



**OFFICE of INSPECTOR GENERAL**  
NATIONAL RAILROAD PASSENGER CORPORATION

## **Human Resources:**

Additional Actions Needed to Improve Controls on Incentive Awards


**OIG-A-2017-014 | August 15, 2017**

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## Memorandum

**To:** William H. Herrmann  
Vice President, Human Resources

**From:** Stephen Lord   
Assistant Inspector General, Audits

**Date:** August 15, 2017

**Subject:** *Human Resources: Additional Actions Needed to Improve Controls on Incentive Awards (OIG-A-2017-014)*

The Passenger Rail Investment and Improvement Act (PRIIA) of 2008<sup>1</sup> encouraged Amtrak's (the company) Board of Directors to develop an incentive pay program for management employees.<sup>2</sup> In response, the Board implemented two incentive programs:

- **Short Term Incentive (STI) Plan.** The STI plan is designed to reward employees based on the company's achievement of certain corporate financial and customer service goals. The Board of Directors first approved the STI Plan in fiscal year (FY) 2013. The company made STI payments for FY 2013 and FY 2014 but not for FY 2015 because it did not meet the STI goals.
- **Long Term Incentive (LTI) Plan.** The LTI plan gives the company's senior leadership<sup>3</sup> the opportunity to receive monetary payments based on the company's achievement of a certain financial performance goal over a three-year period. The Board of Directors first approved the LTI Plan for FY 2014, with the first opportunity for payment at the end of FY 2016.

Employees who work for the Amtrak Office of Inspector General (OIG) and the Northeast Corridor Commission are not eligible to participate in the STI or LTI plans.

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<sup>1</sup> Passenger Rail Investment and Improvement Act of 2008, Pub. L No. 110-432, Div. B, Title II, 122 Stat. 4932 (2008).

<sup>2</sup> Management employees are employees whose terms and conditions of employment are not covered by collective bargaining agreements.

<sup>3</sup> For the purposes of these two programs, senior leadership includes all E Band (executive) and selected D Band (senior manager) employees.

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Our March 2015<sup>4</sup> report examined the accuracy of the 2014 STI payments and found that the payments were generally accurate, with the exception of a small number of overpayments and underpayments, but the company's controls over the payment process could be improved. For example, we found that the incentive committee of senior executives that the company established to administer the STI program did not provide adequate guidance to calculate payments for employees in certain employment situations, such as employees on military leave of absence and employees who did not return from leave. Also, the incentive committee did not provide adequate guidance on approving exceptions when making payments. These weaknesses increased the risk of inconsistent decisions and inaccurate payments.

Our audit objectives for this report were to assess the accuracy of (1) the company's reported achievements in attaining its STI and LTI goals for FY 2016, and (2) the company's payments awarded in 2016 under the two plans. To conduct this assessment, we reviewed the methodology and supporting data the company used to determine whether it achieved the financial and customer service goals, interviewed company officials responsible for the design and implementation of these plans, and took a number of other steps. We also used data analysis software to verify the accuracy of the company's payments and reviewed the company's processes and controls for calculating the payments.

## **SUMMARY OF RESULTS**

The company accurately reported that it achieved key financial and customer service goals and generally made accurate STI and LTI payments (combined) totaling \$28.9 million to 3,013 employees. However, continuing weaknesses in both the processes and controls it uses for these actions pose vulnerabilities.

Specifically, the company reported that it partially met its FY 2016 STI financial goals, fully met its FY 2016 STI customer service goals, and fully met its FY 2014 LTI performance goal, and could therefore make incentive payments. We found that these reported achievements were accurately calculated and supported by the company's underlying financial data and customer service data. However, we identified some weaknesses in the company's processes and controls used for compiling these data. For example, the Marketing and Business Development department does not have written procedures describing how it calculates whether it meets the company's

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<sup>4</sup> See *Incentive Awards Were Appropriate, But Payment Controls Can Be Improved* (OIG-A-2015-009), March 13, 2015.

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customer service goals; therefore, the department cannot ensure that it can accurately replicate the calculations in the future.

Similarly, the company generally made accurate incentive payments, but we identified a significant number of errors in the Human Resources department's initial payment calculations that the company did not detect. The company corrected 99 percent of these errors before making payments. In addition, the Human Resources department authorized 83 payments that were exceptions to the incentive plans' guidelines but did not obtain approval from the plans' governing bodies before making these payments, as required by the STI and LTI guidelines. We determined that these errors and exceptions resulted from long-standing weaknesses in the company's processes and controls for calculating the payments. These weaknesses include the lack of an effective automated system for calculating the payments, and the lack of related controls for ensuring that payments are accurate and justified.

In our March 2015 report, we identified similar weaknesses and recommended that the company address them. However, the company did not fully implement our prior recommendations to address the prior vulnerabilities we identified, which resulted in improper payments in 2016. Additionally, the inaccurate incentive payments would have been significantly higher if we had not reviewed the Human Resources department's initial calculations. Thus, we are recommending that the Human Resources department take immediate steps to ensure that its automated system for calculating these payments is available and reliable, and that controls are in place to ensure that the payments are accurate and justified. Strengthening these controls will help ensure that future payments are accurate and comply with company policy. In commenting on a draft of this report, the Executive Vice President/Chief Financial Officer agreed with our recommendations and described actions the company has already implemented or plans to implement that meet the intent of our recommendations. The company estimates that all of the actions will be completed prior to issuing STI or LTI payments for FY 2017.

