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Before the Committee on Transportation and Infrastructure,
House of Representatives

Amtrak Improvement Initiatives: Sustained Attention and Effective Implementation Keys to Success

Statement of Ted Alves
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AMTRAK

Good Morning Chairman Mica, Ranking Member Rahall, and Members of the Committee:

Thank you for the opportunity to discuss some of our recent report recommendations and the actions that Amtrak has taken in response. Over the last 2½ years, we have issued 39 reports on a wide variety of Amtrak programs and activities (see appendix).

Today, in line with the hearing's focus on Amtrak's ongoing structural reorganization, my testimony will center on reports related to improving Amtrak's operational and financial performance and the actions Amtrak has taken in response to them. The reports contribute to one of Amtrak's strategic goals—achieving financial and organizational excellence.

Before I address those reports, however, it is important to note that over the last couple of years, the Board of Directors and Amtrak management have taken several steps to improve Amtrak's operational, financial, and customer-service performance. The Board of Directors plays a key role in ensuring that the company accomplishes the goals established in the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) in an efficient and effective manner. The Board now has seven of the nine members authorized by PRIIA. The Amtrak Board of Directors has also now been able to reconstitute two important Board committees: the Audit and Finance Committee and the Personnel Committee. The two reconstituted committees have provided the process and structure to help the Board conduct oversight and ensure that management is held accountable for instituting disciplined processes and achieving financial and operational goals. With this structure, the Board now has greater capacity to fulfill its governance responsibilities over Amtrak programs and operations.

Similarly, examples of key actions by management include Amtrak's development of the 2011–2015 *Strategic Plan* that was issued in November 2011. Amtrak notes that the plan provides a comprehensive roadmap for evolving Amtrak into a company more focused on the bottom line, and whose employees' roles and efforts are in sync with common goals. The plan sets forth (1) Amtrak's vision, values, and leadership philosophy; (2) factors that could affect goal achievement; (3) corporate strategies; and (4) business line strategic plans. The organizational realignment initiative that is the focus of today's hearing is directly linked to the implementation of Amtrak's strategic plan. Other key management actions include hiring senior executives to lead improvements in human capital management and information technology.

The company is in the early stages of implementing many of these initiatives. Our recent work shows that sustaining and effectively implementing these initiatives has the potential to significantly reduce Amtrak's reliance on federal support. Using a risk management approach to improve management controls is also needed to help Amtrak focus on improving financial results. The reports and recommendations I will discuss today support and/or complement, and in some cases were a catalyst, for the management improvement initiatives that the Board of Directors and the company have undertaken.

RECOMMENDATIONS HAVE SUPPORTED AND COMPLEMENTED IMPROVEMENT INITIATIVES

Overall, Amtrak has generally taken positive action on our recommendations; the company has implemented many of them, and is in the process of addressing others.

Summarized below are our key recommendations addressing the areas of governance, human capital management, information technology management, and train operations and business management.

Governance

Office of Inspector General (OIG) governance work has focused on enhancing the stewardship of company resources by evaluating senior leadership's processes, policies, and activities to identify areas in which corporate risk can be reduced and governance can be improved. Our key recent reports on governance have addressed strategic planning and enterprise risk management. As summarized below, our recommendations were agreed to by the company and the recommendations on the strategic plan have been implemented; the risk management recommendations are in the process of being addressed.

- The need for Amtrak to have a meaningful strategic plan was first identified in a 2005 report issued by the Government Accountability Office.[1] Our August 2010 report found that although Amtrak had made various attempts to develop a strategic plan, none were successful.[2] We also found that developing a strategic plan could assist Amtrak's leadership in effectively aligning organizational efforts around a single vision and ensuring the effective use of resources. In summary, we recommended

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[1] *Amtrak Management: Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability* (GAO-06-145, October 4, 2005).

[2] *Amtrak's Strategic Planning* (Evaluation Report E-10-01, August 17, 2010).

that Amtrak develop a strategic plan utilizing a strategic planning process that incorporated the key elements of effective strategic planning. Amtrak agreed, and the plan was issued in November 2011.

