

Amtrak Office of Inspector General
Fiscal Year 2011 Annual Audit,
Inspection and Evaluation Plan



NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL
10 G STREET, N.E.
WASHINGTON, DC 20002

A Message from the Inspector General

I am pleased to present the *Fiscal Year 2011 Annual Audit, Inspection, and Evaluation Plan* for the Amtrak Office of Inspector General. This year promises to be another challenging and demanding one as we attempt to address the many complex issues confronting Amtrak in its daily effort to provide high quality passenger rail transportation to the nation. This plan outlines the areas where we intend to undertake audit, evaluation, and inspection work during this fiscal year, summarizes our most recent reports, and discusses our ongoing projects. We focused on our core mission of conducting independent and objective audits, inspections, and evaluations -- to promote economy, efficiency, and effectiveness in Amtrak's programs and operations; and to prevent and detect fraud, waste, abuse, and mismanagement.

Should you have any questions, please feel free to contact me, Tom Howard, the Deputy Inspector General, David Warren, the Assistant Inspector General - Audit, or Calvin Evans, the Assistant Inspector General – Inspections and Evaluations, at 202-906-4600.



Ted Alves
Inspector General

Amtrak’s Office of Inspector General Annual Audit,
Evaluation and Inspection Plan – Fiscal Year 2011

Table of Contents

	<u>Page</u>
Introduction	1
Governance	1
Acquisition and Procurement	4
Information Technology	7
Train Operations and Business Management	9
Human Capital Management	11
American Recovery and Reinvestment Act of 2009	13
OIG Mission and Contact Information	16

Amtrak's Office of Inspector General Annual Audit,
Evaluation and Inspection Plan – Fiscal Year 2011

Introduction

During FY 2011, we plan to focus our audit, evaluation, and inspection efforts on the following areas:

- Governance
- Acquisition & Procurement
- Information Technology
- Train Operations & Business Management
- Human Capital Management, and the
- American Recovery and Reinvestment Act of 2009

We selected these areas because they are critical elements that support Amtrak's goals and initiatives that are intended to secure and expand the Company's leadership position in the increasingly competitive passenger rail industry. Our overall goal in addressing the areas will be to identify specific recommendations to improve the economy, efficiency, and effectiveness of Amtrak's programs and operations and to detect and prevent fraud, waste, and abuse.

In each of the following sections, we provide a brief overview of:

- why the area is a critical element in supporting Amtrak's goals and initiatives;
- our recently issued reports;
- ongoing audits/evaluations/inspections we plan to complete during fiscal year 2011; and,
- potential audit/evaluation/inspection topics for fiscal year 2011.

As resources become available to initiate new audits and evaluations during FY 2011, we will evaluate the topics in this plan against risk criteria such as dollar value, prior audit coverage, vulnerability to fraud, waste and abuse, and OIG discretion/judgment. We will also consider the topics in the context of interest by internal and external stakeholders, public sensitivity, emerging issues, and other priorities.

Governance

Over the past 10 years, the subject of corporate governance and risk management has received additional attention. Corporate governance is defined as a system of internal control encompassing policies, processes, and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability, and integrity. We will focus on identifying opportunities to improve Amtrak's governance policies and practices, with a view toward reducing operational risk and optimizing the use of resources.

Recently Issued Reports: (Governance)

- [Final Report Number E-10-01, August 17, 2010 - Amtrak's Strategic Planning](#)

This evaluation compared Amtrak's 2009 strategic planning documents and planning process with best practices in strategic planning. As part of this evaluation we learned that there is no one right way to conduct strategic planning, but there are common elements among the various processes that drive effective strategic plans. We recommended that Amtrak develop a strategic plan utilizing a strategic planning process that incorporates the key elements of effective strategic planning. Amtrak management agreed with this recommendation and committed to preparing a timeline for the development of a strategic plan.