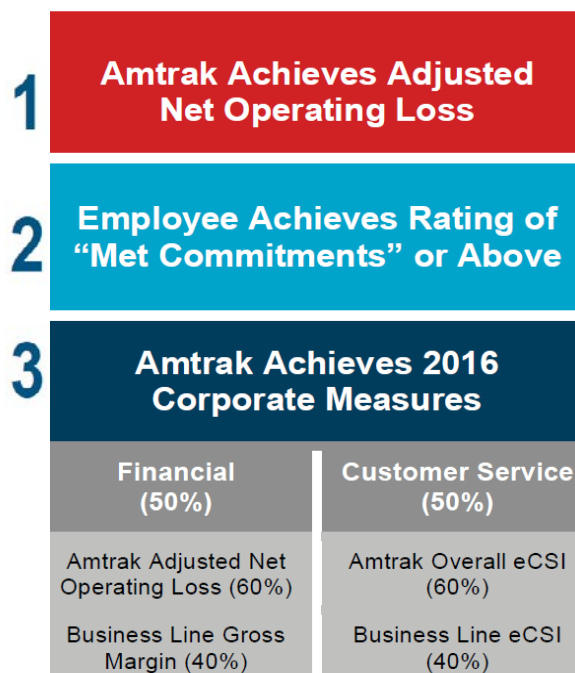
**BACKGROUND**

**FY 2016 STI Plan.** This plan is designed to reward management employees based on the achievement of the company's corporate financial and customer service targets. As highlighted in the company's FY 2016 STI plan, shown in Figure 1, three key requirements must be met for employees to be eligible for STI payments: (1) the company must achieve its adjusted net operating loss goal, (2) employees must receive

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a performance rating of “met commitments” or above, and (3) the company must achieve specified corporate financial and customer service goals.

**Figure 1. FY 2016 Short Term Incentive Plan Requirements**



*Source: Guide to Amtrak’s 2016 Short Term Incentive Plan*

Financial Goals. The FY 2016 STI plan included two sets of financial goals:

- 1) an adjusted net operating loss goal for the entire company of no more than \$212.5 million<sup>5</sup>
- 2) separate gross margin financial goals for each of the four business lines—the Northeast Corridor (NEC), state supported (SS), long distance (LD), and infrastructure and investment development (I&ID)<sup>6</sup>—ranging from \$78.9 million for I&ID to \$1.3 billion for the NEC

<sup>5</sup> The adjusted net operating loss is the company’s audited and published FY 2016 net loss, excluding depreciation, net interest, project-related revenue/costs covered by capital funding, non-cash portion of other post-retirement benefits, state capital payments, and OIG.

<sup>6</sup> Gross margin is the difference between direct revenues (such as tickets, food and beverages) and direct costs (such as salaries, wages, benefits, and fuel).

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Table 1 shows the FY 2016 gross margin goals established for each business line. The company eliminated the gross margin goals for FY 2017.

**Table 1. FY 2016 STI Gross Margin Goals by Business Line**

Business Line	Target (\$ millions)
Northeast Corridor	\$ 1,322.0
State Supported	\$ 697.9
Long Distance	\$ 83.4
Infrastructure & Investment Development <sup>a</sup>	\$ 78.9

Source: *Guide to Amtrak's 2016 Short-Term Incentive Plan*

Note:

<sup>a</sup> The I&ID was eliminated with the January 2017 reorganization, and its functions were spread among the new units.

Customer Service Goals. The FY 2016 STI plan also included two customer service goals:

- 1) an overall company customer service score of 78 percent or greater
- 2) individual customer service scores for three of the four business lines—75 percent for the NEC, 83 percent for SS, and 72 percent for LD

The incentive payouts for I&ID, corporate, and other operations support functions are based on the achievements of the three other business lines. The customer service scores are based on responses to customer satisfaction surveys emailed weekly to ticketed passengers.

**FY 2014 LTI Plan.** This plan<sup>7</sup> is designed to reward senior leadership based on the achievement of a measurable performance goal over a three-year period. The plan is open to all E Band (executive) and select D Band (senior manager) employees. If the company achieves the goal, payments are made at the end of the third year. The first performance cycle began on October 1, 2013, and ran through September 30, 2016. A new cycle starts each year, and the company can modify the performance measure for each new cycle to reflect management priorities for that year.

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<sup>7</sup> The goal of the FY 2014 LTI Plan was for the average adjusted net operating loss for FY 2014 to FY 2016 divided by the average balances in the company's Gross Property Plant and Equipment account (the primary account for capital investment) over that same period to be no more than negative 1.9 percent. The average adjusted net operating loss for FY 2014 through FY 2016 was \$239.4 million, and the average Gross Property Plant and Equipment balance was \$19,278.5 million—negative 1.24 percent.