- Amtrak's Board of Directors, in March 2011, requested that we review and report on Amtrak's corporate risk management framework and risk management processes. The Board stated that it wanted to better understand the company's approach to managing risks. Specifically, the Board stated its belief that a risk management framework and process were critical governance practices that help private- and public-sector organizations provide assurance that financial, operational, and regulatory risks are understood and appropriately mitigated. The Board also recognized that operational and regulatory risks must be controlled and that a disciplined process must be in place to manage all significant risks that the company faces.

  Our work showed that Amtrak did not have a formal, coordinated, systematic enterprise-wide framework for identifying, analyzing, and managing risk.[3] The company also lacks a sound system of management controls that encompasses policies, processes, people, and technology, and serves the needs of all stakeholders by directing and controlling activities with good business savvy, objectivity, accountability, and integrity. For too many programs at Amtrak, sound control systems do not exist; we believe that this is a systemic issue that needs to be strategically addressed on a company-wide basis as part of a risk management process.

  Amtrak senior executives agreed with the need to improve their risk management practices. The company then took initial steps toward addressing this issue by committing, in the 2011–2015 *Strategic Plan,* to establishing an enterprise risk management (ERM) framework based on industry best practices. In summary, we recommended that, in the long term, the Board of Directors and Amtrak's President and CEO take action to develop and implement an ERM process for the entire organization, to include the Board. The Board Chairman and the President and CEO stated that it is imperative that the Board discuss our recommendations with an answer to the time, resources, and priority needed to make such a commitment. They said that once the Board has had an opportunity to understand the commitment this will take, guidance will be provided to management, and the company will provide the OIG with more detailed information about Amtrak's plan to implement

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

enterprise risk management. We have discussed our views on the way forward with the Board and understand that the Board is in the process of determining how to address a risk management framework issue.

Human Capital Management

Amtrak employs approximately 18,000 agreement-covered (union) employees and approximately 3,000 non-agreement-covered (management) employees located throughout the United States. Our work has focused on identifying opportunities for Amtrak to improve the efficiency and effectiveness of its human capital management policies and practices.

- Starting in 2009, we have issued a series of reports on human capital management to include training and employee development. Our most recent report (July 2011) found that only limited progress had been made in implementing our prior recommendations.[4] As a result, Amtrak was continuing to suffer from outdated human capital management, training, and employee development processes that hindered its ability to perform effectively. In addition, Amtrak was increasingly at risk of encountering skills shortages as highly experienced, long- time employees retire.

  In summary, we recommended and Amtrak's President and CEO agreed to (1) make improved human capital management, training, and employee development an Amtrak priority; and (2) direct the Chief Human Capital Officer to revise the Human Capital Action Plan to include actions that are responsive to our recommendations and with reasonable implementation time frames. A new Chief Human Capital Officer has been hired, and he has developed and is implementing an action plan to address our findings and recommendations.

Information Technology Management

Passenger railroad businesses are labor- and capital-intensive; they rely increasingly on modern information technology to improve labor and asset productivity and deliver safe and reliable customer service. Our recent work in this area has included a series of reports on the implementation of the Strategic Asset Management program. The company has generally agreed with our recommendations; it has implemented some and is in the process of implementing others. Most significantly, however, it did

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[4] *Human Capital Management: Lack of Priority Has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices* (E-11-04, July 8, 2011).

not agree with our recommendation to perform more testing before deploying a new major system.

- Over the last couple of years we have issued several reports on Amtrak's Strategic Asset Management program.[5] The program is one of Amtrak's highest-cost and most significant information technology enhancement efforts. At an estimated cost of more than $193 million, this program is expected to help Amtrak transform and improve key business areas; implement best practices; integrate business processes; and provide timely information for financial reporting, management decision-making, and the optimization of financial and operational performance. Amtrak agreed with and is implementing recommendations for improving system controls and other programmatic weaknesses. Yet one area in which Amtrak did not agree with our recommendation was the need for more testing prior to deploying the system.

  In our May 2012 follow-up report, we pointed out that although program managers anticipated a certain level of implementation issues, the number, significance, cost, and time needed to address them have all been greater than anticipated. The fact that significant issues continue to surface indicates that the system is not yet stable. As a result, the company was still dealing with adverse effects on business operations and financial performance some 17 months after deployment.