- [Final Report 407-2003, September 24, 2010 - Burlington Northern Santa Fe \(BNSF\) On-Time Performance Incentives: Inaccurate Invoices and Lack of Amtrak Management Review Lead to Overpayments](#)

We reported that Amtrak overpaid BNSF by over \$1 million for on-time performance incentives during the seven month period covered by our audit. This occurred because Amtrak did not verify the accuracy of BNSF's monthly billings prior to approving them for payment. This practice represents a long-standing and significant internal control weakness in Amtrak's invoice review process. Over the last 10 years, we identified over \$50 million in overpayments for on-time performance incentives. Amtrak management is seeking recovery of overpayments and has stated that it plans to add resources, enhance controls, and implement a new billing review process for on time performance incentive payments.

Ongoing Audits: (Governance)

- [Inventory Accounting Practices](#) – The audit addressed whether FY 2010 inventory purchases were recorded in a manner consistent with Amtrak's accounting policies. This work supported the audit of Amtrak's consolidated financial statements.
- We have a series of internal control audits underway reviewing Amtrak's payments to railroads' including Burlington Northern Santa Fe Railroad, the Union Pacific Railroad Company, Southern Pacific Transportation Company, and the Metro-North Commuter Railroad for on-time performance incentives. The objectives are to (1) determine whether the railroads complied with the operating agreements in calculating on-time performance incentives invoiced to Amtrak, and (2) evaluate the adequacy of Amtrak controls and processes for reviewing on-time performance incentive invoices.

- In another series of internal control audits we are reviewing monthly invoices (excluding on-time performance) from railroads including CSX Transportation, Inc., Southern Pacific Transportation Company, Union Pacific Railroad Company, and the Burlington Northern Santa Fe Railway Company. Our objectives are: (1) determining whether the railroad complied with the operating agreements when presenting monthly invoices to Amtrak for the use of tracks and services (excluding on-time performance), and (2) evaluating the adequacy of Amtrak controls and processes for reviewing monthly invoices.

FY 2011 Potential Audit Topics: (Governance)

Our governance audit focus will be to enhance the stewardship of company resources by evaluating senior leadership's processes, policies, and activities to identify areas where corporate governance can be improved. Our initial focus will be on determining the adequacy of Amtrak's organization-wide risk management framework and the adequacy of risk management processes within selected major business activities. Other issues we plan to review include Amtrak's policies and procedures in establishing the:

- Control environment – sets the tone of an organization, influencing the control consciousness of its people. Control environment factors include the integrity, ethical values, management's operating style, delegation of authority systems, as well as processes for managing and developing people in the organization.
- Risk assessments – A precondition of risk assessment is establishment of objectives and thus risk assessment is the identification and analysis of relevant risks to the achievement of assigned objectives. Risk assessment is a prerequisite for determining how the risks should be managed.
- Control activities – control activities are the policies and procedures that help ensure management directives are carried out. Control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.
- Information and communication infrastructure – information systems play a key role in internal control systems as they produce reports, including operational, financial and compliance-related information, that make it possible to run and control the business, and
- Monitoring activities – internal controls need to be monitored – a process that assesses the quality of the system's performance over time. Internal control deficiencies detected through these monitoring activities should be reported upstream and corrective actions should be taken to ensure continuous improvement of the system. An emphasis area for the OIG is increased

monitoring and oversight of the audit of Amtrak's financial statement being performed by an independent public accountant.

Acquisition and Procurement

During fiscal years 2011-2015, Amtrak plans to spend \$5.9 billion on capital projects. The majority of capital funding will be spent on projects designed to bring its infrastructure and equipment into a state of good repair. For example, in February 2010, Amtrak released a Fleet Strategy outlining a multi-billion dollar plan to replace its aging fleet and to provide additional fleet and equipment to handle the projected growth in demand through 2040. Our work will focus on the effective and efficient use of resources by identifying systemic weaknesses as well as individual contract and project implementation weaknesses.