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**STI and LTI Guides.** The company's STI and LTI guides outline the provisions for assessing eligibility, performance, payment, and governance.<sup>8</sup> The following governing bodies administered the plans in 2016 but were dissolved in early 2017:

- **STI.** The company established the Internal Compensation Committee to provide recommendations about the STI plan to the Executive Vice President (EVP)/Chief Human Capital Officer<sup>9</sup> and the Executive Leadership Team. The five-member committee included one representative from each of the following departments: Corporate Research & Strategy, Finance, Human Capital, Law, and Operations. The Executive Leadership Team was responsible for overseeing the implementation of the STI plan and had the authority to prescribe, amend, and eliminate administrative guidelines, subject to the approval of the President/Chief Executive Officer (CEO).
- **LTI.** The LTI Committee included the following members:
  - President/CEO
  - EVP/Chief Legal Officer/General Counsel/Corporate Secretary
  - EVP/Chief Financial Officer
  - EVP/Chief Human Capital Officer

This committee had full authority over the LTI plan, including authority to prescribe, amend, and eliminate administrative guidelines, subject to the approval of the President/CEO.

According to the VP for Human Resources, the company will establish new governing bodies for future incentive payment plans.

**THE COMPANY ACCURATELY REPORTED ACHIEVING STI AND LTI GOALS BUT COULD IMPROVE ITS PROCESSES FOR SETTING GOALS AND ASSESSING RESULTS**

The company accurately reported achieving its financial goals and customer service goals, but we identified opportunities to improve how it establishes goals and documents its process for calculating its customer service scores.

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<sup>8</sup> *Guide to Amtrak's 2016 Short-Term Incentive Plan* and *Guide to the Amtrak 2014 Long-Term Incentive Plan*.

<sup>9</sup> The EVP/Chief Human Capital Officer position was abolished in the January 2017 reorganization and replaced with the Vice President of Human Resources.



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## The Company Accurately Reported Financial Achievements, but Opportunities Exist to Improve the Methodology for Establishing These Goals

The company accurately reported partially achieving its STI financial goals and fully achieving its LTI financial goal. These achievements were supported by the underlying financial data. As shown in Table 2, the company fully met the adjusted net operating loss goal and partially met the gross margin goals.

**Table 2. FY 2016 STI Financial Goals and Achievements**

	Financial Goal (\$ millions)	Achievements (\$ millions)	Goal Met?
<b>Adjusted Net Operating Loss</b>	<b>\$ (212.5)</b>	<b>\$ (197.4)<sup>a</sup></b>	<b>Yes</b>
<b>Business Line Gross Margins:</b>			
Northeast Corridor	\$ 1,322.0	\$ 1,200.0	No
State Supported	\$ 697.9	\$ 652.0	No
Long Distance	\$ 83.4	\$ 102.9	Yes
Infrastructure & Investment Development	\$ 78.9	\$ 81.5	Yes

Source: *Guide to Amtrak's 2016 Short-Term Incentive Plan* and Business Line Profit and Loss Statements prepared by the Finance department

Notes:

<sup>a</sup> The adjusted net operating loss for FY 2016, including the STI and LTI payouts, was \$230 million.

On December 8, 2016, the company proposed—and the Board approved—disregarding the gross margin results and paying the full incentive payment based on the achievement of its adjusted net operating loss goal. This decision resulted in an additional \$2.6 million in incentive payments. The company disregarded gross margin goals for each business line to better recognize that the company as a whole delivered in surpassing ridership revenue forecasts and cutting costs. The company eliminated the separate business line goals in its FY 2017 STI plan.

In our opinion, this change was warranted because the gross margin goals were not consistent with the actual profitability of each business line. For example, the NEC, which has historically been the only business line that has earned profits (\$469 million in FY 2016), did not meet its gross margin goal and was thus not eligible for an incentive payment related to this goal. However, the LD business line, which has historically had the greatest losses (\$502 million in FY 2016), met its gross margin goal and was thus eligible for an incentive payment related to this goal.

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## **Customer Service Achievements Were Reported Accurately, but Management Controls for Calculating These Achievements Can Be Improved**

The company accurately reported its customer service achievements—the other measure it uses to calculate STI incentive payments. As shown in Table 3, the company achieved its overall customer service goal and its individual goals for the three business lines. These achievements were supported by the company’s marketing and business development records.

**Table 3. FY 2016 STI Customer Service Goals and Achievements**

	<b>Goal</b>	<b>Achievement</b>
Overall	78%	81%
Northeast Corridor	75%	79%
State Supported	83%	85%
Long Distance	72%	76%

*Source: Goals are from Guide to Amtrak’s 2016 Short-Term Incentive Plan, and achievements are from Marketing and Business Development documents.*

However, we found that the Marketing and Business Development department could improve its underlying processes for recording its customer service achievements by documenting its procedures for calculating these scores. Under the current process, the Senior Manager for Marketing Insight and Analytics is solely responsible for collecting and analyzing the customer service data to calculate these scores, and the company does not have documented procedures for doing so. Management control standards for private and public entities<sup>10</sup> state that documentation provides a means to retain organizational knowledge and mitigate the risk of having knowledge retained by only a limited number of employees. Without documented procedures, the company may not be able to replicate this process and calculate these scores if the Senior Manager leaves the company.

