



AMTRAK | Office of
Inspector General
www.amtrakoig.gov

Quality Control Review:

Independent Audit of Amtrak's Consolidated Financial Statements for
Fiscal Years Ended 2013 and 2012

OIG-A-2015-003 | January 13, 2015





Memorandum

To: Jeffrey R. Moreland
Chairman, Audit and Finance Committee, Amtrak Board of Directors

Gerald Sokol, Jr.
Executive Vice President and Chief Financial Officer

From: Tom Howard
Inspector General



Date: January 13, 2015

Subject: *Quality Control Review of the Independent Audit of Amtrak's Consolidated Financial Statements for Fiscal Years Ended 2013 and 2012 (OIG-A-2015-003)*

Amtrak (the Company) contracted with the independent certified public accounting firm of Ernst & Young LLP to audit its consolidated financial statements as of September 30, 2013 and 2012, and for the years then ended, and to provide a report on internal control over financial reporting and on compliance and other matters. Because the company receives federal assistance, it must obtain an audit performed in accordance with generally accepted government auditing standards.

As authorized by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards. The key aspects of the Ernst & Young reports are discussed below.

In its audit of the company's consolidated financial statements, Ernst & Young concluded that the consolidated financial statements fairly presented, in all material respects, the consolidated financial position of the National Railroad Passenger Corporation and subsidiaries at September 30, 2013 and 2012, and the consolidated results of their operations, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles (GAAP). Ernst & Young's report also emphasized that

Amtrak Office of Inspector General
Quality Control Review of the Independent Audit of
Amtrak's Consolidated Financial Statements for Fiscal Years Ended 2013 and 2012
Report No. OIG-A-2015-003, January 13, 2015

without receipt of federal funding, the company will not be able to continue in its current form, and significant operating changes, restructurings, or bankruptcies might occur.

As part of its FY 2012 audit, Ernst & Young identified significant deficiencies related to the company's capital lease documentation and analysis, as well as its deferred tax calculations. In an effort to remediate these findings, the company performed a comprehensive review and analysis of its capital lease and deferred tax accounting. As a result of this review, the company identified and corrected several errors in its accounting for capital leases, deferred taxes, and certain other errors that impacted periods prior to those being presented. The company corrected these errors by restating its consolidated financial statements for the year ended September 30, 2012, which were previously issued on December 21, 2012.

These significant deficiencies were not remediated during FY 2013, which resulted in significant delays in issuing the FY 2013 financial statements. In its *Report of Independent Auditors on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, Ernst & Young identified three material weaknesses in internal control over financial reporting:

- *Capital Lease Accounting, Documentation and Analysis.* The company did not properly document and review analyses of lease classifications, and its calculation of amortization schedules did not comply with GAAP. This resulted in numerous errors, some dating back to the start of the leases.
- *Income Tax Accounting.* The Company had not provided deferred taxes related to the book and tax basis differentials for assets acquired with capital grant funds in accordance with GAAP, and there were numerous errors in the calculation of the income tax provision and related accounts. The company did not appropriately assess and document its consideration of key assumptions, the realizability of the deferred tax assets, and the execution costs estimate associated with the tax planning strategy.
- *Financial Reporting.* Accumulating the required documentation and the extent of analyses performed contributed to the delay in issuing the FY 2013 financial statements. The company lacked (1) a sufficient complement of personnel with an appropriate level of accounting knowledge, (2) sufficient analysis and documentation of the application of GAAP to complex accounting issues, (3) adequate policies and procedures to ensure that accounting personnel were made aware of specific features of complex transactions, and (4) clear organization and accountability within the accounting function.

Amtrak Office of Inspector General
Quality Control Review of the Independent Audit of
Amtrak's Consolidated Financial Statements for Fiscal Years Ended 2013 and 2012
Report No. OIG-A-2015-003, January 13, 2015

Ernst & Young made several recommendations to correct these material weaknesses, and the company agreed with all of them. In responding to the recommendations, management stated that in performing its review and analysis of its capital lease and deferred tax accounting, the company developed processes to address the material weaknesses and made significant progress in financial reporting. Ernst & Young identified other matters involving internal control over financial reporting, which it reported in a draft letter for comment to management on December 5, 2014. Ernst & Young plans to issue the final management letter in January 2015.

We monitored Ernst & Young's audit activities by reviewing its reports, auditor independence and qualifications, audit plans, detailed testing results, summary work papers, and quality controls. We also attended key meetings.

Our monitoring activities, as differentiated from an audit in accordance with generally accepted government auditing standards, were not intended to enable us to express an audit opinion. We do not express an opinion on Amtrak's consolidated financial statements or conclusions about the effectiveness of internal controls and compliance with laws and regulations. Ernst & Young is responsible for its reports dated November 25, 2014, and the conclusions expressed in those reports.

We appreciate the courtesies and cooperation that representatives of the company and Ernst & Young extended to us during our work. If you have any questions, please contact me (Tom.Howard@amtrakoig.gov) or David R. Warren, Assistant Inspector General, Audits (David.Warren@amtrakoig.gov) at [202-906-4600](tel:202-906-4600).

*Amtrak Office of Inspector General
Quality Control Review of the Independent Audit of
Amtrak's Consolidated Financial Statements for Fiscal Years Ended 2013 and 2012
Report No. OIG-A-2015-003, January 13, 2015*

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, inspections, evaluations, and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.
-----------------------------	--

Obtaining Copies of OIG Reports and Testimony	Available at our website: www.amtrakoig.gov
--	--

To Report Fraud, Waste, and Abuse	Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous): Web: www.amtrakoig.gov/hotline Phone: 800-468-5469
--	--

Point of Contact	David R. Warren Assistant Inspector General, Audits Mail: Amtrak OIG 10 G Street NE, 3W-300 Washington D.C., 20002 Phone: 202-906-4600 E-mail: David.Warren@amtrakoig.gov
-------------------------	---