Train Operations and Business Management

Amtrak operates over 300 daily trains on over 21,000 miles of rails. It serves 528 stations in 46 states, 3 Canadian provinces, and the District of Columbia. Our key reports in the area of train operations and business management have addressed mechanical maintenance, food and beverage service, the Americans with Disabilities Act (ADA), and a series of reports on incentive and service payments to host railroads. In general, the company has been responsive to our recommendations in the food and beverage and invoice-review areas. However, in the area of mechanical maintenance and ADA, implementation actions are in process.

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[5] *Strategic Asset Management Program: Opportunities to Improve Implementation and Lessons Learned* (OIG-E-2012-012, May 31, 2012), *Strategic Asset Management Program: Further Actions Should be Taken to Reduce Business Disruption Risk* (001-2011, June 2, 2011), and *Strategic Asset Management Program: Controls Design Is Generally Sound, But Improvements Can Be Made* (105-2010, January 14, 2011).

- In May 2012 we reported that Amtrak had made significant progress in improving its mechanical maintenance processes and procedures since our 2005 report on this issue.[6] However, our work also showed that improvements in equipment performance have been uneven. Acela, which represents about 10 percent of Amtrak's total fleet of equipment and was the first fleet to employ reliability-centered maintenance, has seen significant improvements in reliability and availability. These improved maintenance results have allowed Amtrak to deploy two additional Acela trainsets, generating over $50 million in additional revenue since the trains were put into service.

  In contrast, availability and reliability have remained the same or declined slightly for the remainder of Amtrak's equipment. Compared with Acela's trainset availability improvement of 14 percent, the availability of the rest of Amtrak's equipment has stayed roughly the same; and compared with Acela's reliability improvement of 11 percent, the rest of Amtrak's equipment is, on average, less reliable than before.

  If the availability of the conventional fleets were improved to the level of the Acela equipment, Amtrak could provide the same level of service with over 120 fewer conventional cars and 45 fewer conventional locomotives than presently required. Based on the estimates in Amtrak's *Fleet Strategy*,[7] we calculated that this would save Amtrak almost $600 million in fleet procurement costs over the next 15 years.[8]

  In summary, we recommended that the Vice President, Operations, adopt the Acela maintenance practices for improving the performance of Amtrak's conventional fleet. These practices are in the process of being implemented.

- We have issued two recent reports on Amtrak's food and beverage program. Over the last 6 years, Amtrak's food and beverage service has incurred a direct operating loss of over $526 million. Losses in food and beverage have been a long-standing issue, requiring federal subsidies to support food and beverage operations. The company has agreed with our recommendations in this area.

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[6] *Mechanical Maintenance: Improved Practices Have Significantly Enhanced Acela Equipment Performance and Could Benefit Performance of Equipment Company-wide* (OIG-E-2012-008, May 21, 2012).
[7] Amtrak *Fleet Strategy* (Version 2), February 2011.
[8] These savings do not account for any additional costs potentially required to achieve this improved level of equipment availability.

In a September 2012 report,[9] we identified two areas in which food and beverage program management could be improved—accountability for program results and program-wide planning. We believe these management weaknesses stemmed from a fragmented program management structure. Specifically, food and beverage activities were being carried out by two departments. The Marketing and Product Development Department managed commissary and support operations, while the Transportation Department managed on-board service personnel and their activities were not well-coordinated.

On July 19, 2012, the Vice President, Operations, announced the establishment of a Chief of Customer Service position within the Transportation Department. The Vice President later stated that the Chief of Customer Service would have accountability for improving Amtrak's food and beverage service program. Marketing and Product Development's food and beverage service activities were transferred to Operations on October 1, 2012.

Further, Amtrak has taken action or has plans to address the three recommendations contained in our June 2011 report.[10] First, as recommended, Amtrak has established a loss-prevention unit and has plans to develop an internal control action plan. Second, Amtrak's President and CEO, as we recommended, has agreed that Amtrak will conduct a test of cashless sales. Finally, also as recommended, the Vice President, Operations, agreed that Amtrak will develop a 5-year plan for reducing its direct operating losses.