## **FINAL INCENTIVE PAYMENTS WERE ACCURATE, BUT CONTROLS FOR CALCULATING AND APPROVING PAYMENTS HAVE WEAKNESSES**

We identified a significant number of errors in the Human Resources department’s initial calculations of short-term and long-term incentive payments that were virtually

<sup>10</sup> COSO, *Internal Control—Integrated Framework* May 2013; GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

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all corrected before the company made payments. In addition, the Human Resources department authorized some payment exceptions without obtaining executive approval as required by the plans' guidelines.

**Controls Over the Payment Calculations Were Weak**

Our review of the company's initial calculations of its STI and LTI payments identified errors in 425 of the 3,092 proposed payments, an initial error rate of about 14 percent. These errors could have resulted in about \$264,400 in missed payments, \$67,300 in underpayments, and \$118,200 in overpayments—a total of about \$449,900 in inaccurate payments. Because our review occurred before the company awarded these payments, the Human Resources department was able to correct most of the errors prior to payment through manual review and intervention. In the end, the company overpaid six employees \$31,600 in STI payments that the Human Resources department officials said the company would not collect. For additional details on our review results, see Appendix B.

We identified four key factors that contributed to errors in the Human Resources department's initial payment calculations:

- 1) **The company could not use its automated system for calculating incentive payments.** In our March 2015 report, we identified weaknesses in the automated system the Human Resources department used to calculate STI payments, and we recommended that the company further develop and test it to ensure accurate payment calculations in the future. The company agreed with this recommendation. Human Resources officials told us that the system was functioning properly after they further developed and tested this system; however, a software upgrade by the vendor in 2016 made the system unreliable for calculating incentive payments. Human Resources managers determined that it was not feasible to correct this software deficiency in time to make the 2016 payments. In June 2017, Human Resources officials told us they were still experiencing issues with the system, but hoped to address them in time for the 2017 payment year.

Management control standards state that an organization should develop controls over technology to help ensure the availability of the system when needed. However, the Human Resources department did not have the controls and recovery procedures in place to address the system issues created by the software upgrade in a timely manner, leaving the system unavailable to calculate

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the payments. As a result, Human Resources managers had to resort to time-consuming manual calculations. Using an automated system could have helped reduce the initial errors Human Resources managers made on the proposed payments.

- 2) **The company did not have written procedures for calculating incentive payments manually.** The STI and LTI guidelines describe complex rules for calculating payments; however, the Human Resources department had no written procedures for implementing those rules. In particular, the calculations rely on information from SAP—the system the company uses to record changes in salary, position, and other personnel actions—but the Human Resources department did not document the complex processes and procedures needed for manually extracting and using that information. Human Resources officials told us they did not have procedures in place because of time and resource constraints.

Management control standards highlight the importance of having written procedures to document key roles and responsibilities, ensure consistency in adhering to the organization's policies, and enable proper monitoring. The unexpected problem experienced with the automated system highlights the importance of having written procedures to guide the manual process and to ensure accuracy. Manually performing these complex calculations without written procedures to ensure adherence to guidelines and proper monitoring increases the risk for erroneous payments.

- 3) **The company did not have established rules for calculating incentive payments in certain employment situations.** Human Resources officials had not developed payment rules for employees in certain situations. Therefore, they had to develop eligibility rules while they were calculating incentive payments, increasing the risk for erroneous or inconsistent payment decisions.

The STI guidelines did not address eligibility criteria for the following situations:

- **Temporarily separated employees, such as employees who had separated from the company but were re-hired during the fiscal year.** The Human Resources department managers made inconsistent initial payment calculations for 12 re-hired employees, 2 of whom were re-hired after being separated for “unsatisfactory performance.”

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- **Interns who became full-time employees during the fiscal year.** The Human Resources department calculated full-year STI payments for three employees who were formerly interns even though the plan guide did not specify whether they should receive payment for a full year or only while they were full-time employees.
- **Employees with incomplete performance ratings.** Only about 20 percent of the performance ratings used for confirming employee eligibility in the incentive program were completed in the system. Employees and their supervisors may have agreed to the remaining 80 percent of the ratings, but they had not officially signed off on the ratings in the performance management system before the payments were awarded.

In our March 2015 report, we identified similar gaps in the company's STI guidelines and recommended that the company develop an official policy documenting the rules governing the STI plan. The company updated the STI guidelines in 2016; however, the revised guidelines did not cover the employment situations detailed above, and the plan's governing body did not approve the revised STI guidelines as we recommended.

Additionally, the LTI plan's governing body did not formally approve the 2014 LTI guidelines. Further, the LTI guidelines stated that some D Band employees were eligible for incentive awards, but did not specify the criteria for selecting those employees. Therefore, as we performed our review, we had to obtain clarification from Human Resources officials on a case-by-case basis on how management selected and approved LTI payments to seven D Band employees.