Recently Issued Reports: (Acquisition and Procurement)

- [Final Audit Report E-09-04 – July 21, 2009 - Lessons Learned: An Analysis of the Acela and Surfliner Programs](#)

Amtrak is currently planning a number of rolling stock equipment procurements. To insure current Amtrak decision-makers are knowledgeable of "lessons learned" from past Amtrak procurements, the OIG reviewed two of Amtrak's major equipment procurement programs during the last 15 years (*Acela* and *Surfliner*) and documented the "lessons learned" from these programs. To accomplish this, the OIG interviewed over a dozen of the key individuals involved in these procurements. The individuals interviewed had many recommendations from their experiences with these procurements. The OIG report discussed both programs and documented 20 of these recommendations to help guide Amtrak management in any future major equipment procurement. These recommendations included avoiding technologies that had not been proven to work together, ensuring there is a clear understanding of the performance requirements and features before entering into the contract, arranging financing separate from the manufacturing contract, dealing with one company as the lead rather than dealing with a consortium, and assigning risks to the party that is in best position to control them. Management agreed with the recommendations and has already incorporated some of them into current procurement actions.

- [Final Audit Report 219-2010 – January 12, 2011 - Amtrak Should Negotiate a Price Adjustment to a Major Acquisition Contract](#)

We identified more than \$16.6 million in costs for which Amtrak should seek a price adjustment. Although we found no basis to question the vast majority of costs in the contractor's price proposal, we determined that the contractor did not reasonably apply its estimating system to several cost categories where Amtrak could realize cost reductions through negotiations with the contractor. Specifically, the contractor duplicated profit, misapplied labor and training rates,

overstated general and administrative costs, and included warranty and risk costs that we found to be unreasonable. Amtrak agreed with our recommendation to use the information we developed as a basis to negotiate a price adjustment to this contract and to support future negotiations regarding contract options and modifications.

- [Final Audit Report 504-2009 –December 22, 2010 - Incurred Cost Audit: Amtrak’s Track Replacement and Related Improvements Contracts Audit Identified \\$351,205 of Questioned and Unsupported Costs](#) –

We identified \$221,925 in net questioned costs and \$129,280 in unsupported costs for a total of \$351,205 that could potentially be recovered. The questioned costs were primarily the result of overstated labor and labor add-ons, such as benefits; and disallowed district shop expenses, equipment, safety awards, and certain subcontractor costs that were not in accordance with the contract or specifically allowed by the contract. We found that the Contractor did not provide adequate support for business managers’ labor and labor add-ons, and for related equipment costs invoiced to Amtrak. We also found that Amtrak’s Department of Procurement and Materials Management (Procurement) did not ensure that all costs invoiced by the Contractor were in compliance with contract provisions. Amtrak’s Procurement office and project manager did not ensure that the Contractor’s invoices were adequately and appropriately supported. We recommended that Amtrak take steps to recover overpayments and remind staff to ensure that costs are adequately supported before paying vendor invoices.

Amtrak disagreed with most of the questioned and unsupported costs, and with the recommendation to remind staff to ensure costs are supported before paying vendor invoices. Amtrak’s response did not contain sufficient facts or rationale to rebut the validity of the findings. Amtrak’s response indicates a lack of appropriate attention to management controls over payments. Given this lack of attention, we addressed our final report and recommendations to a higher level Amtrak official. We recommended that Amtrak’s Chief Financial Officer direct staff to initiate negotiations with the Contractor to recover the questioned and unsupported costs we identified, and to remind staff to ensure that costs are adequately supported before paying vendor invoices.

- [Final Audit Report 503-2009 – December 13, 2010 – Incurred Cost Audit: Amtrak’s Design/Build Improvements Contract](#)

We identified \$17,694 in net questioned costs and \$908,582 in unsupported costs for a total \$926,276 that could potentially be recovered. The questioned costs were primarily the result of the Contractor’s billing of relocation, insurance, and General and Administration costs that were not in the accordance with the contract or specifically allowed by the contract. We found that the Contractor did not provide adequate support for salaried staff costs and salaried

staff vehicle costs invoiced to Amtrak, that Amtrak's Department of Procurement and Materials Management (Procurement) did not ensure that all costs invoiced by the Contractor were in compliance with contract provisions, and that Amtrak's Procurement office and project manager did not ensure that the Contractor's invoices were adequately and appropriately supported. We recommended that Amtrak take steps to recover overpayments and remind staff to ensure that costs are adequately supported before paying vendor invoices.