- ADA became law in 1990 and required that intercity rail stations be made accessible to persons with disabilities by July 31, 2010. There are 482 Amtrak-served stations that are required to be ADA-compliant. Since 1990, Amtrak had made limited progress in making the stations it serves ADA-compliant.

  Our September 2011 report showed that while Amtrak had developed an October 2010 updated plan for ADA compliance, gaps continued to exist.[11] The underlying cause of the limited program progress and planning weaknesses had been the

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[9] *Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan* (OIG-A-2012-020, September 7, 2012).
[10] *Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps,* (Report No. E-11-03, June 23, 2011)
[11] *Americans with Disabilities Act: Leadership Needed to Help Ensure That Stations Served by Amtrak Are Compliant* (Report No. 109-2010, September 29, 2011).

program's fragmented management and lack of accountability for results. Seven departments were involved in program management, with no one office or official held accountable for results.

In summary, we recommended that Amtrak address the program's fragmented management structure and lack of accountability for results, weaknesses in program cost estimates, and gaps in the ADA-compliance plan. Amtrak generally agreed with our recommendations and said that the final decision for programmatic responsibility will be reevaluated as the corporation is aligned with its soon to be released strategic plan.

- Since 1995, we have issued a series of reports identifying more than $83 million in overpayments on inaccurate invoices from host railroads. These inaccurate invoices for on-time-incentive payments and services went undetected because of weaknesses in Amtrak's invoice-review processes.[12]

  We have recommended that Amtrak make needed improvements to the host railroad invoice administration-review process. Amtrak agreed and in October 2010, the group responsible for reviewing host railroad monthly invoices and approving them for payment was moved from the Transportation Department to the Finance Department, reporting to the Chief Financial Officer. This organizational change was made in response to the recommendations to provide separation of duties between the invoice review group and the group responsible for negotiating and preparing host railroad agreements. Also, over the past year the company has increased staffing for that unit and developed detailed invoice policy and review procedures. These actions should facilitate complete and thorough invoice reviews prior to payment. Also, the company recently entered into a settlement that provided Amtrak with about $24 million in credits and cash payments.

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In conclusion, the keys to improving the efficiency and effectiveness of Amtrak's operations and service are (1) sustaining and fully implementing its ongoing strategic initiatives and (2) continuing to develop and implement new initiatives, including a risk management framework to continuously improve the efficiency and effectiveness of its operations. Such a sustained focus should, in turn, reduce the amount of federal funds that Amtrak needs. In that regard, my office will continue to identify opportunities to

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[12] *Amtrak Invoice Review: Undetected Errors Resulted in Overpayments* (OIG-A-2012-019, September 5, 2012).

sustain those efforts, follow up on the company's plans for implementing an enterprise risk management framework, and identify new improvement opportunities.

Mr. Chairman, in closing, I want to thank the Committee for its support of the Amtrak OIG. This concludes my testimony, and I would be glad to answer any questions that you or other members of the Committee may have at this time.

Appendix

Audit and Evaluation Reports Issued Since January 1, 2010

Report Number	Report Title	Issue Date
OIG-A-2012-017	Annual Financial Statement Audits: Observations for Improving Oversight of the Independent Public Accountant	September 27, 2012
OIG-E-2012-23	Railroad Safety: Amtrak is Not Adequately Addressing Rising Drug and Alcohol Use by Employees in Safety-Sensitive Positions	September 27, 2012
OIG-A-2012-021	American Recovery and Reinvestment Act: Some Questioned Invoice Charges and Minimal Benefit from Duplicative Invoice-Review Process	September 21, 2012
OIG-A-2012-020	Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan	September 7, 2012
OIG-A-2012-019	Amtrak Invoice Review: Undetected Errors Resulted in Overpayments	September 5, 2012
OIG-A-2012-016	Claims Program: Use of Best Practices Would Strengthen Management Controls	August 14, 2012
OIG-A-2012-014	Human Capital Management: Weaknesses in Hiring Practices Result in Waste and Operational Risk	July 19, 2012
OIG-A-2012-013	On-Time-Performance Incentives: Inaccurate Invoices Were Paid	June 29, 2012
OIG-E-2012-012	Strategic Asset Management Program: Opportunities to Improve Implementation and Lessons Learned	May 31, 2012
OIG-E-2012-008	Mechanical Maintenance: Improved Practices Have Significantly Enhanced Acela Equipment Performance and Could Benefit Performance of Equipment Company-Wide	May 21, 2012
OIG-A-2012-007	Amtrak Corporate Governance: Implementing a Risk Management Framework is Essential to Achieving Amtrak's Strategic Goals	March 30, 2012
OIG-E-2012-009	Human Capital Management: Controls Over the Use of Temporary Management Assignments Need Improvement	March 28, 2012
OIG-E-2012-010	Acela Car Purchase: Future Revenue Estimates Were Initially Overstated	March 28, 2012
OIG-A-2012-006	Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect Overhead Costs Not Supported	February 17, 2012