Human Resources managers told us that a process was not in place to have the guidelines formally approved by the plans' governing bodies. However, as a result of our review, the managers now plan to have the guidelines reviewed by the appropriate governing bodies before making future incentive payments. Management control standards state that management should implement control activities through clearly stated policies and procedures covering all key components of an organization's operations. The lack of complete and formally established policies increases the risk of making erroneous or inconsistent payment decisions.

- 4) **The company lacked final reconciliation and verification procedures.** The Human Resources department did not have adequate controls to detect errors in

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employees' eligibility and payment calculations. Management control standards stipulate that an organization should develop control activities to help mitigate risks to organizational objectives. However, the company did not have a reconciliation process to alert managers that some eligible employees were not being paid, such as the 59 employees we identified in our review. In addition, some calculations required interpreting and applying complex plan rules to pro-rate payments, but the company had no verification process to ensure that these calculations were accurate and in compliance with the plans' guidelines. Without these control activities, future payment calculation errors might continue to go undetected and result in improper payments. The lack of controls can also pose an administrative burden to the company because the errors will need to be manually corrected.

**Exceptions to the Incentive Plans' Guidelines Were Not Approved or Documented**

The Human Resources department authorized 83 payments that were exceptions to STI and LTI guidelines but were not approved by the plans' governing bodies and the President/CEO, as called for in the programs' guidelines. These exceptions increased incentive award amounts by about \$710,000 but lacked documentation establishing that these exceptions were valid or justified. Also, the company did not identify the overall monetary impact of these exceptions in the executive summaries it shared with the Board of Directors. The exceptions can be categorized into the following two groups:

- 1) **"Grandfather" provision.** Seventy-four employees received a total of \$560,000 more than they were entitled to receive because of the grandfather provision. The company created this grandfather provision in 2014 to allow these employees to receive higher incentive payments in FY 2014 and FY 2015 to offset the impact of changes made in the company's career and compensation structure.<sup>11</sup> However, 52 STI payments and 22 LTI payments were grandfathered in FY 2016 without the required approval. A Human Resources official told us that the company does not intend to extend this provision in FY 2017.
- 2) **Management discretion.** Management used its discretion to pay nine additional employees a total of \$150,000 more than they were entitled to under the plan guidelines. Six employees received higher STI payments, and three D Band

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<sup>11</sup> The 2014 career and compensation structure changes sought to establish consistent titles across the enterprise, among other things.

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employees received LTI payments without the required approvals.<sup>12</sup> These payments were provided at management's discretion in recognition of special case-by-case scenarios for which management deemed a payment was justified.

A company senior official confirmed that the Human Resources department did not bring these exceptions to the plans' governing bodies or to the President/CEO for approval because of the lack of an established process for documenting and approving exceptions. Thus, without a formal approval from the program's governing bodies or the President/CEO, we could not fully assess whether these payments were justified. Following the established procedures prescribed by management control standards would help ensure that these payments are consistently brought to the attention of the plans' governing bodies and senior management in a timely manner to avoid the risk of inconsistent decisions and improper payments.

## **CONCLUSIONS**

Encouraged by PRIIA, incentive payments are a well-established means to reward excellent organizational and employee performance. To maintain the company's credibility, however, and to ensure stakeholders' confidence in its management and stewardship over company funds, it is important that (1) these payments are accurate and based on clearly defined and consistently applied processes, and (2) any exceptions to the plan guidelines are fully documented. Although virtually all of the final 2016 payments were accurate, substantial manual review, reconciliation, and intervention were needed to correct the errors in the company's initial calculations we identified.

Management agreed that implementing an effective and efficient automated system—along with additional controls to ensure the accuracy of these payments and procedures for documenting and approving exceptions—would provide the company with greater assurance that future incentive payments are accurate and reflect the company's financial and customer service achievements. Our recommended control improvements could help the company save up to \$828,000 annually in funds that could be put to better use—including \$118,000 in overpayments that would be avoided by independently correcting incentive payment calculation errors prior to payment, and \$710,000 in payments made in exception to the plan's guidelines.

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<sup>12</sup> Four additional payments to D Band employees were approved by the Board of Directors.

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## RECOMMENDATIONS

We recommend that the Vice President of Human Resources take the following actions in coordination with the Vice President of Product Support and Management, and the Vice President/Chief Information Officer:

- 1) Document the processes used for determining whether the company met its customer service goals to help ensure the accuracy and reliability of the company's future calculations.
- 2) Take immediate steps to (a) ensure and certify that the automated system is available and reliable for calculating the STI and LTI payments before the FY 2017 incentive payments are potentially due and/or (b) document the processes used to manually calculate STI and LTI payments in case of possible system failures.
- 3) Take the following steps to help ensure greater accountability and transparency in the company's incentive payment program:
  - a. Update the rules governing the incentive plans to reflect a full range of employment situations such as the ones identified in this report, and obtain formal approval from the plans' governing bodies of these payment rules.
  - b. Establish controls to independently detect and correct incentive calculation errors prior to payment.
  - c. Obtain and document governing body and executive leadership approval for any payments made in exception to the incentive plan guidelines.