Amtrak disagreed with most of the questioned and unsupported costs, and with the recommendation to remind staff to ensure costs are supported before paying vendor invoices. Amtrak's response did not contain sufficient facts or rationale to rebut the validity of the findings. Amtrak's response indicates a lack of appropriate attention to management controls over payments. Given this lack of attention, we addressed our final report and recommendations to a higher level Amtrak official. We recommended that Amtrak's Chief Financial Officer direct staff to initiate negotiations with the Contractor to recover the questioned and unsupported costs, and to remind staff to ensure that costs are adequately supported before paying vendor invoices. We further recommend that the Chief Financial Officer review the adequacy of internal controls over the vendor invoice process, including the control environment, and implement improvements as needed.

- [Final Audit Report 508-2009, December 2, 2010 - South End Track and Related Improvements](#)

Our review of costs billed by Kiewit Pacific Co (Kiewit) under Contracts C069-93228 and C069-06834 identified issues pertaining to questionable contract language and an opportunity to improve contract negotiation practices. The questionable contract language states in the event that certain funds are not paid to the Contractor within 90 calendar days following proper invoicing by the Contractor and receipt by Amtrak, both parties "shall agree to seek a mutually acceptable means of compensating the Contractor for the 'time value of money.'" One of the mutually acceptable means stated in the contracts allows the Contractor to be paid interest on funds held in anticipation of invoice audit findings. The OIG was not advised by Procurement about the subject language, before its inclusion in the contracts.

We recommended that Amtrak, (1) as a standard practice, exclude any contract language that allows paying interest payable to a Contractor on funds held and, if such language is included, formally justify its inclusion that it is in Amtrak's best interest and does not impair auditor independence; (2) review all existing contracts for similar language and ensure that Amtrak does not agree to the payment of interest to the Contractor on those funds; and (3) avoid contract language that could impair the auditor's responsibilities. Amtrak agreed with the recommendations.

Ongoing Audits: (Acquisition and Procurement)

- Contractor Food and Beverage Rebate Reimbursement Reconciliation – Our objective is to determine the accuracy of the reported gross rebates and subsequent commission fee paid to a sub-contractor under a food and beverage contract.
- Review of Costs Claimed Under an Amtrak Settlement Agreement – The audit objective is to determine the accuracy and acceptability of cost data submitted in a \$3.6 million Settlement Agreement for the construction of a temporary utility bridge.
- Review of a \$2 million contract modification under Amtrak Contract C-082-83501 – Our objectives are to determine the accuracy and acceptability of the cost data proposed by the contractor. We are reviewing cost calculations to determine whether any of the additional indirect overhead costs in the modification have been included in the original contract cost or previous contract modifications. We are also determining whether Amtrak’s procurement office adhered to the procedures outlined in the Amtrak Procurement Manual with respect to the contract and subsequent 23 contract modifications.

FY 2011 Potential Audit Topics: (Acquisition and Procurement)

During fiscal year 2011, we plan to undertake work to review the efficiency and effectiveness of Amtrak’s acquisition and procurement processes. We will also do selected pre and post award reviews of major contracts with a goal of identifying cost savings. We will also do selected reviews of major ongoing contracts to determine whether costs are being properly controlled, desired outcomes are being achieved, and appropriate oversight is occurring.

We also plan to conduct performance audits of Amtrak’s acquisition and procurement processes, practices, and funds use. We will identify systemic risks to Amtrak acquisitions and procurements and make recommendations for organizational improvement.

