation was unlikely to be completed by the deadline. Moreover, ACSES will not be installed on some company property. This includes areas where multiple railroads cross the company's property or where the track structure is complex, including areas around or in stations in Washington D.C., Philadelphia, New York, and Boston's South Station. The company plans to achieve safe operations by continuing to restrict train speeds moving through these areas using traditional signal systems and dispatching orders.

The company is continuing its efforts to ensure PTC interoperability on its trains that operate on freight railroad tracks throughout the rest of the country. Although the company plans to install PTC components on its locomotives, PTC will not be in place for the majority of these routes by the December 31, 2015 deadline because the freight railroads that own these tracks will not have completed installing PTC equipment on their properties.

For the company-owned track outside the NEC, the company is taking steps to ensure PTC interoperability. However, PTC systems will not be fully installed on their Michigan routes or in their Chicago and New Orleans stations by the December 2015 deadline.

We also identified several opportunities to improve program management processes and practices and recommended that actions are taken in the following areas:

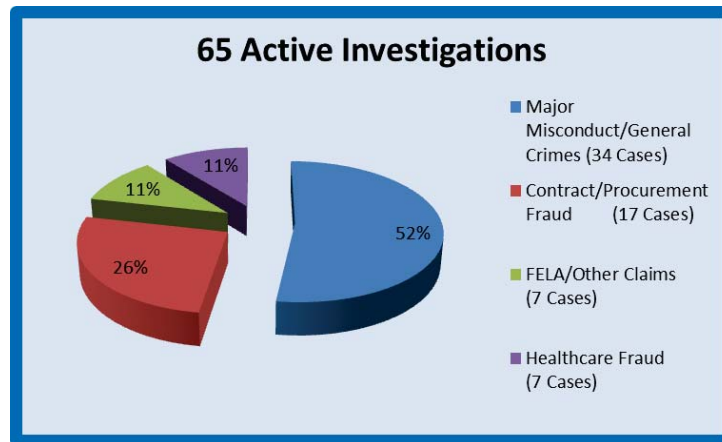
- clarifying decision-making authority for completing tasks
- enhancing program management plans
- assessing staff capabilities and capacities
- developing comprehensive program cost estimates

Addressing these areas will help ensure that the company can fully implement its plan for PTC.

The company provided oral comments on a draft of this report and stated that it generally agreed with our recommendations. The actions they cited meet the intent of our recommendations.

ONGOING INVESTIGATIVE WORK

As of June 30, 2015, we had 65 active investigations focusing on significant allegations of suspected fraud, waste, and misconduct in the following areas.



NOTEWORTHY CRIMINAL, CIVIL, AND ADMINISTRATIVE ACTIONS

Ethics Policy Violation – We conducted an investigation of an Amtrak executive based on multiple allegations involving nepotism in hiring practices, steering of contracts to a particular vendor, and using an Amtrak contractor who later became a full-time employee to assist him with personal work. Our investigation confirmed that the executive engaged in improper hiring, conflicts of interest, and gross mismanagement of Amtrak resources. In one instance, we found the executive hired his friend’s son, who was wholly unqualified for an Amtrak position. He then directed this new employee to help him with a personal book- writing project that involved editing and copying draft book manuscripts during regular Amtrak business hours. Inexplicably, the executive also directed the hiring of a foreign national sub-contractor by an Amtrak primary contractor at a cost of over \$520,000 to provide certain expertise on a rail project. However, our investigation disclosed that the sub-contractor lacked adequate knowledge of safety, construction, and regulatory issues for domestic railroads, and there was no statement of work for the contracted services. Finally, the executive directed and subsequently mismanaged the construction of passenger platforms for Amtrak and another rail entity. Not only were they delivered late, but their construction may have been unnecessary from the outset. Consequently, management dismissed the executive, the employee involved in the book-writing project, and the foreign national sub-contractor from service at Amtrak.

Purposely Staged Amtrak Train Collision – We conducted an investigation jointly with various law enforcement agencies that led to the Federal indictment and arrest of two

individuals for conspiracy to commit mail and wire fraud, causing a train wreck, and unlawful interference with a train operator. The indictment alleges that on the early morning hours of September 6, 2013, the two men parked a car in the path of an oncoming Amtrak train, got out of the car prior to the collision, and then returned to the car after the collision, feigning injury, all for the purpose of submitting bogus claims for personal injuries and other losses.

The case was investigated by Special Agents with the Federal Bureau of Investigation, Amtrak Office of Inspector General, Bureau of Alcohol, Tobacco and Firearms, the Fairfax Police Department, and the Allendale County Sherriff's Department.

Theft of Fuel - An Amtrak Human Capital employee used an Amtrak fuel card three times, for a total of \$235, to purchase fuel for his personal vehicle. There were other transactions on the same fuel card that appeared suspicious, as the amount of fuel exceeded the capacity of the vehicle assigned to the fuel card. The employee was dismissed from the company.

Company Had Unqualified Employee Provide Inspection Services - We conducted an investigation that involved allegations that GARG Consulting Services, Inc. ("GARG") failed to authenticate an employee's purported educational credentials and a professional certification before hiring him to work on various U.S. Department of Transportation-funded and state-funded highway projects, and on a bridge reconstruction project funded by Amtrak.

The investigation was conducted by the U.S. Department of Transportation Office of Inspector General and Amtrak's Office of Inspector General, and handled by the United States Attorney for the District of Connecticut. The investigation resulted in a civil settlement agreement with the federal government and the State of Connecticut, in which GARG will pay \$390,000 to resolve, with \$109,652 identified as civil harm to Amtrak. It was noted by the U.S. Attorney's office that GARG cooperated with the government's investigation.

Failure to Disclose Interest in Company: We conducted an investigation an Amtrak employee based on an allegation that the employee did not disclose his ownership of an outside company, while on-boarding a contractor associated with the company. The allegation was substantiated as well as additional finding that the employee utilized issued equipment to conduct business for the outside company on Amtrak time. The employee was terminated on April 30, 2015 based on the evidence presented to Management.

Fraud Awareness Training

Since April 1, 2015, we presented seven fraud awareness and outreach briefings to 64 Amtrak management and union employees.

Fraud Waste and Abuse Hotline

Since April 1, 2015, we processed 117 hotline matters.

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's 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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Tom Howard Inspector General

Mail: Amtrak OIG

10 G Street, N.E., 3W-300

Washington D.C. 20002

Phone: 202-906-4600

Email: Tom.howard@amtrakoig.gov