## MANAGEMENT COMMENTS AND OIG ANALYSIS

The Executive Vice President/Chief Financial Officer provided comments on a draft of this report on August 4, 2017. The official stated that the company agreed with our recommendations and described actions the company has already implemented or plans to implement that meet the intent of our recommendations. The company estimates that these actions will be completed prior to issuing STI or LTI incentive payments for FY 2017. (Based on the 2017 STI Plan, the company plans to make payments before December 31, 2017, if the STI and LTI goals are achieved.)

- **Recommendation 1:** Management agreed with our recommendation to document the processes used for determining whether the company met its customer service goals. Management noted that the Marketing and Business



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Development department has retained an outside vendor to independently complete the tasks required to calculate the company's customer service scores. The vendor has documented the processes performed to calculate the customer service scores and is performing parallel testing through FY 2017. The vendor is expected to start calculating the scores at the beginning of FY 2018. This meets the intent of our recommendation.

- **Recommendation 2:** Management agreed with our recommendation to ensure and certify that the automated system used for STI and LTI payment calculations is available and reliable and to document the processes used for manual calculations. Management stated that the Finance team is working with the Human Resources Compensation team to calculate STI and LTI amounts. Management also stated that they have completed four rounds of testing of the automated system environment to confirm application functionality, accuracy, and system stability, with final enhancements to the production application expected by October 16, 2017. Management also noted that the Amtrak Information Technology department will work with the Compensation team to provide the necessary details to manually calculate STI and LTI payments in the event of a system failure. This meets the intent of our recommendation.
- **Recommendation 3a:** Management agreed with our recommendation to update the rules governing the incentive plans noting that the updated STI and LTI guidelines have been approved by the Executive Committee and the President/CEO.
- **Recommendation 3b:** Management agreed with our recommendation to establish controls to independently detect and correct incentive calculation errors prior to payment. Management noted that the Controller's Office has agreed to audit any manual calculations completed by the Amtrak Compensation department to address any errors.
- **Recommendation 3c:** Management agreed with our recommendation to obtain and document governing body and executive leadership approval for any payments made in exception to the incentive plan guidelines. Management stated that the revised STI and LTI guidelines make clear that these approvals are required.

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This report provides the results of our audit to assess the accuracy of the company's reported incentive goal achievements and the resulting payments in FY 2016. The scope of our work focused on validating the company's reported achievement of its financial and customer service goals, and verifying the accuracy of its incentive payments to employees for its FY 2016 STI and FY 2014 LTI plans. We met with officials from the Human Resources, Finance, and Marketing and Business Development departments and conducted our work from November 2016 through June 2017 in Washington, D.C. and Philadelphia, Pennsylvania.

To assess the accuracy of the company's reported incentive goal achievements, we interviewed company officials responsible for the design and implementation of the STI and LTI incentive plans, and we reviewed the methodology and supporting data the company used to determine whether it had achieved its financial and customer service goals. We also performed limited testing of the underlying financial and customer service data to determine the reasonableness of the reported goal achievement.

To assess the accuracy of the incentives paid in FY 2016 under the two plans, we used data analysis software to test all of the STI and LTI payments proposed by the Human Resources department. Specifically, we performed the following steps:

- We identified the eligibility requirements and computation guidelines established in two documents: *Guide to Amtrak's 2016 Short-Term Incentive Plan* and *Guide to the Amtrak 2014 Long-Term Incentive Plan*. Human Resources management provided additional guidelines for plan exceptions and interpretation of award pay decisions.
- We collected data by downloading the necessary elements of employee master data from the company's system of employee records in SAP and by obtaining an electronic report from the Information Technology department on the performance-rating information maintained in the company's source system, Success Factors.
- Using the above information, we independently calculated the STI and LTI payments using our data analysis software. We then compared our results with the Human Resources department's initial calculations and identified

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differences. We presented this information to the department to reconcile the differences or confirm errors.

- After employees were paid the incentive awards, we obtained the payment file from the Payroll department and reconciled that file against our independent calculations to ensure that the errors in the company's initial calculations were corrected before payments were made. We identified a few additional errors in the payment file and communicated the differences to the Human Resources department for further corrective actions.
- For all payments made in exception to the company's plan guidelines, we obtained necessary approvals, if available.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

**Internal Controls**

We reviewed management controls by assessing the adequacy of the company's processes, policies, and procedures for determining the plans' goal achievements and for calculating the incentive payments. During our interviews with company officials from the Human Resources, Finance, and Marketing and Business Development departments, we discussed processes and procedures to understand how the plans were implemented and how the payments were calculated. We did not review the entire system of controls for the overall STI and LTI plans. This report identifies opportunities for improving internal controls for the incentive payment calculation process.