Information Technology

Passenger railroad businesses are labor and capital intensive. These businesses increasingly rely on modern information technology (IT) to improve labor and asset productivity and deliver safe and reliable customer service. Many of Amtrak’s existing information systems and IT infrastructure in the areas of reservation and ticketing, finance, supply chain, and operations are outdated, inefficient, and increasingly prone to failure. The increasing risk of failure in business critical systems must be addressed to ensure the resiliency and continuity of operations. At the same time, addressing these issues will be costly. Our

work will focus on improving the economy, efficiency, and effectiveness of Amtrak's IT project implementation.

Recently Issued Reports: (Information Technology)

- [Final Report No. 105-2010, January 14, 2011 - Strategic Asset Management \(SAM\) Program Controls Design Is Generally Sound, But Improvements Can Be Made](#)

Amtrak's SAM program is estimated to cost as much as \$380 million. The goal is to transform key business operations such as finance, logistics, and asset management. SAM will replace or enhance many manual and automated systems. The design of the automated controls to mitigate financial risks in the first SAM segment (R1a) to be implemented is generally sound. However, we found gaps in the design of the controls that do not fully mitigate the financial and operational risks. These gaps put Amtrak at risk of not fully realizing the potential benefits from SAM. In particular, a lack of adequate controls can lead to inaccurate financial reporting, vulnerability to fraud, and inefficient business operations. We recommended that Amtrak: 1) complete certain automated control design tasks before the April 2011 R1a implementation, and 2) expand the scope of the control design process to include controls that fully address financial and operational risks in all affected business areas. Management agreed with all our recommendations and has assigned responsibilities to appropriate individuals to take timely actions to address our recommendations.

Ongoing Audits: (Information Technology)

- [SAM Release 1a Program Governance and Management](#) – Our objectives are to review the resiliency of strategic plan and implementation approach of the SAM program, and review the effectiveness of SAM program management processes.
- [Wireless Network Security](#) – The audit objectives are to review the adequacy of Amtrak's wireless network policy for maintaining the confidentiality, integrity, and availability of corporate information, and to review Amtrak's wireless networks and devices to ensure that proper security controls are effectively implemented and are compliant with corporate policies and industry best practices.
- [Mainframe Security](#) – Our objectives are to review the effectiveness of IBM's Resource Access Control Facility support, and the adequacy and effectiveness of Amtrak's Resource Access Control Facility mainframe security control design and implementation.

FY 2011 Potential Audit Topics: (Information Technology)

- Information Technology Infrastructure Improvement – This initiative focuses on upgrading Amtrak’s Information Technology infrastructure to improve service levels and lower current costs. Under the new outsourcing contracts, IBM is responsible for data center operations and management of desk top computers while AT&T is responsible for data and voice networks. Amtrak is also moving its current data center to two new locations over the next several months.
- Strategic Asset Management (SAM) – This will be a follow on to our prior work. SAM is a multiyear program to transform and integrate key operations, financial, supply chain, and human resource processes. It is expected to help Amtrak meet managerial accounting requirements mandated by PRIIA and replace legacy financial, procurement, materials management and operational systems.
- eTicketing and Next Generation Reservation – Amtrak’s current reservation and ticketing system are critical for sales booking, ticketing, customer service, and train operations. eTicketing is a major program that aims to replace current paper based ticketing processes with an airline style electronic ticketing system. The estimated cost of the eTicketing program is \$41 million. Amtrak is also developing the next generation reservation system at an estimated cost of \$86 million, to improve resiliency, flexibility, and agility to respond to the demands of today’s travel marketplace.
- Amtrak Information Management – The objective of this program is to make critical business information reliable and easily accessible to Amtrak’s managers and executives. Amtrak will integrate information from various internal and external sources and will include sophisticated capabilities such as business intelligence, document management, and train communications.

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. In 2010, Amtrak moved more than 28 million intercity passengers. In addition to evaluating Amtrak’s compliance with Laws and Federal Regulations, we are continually looking for opportunities for Amtrak to improve the effectiveness and efficiency of its train operations and business management.