Report Number	Report Title	Issue Date
OIG-A-2012-005	Amtrak Invoice Review: Inaccurate Invoices Were Paid, But Progress is Being Made to Improve the Invoice-Review Process	February 16, 2012
OIG-A-2012-004	On-Time-Performance Incentives: Inaccurate Invoices Were Paid Due to Weaknesses in Amtrak's Invoice-Review Process	February 15, 2012
OIG-A-2012-003	Wireless Network Security: Internal Controls Can Be Improved	December 7, 2011
OIG-A-2012-002	Incurred-Cost Contract Audit: Bridge Construction Modification Settlement Agreement Cost is Adequately Supported	November 7, 2011
OIG-A-2012-001	Passenger Rail Investment and Improvement Act of 2008: Amtrak Has Made Good Progress, but Continued Commitment Needed to Fully Address Provisions	October 26, 2011
109-2010	Americans with Disabilities Act: Leadership Needed to Help Ensure That Stations Served By Amtrak Are Compliant	September 29, 2011
009-2011	Acela Car Purchase Draft Request for Proposal: Additional Requirements and Pre-Award Audit Clause Needed to Help Assess Proposed Cost and Price	September 21, 2011
E-11-04	Human Capital Management: Lack of Priority Has Slowed OIG-Recommended Actions to Improve Human Capital Management, Training, and Employee Development Practices	July 8, 2011
E-11-03	Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps	June 23, 2011
908-2010	American Recovery and Reinvestment Act: Infrastructure Improvements Achieved but Less than Planned	June 22, 2011
914-2010	American Recovery and Reinvestment Act: Fewer Security Improvements than Anticipated Will be Made and Majority of Projects Are Not Complete.	June 16, 2011
001-2011	Strategic Asset Management Program: Further Actions Should be Taken To Reduce Business Disruption Risk	June 2, 2011
403-2010	On-Time-Performance Incentives: Inaccurate Invoices Were Paid Due to Long-standing Weaknesses in Amtrak's Invoice-Review Process	April 21, 2011

Report Number	Report Title	Issue Date
E-11-02	Evaluation of Amtrak's FY 2010 Fleet Strategy: A Commendable High-Level Plan That Needs Deeper Analysis and Planning Integration	March 31, 2011
E-11-01	Operation RedBlock: Actions Needed to Improve Program Effectiveness	March 15, 2011
105-2010	Strategic Asset Management Program Controls Design Is Generally Sound, But Improvements Can Be Made	January 14, 2011
219-2010	Price Proposal Audit: Amtrak Should Negotiate a Price Adjustment to a Major Acquisition Contract	January 12, 2011
504-2009	Incurred Cost Audit: Amtrak's Track Replacement and Related Improvements Contract	December 22, 2010
503-2009	Incurred Cost Audit: Amtrak's Design/Build Improvements Contract	December 13, 2010
508-2009	Questionable Contract Language Related to Interest Payable Under Kiewit Contract C069-93228 Sounder Preventive Maintenance Track Replacement and Related Improvements, Seattle, WA And Kiewit Contract C069-06834 South End Track and Related Improvements	December 2, 2010
407-2003	BNSF On-Time Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments	September 24, 2010
E-10-01	Amtrak's Strategic Planning	August 17, 2010
912-2010	American Recovery and Reinvestment Act of 2009: Assessment of Project Risks Associated with Key Engineering Projects	May 14, 2010
406-2005	CSX On-Time Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments	March 30, 2010
104-2008	Improvements Needed in Vendor Repair and Return Process	March 23, 2010

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