**Human Resources: Additional Actions Needed to Improve Controls on Incentive Awards**  
OIG-A-2017-014, August 15, 2017**Computer-Processed Data**

To calculate the STI and LTI incentive payments, we relied on computer-processed data in SAP and Success Factors. We validated the reliability of the data we analyzed in the following manner:

- To obtain reasonable assurance that we had accurately downloaded SAP data and correctly interpreted them for our analysis, we used our SAP access to view the source data and verify the validity of many of our identified exceptions.
- To ensure that the performance rating information we used for STI calculation was accurate, we collected the ratings maintained in the source system, Success Factors. Because management could not provide us with electronic access to Success Factors, we relied on the electronic report obtained from the Information Technology department. We do not believe that this presented a methodological limitation to our analysis. We used this report to verify whether performance ratings were finalized and whether they supported employees' eligibility statuses. We noted all of the exceptions we found in this report.

Based on these tests, we concluded that the data were sufficiently reliable to be used in meeting our objectives.

**Prior Audit Reports**

In conducting our audit, we reviewed and used information from the following OIG report:

- *Human Capital: Incentive Awards Were Appropriate, But Payment Controls Can Be Improved* (OIG-A-2015-009), March 13, 2015

**Human Resources: Additional Actions Needed to Improve Controls on Incentive Awards**  
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## APPENDIX B

### Summary of Incentive Payment Calculation Errors

We identified 425 errors in the Human Resources department's initial calculations of 3,092 short-term and long-term incentive payments.

The STI and LTI Guides include eligibility requirements and describe several scenarios in which payments should be pro-rated.<sup>13</sup> However, the company did not identify all employees eligible for payments and did not always pro-rate amounts accurately or in accordance with the guidelines. The company corrected all but six errors before awarding the payments—about 99 percent. We reviewed the accuracy of the payments after they were made and found two additional errors. In all, the company made eight payment errors, two underpayments that the company corrected, and six overpayments that the company did not correct. Table 4 provides an overview of the STI and LTI payments with calculation errors identified before and after the payments were made.

**Table 4. Initial Calculation and Payment Errors**

Type of Error	Missed Payments (Count and Amount)		Underpayments (Count and Amount)		Overpayments (Count and Amount)		Errors (Count)
<b>Initial Calculation Errors</b>							
<b>STI</b>	47	\$ (105,400)	267	\$ (63,300)	97	\$ 116,700	<b>411</b>
<b>LTI</b>	12	\$ (159,000)	1	\$ (4,000)	1	\$ 1,500	<b>14</b>
<b>Total</b>	59	\$ (264,400)	268	\$ (67,300)	98	\$ 118,200	<b>425</b>
<b>Payment Errors</b>							
<b>STI</b>	0		1	\$ (200)	6	\$ 39,600	<b>7</b>
<b>LTI</b>	0		1	\$ (10,500)	0		<b>1</b>
<b>Total</b>	0		2	\$ (10,700) <sup>a</sup>	6	\$ 39,600 <sup>b</sup>	<b>8</b>

Source: OIG analysis of Amtrak's STI and LTI proposed payments

Notes:

<sup>a</sup> The company later paid \$10,700 we identified as underpayments.



<sup>b</sup> The company recovered \$8,000 of STI overpayments, leaving \$31,600 of overpayments unrecovered.

<sup>13</sup> For example, if an employee transfers from a non-agreement position to an agreement position during the fiscal year, the payment is to be pro-rated to the number of days worked in the non-agreement position. Similarly, if an employee retires during the fiscal year, the payment is to be pro-rated to reflect the number of days worked.

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## APPENDIX C

### Management Comments

<h1 style="font-size: 2em; margin: 0;">Memo</h1>	 
<p>Date August 4, 2017</p>	<p>From William N. Feidt <i>Executive Vice President/Chief Financial Officer</i></p>
<p>To Stephen Lord <i>Assistant Inspector General, Audits</i></p>	<p>Department Finance</p>
<p>cc</p>	<p>Jason Molfetas, Executive <i>Vice President / Chief Marketing &amp; Business Development Officer</i>          Robert Dorsch <i>Vice President, Product Support and Management</i>          Charles Farmer <i>Vice President, Financial Planning &amp; Analysis</i>          Carol Hanna <i>Vice President/Controller</i>          William Herrmann <i>Vice President, Human Resources</i>          Ghada Ijam <i>Vice President/Chief Information Officer</i>          Matthew Gagnon <i>Senior Director, Risk Management &amp; Controls</i></p>
<p>Subject Management Response to “Human Resources: Additional Actions Needed to Improve Controls on Incentive Awards (Audit Report for Project No. 001-2017)”</p>	
<p>This memorandum provides Amtrak’s response to the OIG Audit Report: <i>“Human Resources: Additional Actions Needed to Improve Controls on Incentive Awards”</i>.</p>	
<p>We appreciate this opportunity to respond to the OIG recommendations. As indicated in our responses, we agree with all of the recommendations and have initiated actions to address each in a timely manner.</p>	
<p><b><u>Recommendation 1:</u></b>          Document the processes used for determining whether the company met its customer service goals to help ensure the accuracy and reliability of the company’s future calculations.</p>	
<p><b><u>Management Response/Action Plan:</u></b>          Management agrees with this recommendation. Marketing has retained an outside vendor to independently complete the tasks required to calculate Amtrak’s eCSI scores which results in the monthly eCSI report. The processes performed by the vendor to calculate/determine the eCSI scores have been documented. The vendor is performing parallel testing through the end of FY17. Parallel testing performed thus far, has been successful and proved that the processes are correct. If testing continues as expected, the vendor will start calculating eCSI scores at the beginning of FY18.</p>	
<p><b><u>Responsible Amtrak Official(s):</u></b> Robert Dorsch, VP Product Support and Management</p>	
<p><b><u>Target Completion Date:</u></b> Completed.</p>	