Recently Issued Reports:

- [Final Report Number E-09-05 – September 28, 2009 - Amtrak’s Infrastructure Maintenance Program](#)

This report evaluated the efficiency and effectiveness of Amtrak’s right-of-way (ROW) maintenance programs. To measure the relative efficiency and effectiveness of Amtrak’s Infrastructure Maintenance program, we benchmarked Amtrak’s performance metrics to those of comparable European railroads. The benchmarking process showed that Amtrak has an opportunity to reduce its long-term infrastructure capital and operating maintenance costs by \$50 million to \$150 million per year by improving the overall efficiency and effectiveness of its infrastructure maintenance program to the level of comparable European railroads. We identified numerous maintenance practices and technologies that Amtrak may be able to adopt to improve the efficiency and effectiveness of its infrastructure maintenance program. This report made 16 recommendations. The recommendations take into consideration that Amtrak is not totally in control of all of the factors impacting its infrastructure maintenance costs and that Amtrak must enlist the support of outside agencies to accomplish several of the recommended actions. Management agreed with all of the recommendations.

Ongoing Audits: (Train Operations and Business Management)

- [Amtrak Strategic Fleet Planning](#) – In February 2010, Amtrak published a Fleet Strategy outlining the need to spend \$23 billion over the next 30 years to replace aging equipment and to provide the fleet necessary to meet the projected future ridership demands. The objective of this evaluation is to assess whether the critical data and assumptions that have a material impact on the equipment and financial resource estimates contained in the plan are reasonable and valid.
- [ADA Compliance](#) – Our audit objective is to assess whether the ADA program is effectively managed by Amtrak to overcome barriers and mitigate risk.
- [Mechanical Maintenance Operations Follow-up Evaluation](#) – In a September 2005 report (E-05-04) on Amtrak’s Mechanical Maintenance Operations, we made 34 recommendations to improve the effectiveness and efficiency of Amtrak’s mechanical maintenance program. One of our major recommendations was that Amtrak adopt a more modern maintenance philosophy based on Reliability Centered Maintenance (RCM). Since then, there has been considerable progress made in adopting RCM and implementing our other recommendations. Our ongoing follow-up evaluation is intended to document the progress that has been made over the last four years and to identify continued opportunities to improve the efficiency and effectiveness of Amtrak’s mechanical maintenance operations.

FY 2011 Potential Audit Topics: (Train Operations and Business Management)

During fiscal year 2011 we plan to start evaluations on Amtrak's implementation of Positive Train Control, as mandated by the Rail Safety Improvement Act of 2008, and Amtrak's crew scheduling process.

We also plan on initiating an audit to assess Amtrak's implementation of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) by (1) determining the extent Amtrak has addressed individual PRIIA requirements, and (2) identifying the impact of Amtrak not fully addressing selected high-risk provisions.

Human Capital Management

The Amtrak OIG is one of only a handful of Federal OIGs that conduct oversight of employee and retiree health care benefit programs. The need for OIG oversight is evident given that Amtrak will spend approximately \$320 million during FY 2011 to provide health coverage to 48,000 employees, retirees, and family members. In addition, Amtrak's healthcare cost has increased by 17.6 percent over FY 2009 and it is the fastest growing component within Amtrak's budget.

Recently Issued Reports: (Human Capital Management)

- [Final Report Number E-09-06 - Issued October 26, 2009 - Training and Employee Development](#)

Training at Amtrak is managed and conducted in a largely decentralized manner. In 2008, records show that Amtrak's 19,000 employees received over 670,000 hours of training (an average of about 35 hours of training per employee) we estimated to cost between \$40 million and \$45 million annually. Since training is decentralized and mainly driven by the individual department's requirements, it is not always consistently required or delivered throughout the corporation and appears to be more expensive than at other similarly sized companies. Part of the reason for the inconsistency between departments is that there is no individual or organization charged with overseeing all training at Amtrak. Furthermore, there is currently no corporate-wide training strategy or program to ensure that the efforts are aligned to meet the strategic needs of Amtrak in the future. In addition to the lack of a corporate-wide training program, there is also no integrated corporate-wide career development program for management employees. The report contained 27 recommendations to improve the effectiveness and efficiency of training and employee development. Amtrak agreed with all of the recommendations.