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NATIONAL RAILROAD PASSENGER CORPORATION

**Recommendation 2:**

Take immediate steps to (a) ensure and certify that the automated system is available and reliable for calculating the STI and LTI payments before the FY 2017 incentive payments are potentially due and/or (b) document the processes used to manually calculate STI and LTI payments in case of possible system failures.

**Management Response/Action Plan:**

We concur with the OIG recommendation to ensure and certify that the SuccessFactors Compensation planning application is available and reliable for calculating STI and LTI payments in FY 2017. To accomplish this, we have met with Human Resources (HR) to gain the requirements (i.e. calculate recommended merit amounts, calculate proration for STI amounts, added a lookup table to indicate recommended STI amounts for grandfathered employees) for merit and STI workbook calculations. The HR Compensation team will provide LTI requirements to IT the week of 8/21/2017. We have completed four rounds of testing for merit and STI plans in the SuccessFactors Test environment to confirm application functionality, accuracy and system stability. The final enhancements to the production application will be completed by October 16, 2017.

To support the HR functions in the event of a SuccessFactors Compensation application failure, IT will work directly with HR to mature the following process: 1) Provide a download of employee ratings from SuccessFactors Performance and Goals Management to the HR Compensation team, 2) Upload the calculated merit, STI, and LTI amounts into SAP HCM and validate the load with HR Compensation team, 3) Conduct a root cause analysis over the system failure and develop a corrective action plan. In the event of a SuccessFactors Performance and Goals Management failure, IT will download the employee ratings from the calibration period. Both of these processes will be further coordinated with HR, documented, and authorized.

The Compensation Department will work with Carol Hanna, VP Controller to audit and certify STI/LTI calculations in the event of a system failure.

**Responsible Amtrak Official(s):** Christina Wu, Director of Human Capital Technology; Yvette Best, Director of Compensation

**Target Completion Date:** October 31, 2017

**Recommendation 3a:**

Take the following steps to help ensure greater accountability and transparency in the company's incentive payment program:

- a) Update the rules governing the incentive plans to reflect a full range of employment situations such as the ones identified in this report, and obtain formal approval from the plans' governing bodies of these payment rules.

**Management Response/Action Plan:**

Management agrees with this recommendation. Updated LTI and STI guidelines have been approved by the Executive Committee and the President and CEO.

**Responsible Amtrak Official(s):** Yvette Best, Director Compensation.

**Target Completion Date:** Completed.

**Recommendation 3b:**

Take the following steps to help ensure greater accountability and transparency in the company's incentive payment program:

- b) Establish controls to independently detect and correct incentive calculation errors prior to payment.

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Management Response/Action Plan:

Management agrees with this recommendation. The Controller's Office has agreed to audit any manual calculations required to be completed by Amtrak Compensation in order to identify and correct any errors prior to payment.

Responsible Amtrak Official(s): Yvette Best, Director of Compensation and Carol Hanna, Controller.

Target Completion Date: Prior to issuing any STI or LTI plan payments for FY2017.

Recommendation 3c:

Take the following steps to help ensure greater accountability and transparency in the company's incentive payment program:

- c) Obtain and document governing body and executive leadership approval for any payments made in exception to the incentive plan guidelines.

Management Response/Action Plan:

Management agrees with this recommendation. The revised LTI and STI guidelines make clear this is required and that any changes require Executive Committee and CEO approval.

Responsible Amtrak Official(s): Yvette Best, Director Compensation and Byl Herrmann, VP, Human Resources.

Target Completion Date: Completed.



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## **APPENDIX D**

### **Abbreviations**

CEO	Chief Executive Officer
EVP	Executive Vice President
FY	Fiscal Year
I&ID	Infrastructure and Investment Development
LD	Long Distance
LTI	Long Term Incentive
NEC	Northeast Corridor
OIG	Amtrak Office of Inspector General
PRIIA	Passenger Rail Investment and Improvement Act of 2008
SS	State Supported
STI	Short Term Incentive
the company	Amtrak

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## **APPENDIX E**

### **OIG Team Members**

Earl Hedges, Senior Director, Audits

Vijay Chheda, Senior Director, Audits

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Walter Beckman, Senior Auditor Lead

Thelca Constantin, Senior Auditor

Alison O'Neill, Communications Analyst

Juan Morales, Contractor

# OIG MISSION AND CONTACT INFORMATION

## Mission

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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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