- [Final Report Number E-09-03 – May 15, 2009 - Human Capital Management](#)

Over a quarter of Amtrak's workforce will be eligible for retirement in less than five years. Investments in recruiting, developing, motivating, and retaining highly qualified employees with the skills that are critical to Amtrak's current and future needs are required for the company to maintain its position as the leader in intercity passenger rail within the United States. To ensure these investments are spent wisely and targeted in the correct areas, Amtrak needs a comprehensive, corporate-wide Human Capital strategy that is tied to the company's strategic plan and is supported by Amtrak's senior leadership and its Board of Directors. To help the company address this critical issue and to improve the efficiency and effectiveness of its Human Capital strategy, the report makes 24 recommendations – including the creation of a Human Capital officer position for the company to provide a single point of accountability for leading the strategic transformation of Human Capital management that must occur if Amtrak is to be successful in the future. Management agreed with all but one of the recommendations.

Ongoing Audits: (Human Capital Management)

- [Operation RedBlock Follow-up Evaluation](#) – RedBlock is a labor-developed, management-supported program to promote the awareness and education of drug and alcohol use in the workplace through union-led volunteer prevention committees. In a March 2008 report (#E-08-01) we made fourteen recommendations to improve RedBlock's operational and organizational efficiency and effectiveness in seven areas. The purpose of our ongoing follow-up review is to determine the progress made in implementing our previous recommendations and to assess the status of the seven areas discussed in our 2008 report.
- [Amtrak's Management of Background Investigations](#) – The objectives are to review Amtrak's policies, processes, and practices used to conduct new employee background investigations. We are focusing on assessing Amtrak's oversight of contractors performing background investigations and whether contractor provided data timely supports the hiring process.

FY 2011 Potential Audit Topics: (Human Capital Management)

Given ongoing work and competing priorities, we do not expect to begin additional audits in this area until FY 2012. Topics we are considering include reviewing Amtrak's management of employee absenteeism, overtime pay, whether modified work rules in labor agreements are resulting in productivity improvements, and additional work on the Company's drug and alcohol program.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA) included \$5 million for OIG oversight of the \$1.3 billion in ARRA funding provided to Amtrak. Our efforts are aimed at providing Congress with information on Amtrak's use of ARRA funds to include projects completed with the funds and the associated benefit to Amtrak. In addition, our work will review Amtrak's management of projects with a focus on improving project economy, efficiency, and effectiveness.

Recently Issued Reports: (American Recovery and Reinvestment Act of 2009)

- [Inspector General Testimony before the United States Senate, Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, April 29, 2010](#)

The Inspector General identified managing risks associated with projects funded through ARRA as a challenge in testimony before a Senate Subcommittee. ARRA included \$1.3 billion in capital grants to help Amtrak improve its infrastructure, facilities, and security posture. The capital grant funding, provided through a grant agreement with the Federal Railroad Administration, requires Amtrak to complete all projects funded through ARRA no later than February 17, 2011, and to continuously take actions to ensure projects are completed by that date. Amtrak is allowed to request a waiver for projects that cannot be completed by February 17, 2011, but must demonstrate that it has taken "extraordinary" measures to complete the project on time. This requirement to take extraordinary measures may have the unintended consequence of encouraging Amtrak to take actions that increase the risk of waste and inefficiency or even to take shortcuts that could increase the risk that the project will not perform as well as expected and will not provide the benefits expected.

Because the grant agreement is driving these "extraordinary" measures rather than the Law, we recommended that Amtrak apply to the FRA to amend the grant provisions. The grant provisions should ensure a balance between spending taxpayer funds in a timely manner and achieving project objectives, without actions that could increase the potential for waste or inefficiencies. We also recommended that Amtrak apply to the FRA for a grant waiver in instances where reasonable measures have failed to bring the project within the grant deadline. Amtrak agreed with the recommendations.

- [Final Report No. 912-2010, May 14, 2010 - Assessment of Risks Associated with Key Engineering Projects](#)

ARRA included \$1.3 billion in capital grants to help Amtrak improve its infrastructure and security posture. The grant agreement with the Federal Railroad Administration required Amtrak to complete all ARRA-funded projects no later than February 17, 2011 and to continuously take actions to ensure projects are completed by February 17, 2011. Amtrak is allowed to request a waiver for projects that cannot be completed by February 17, 2011, but

must demonstrate that it has taken “extraordinary” measures to complete the project on time. We assessed the risks associated with nine major ARRA-funded projects and the measures being taken by Amtrak to manage those risks. These projects have a budget value totaling \$277 million. A significant number of risk items were either directly or indirectly attributed to the February 17, 2011 deadline including 1) the ability to acquire materials and equipment in time to complete the project before the grant deadline of February 17, 2011; 2) environmental concerns; and 3) schedule concerns. In many cases, the project managers were able to identify actions to mitigate risks. Specific mitigation actions are described in this report. However, Amtrak managers and executives are not in a position to mitigate the most significant risk, the grant requirement that Amtrak take “extraordinary” measures in order to justify a request for relief from the project deadline. This requirement may have the unintended consequence of encouraging Amtrak to take actions that increase the risk of waste and inefficiency or even to take shortcuts that could increase the risk that the project will not perform as well as expected and will not provide the benefits expected.

Because the grant agreement is driving these “extraordinary” measures rather than the Law, we recommended that Amtrak apply to the FRA to amend the grant provisions. The grant provisions should ensure a balance between spending taxpayer funds in a timely manner and achieving project objectives, without actions that could increase the potential for waste or inefficiencies. We also recommended that Amtrak apply to the FRA for a grant waiver in instances where reasonable measures have failed to bring the project within the grant deadline. Amtrak agreed with the recommendations.

Ongoing Audits: (American Recovery and Reinvestment Act of 2009)

- Audit of Amtrak Engineering – Management of ARRA Program – Our objectives are to review (1) Amtrak’s management and oversight of Jacob’s projects and (2) the status of the Jacob’s projects and obstacles to completing them by February 17, 2011.
- Survey of Police and Security Department Management of ARRA – Our objectives are to review (1) the Office of Police and Security management of the ARRA projects and (2) the status of implementation and obstacles to completing projects by February 17, 2011.

FY 2011 Potential Audit Topics: (American Recovery and Reinvestment Act of 2009)

Our FY 2011 ARRA audit work will focus on the following areas:

- reviews of major contracts awarded with ARRA funds that will compare planned versus actual scope and funding as well as Amtrak’s contract administration;

- a review of invoice processing and payment for projects implemented under a program management agreement with a private contractor; and a review of actual project completion and expenditure of ARRA funds.

OIG Mission and Contact Information

Amtrak OIG Mission	<p>The Amtrak OIG goals and perceptions of how best it can affect Amtrak’s mission, as spelled out in the Inspector General Act of 1978, as amended:</p> <ul style="list-style-type: none">• Conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to Amtrak programs and operations;• Promote economy, effectiveness, and efficiency within Amtrak and the OIG;• Prevent and detect fraud, waste, and abuse in Amtrak programs and operations;• Review Amtrak security and safety policies and programs;• Make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations; and• Keep Amtrak and Congress fully and currently informed of problems in company programs and operations.
Obtaining Copies of OIG Reports and Testimonies	<p>To obtain copies of OIG documents at no cost, please visit the Amtrak OIG web site at: www.amtrakoig.gov</p>
To Report Fraud, Waste, and Abuse	<p>Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the OIG Hotline: (800) 468-5469 https://www.amtrakoig.gov/hotline</p>
Congressional Affairs	<p>E. Bret Coulson Assistant Inspector General for Management and Policy Amtrak Office of Inspector General 10 G Street, N.E. Drop Box: 3W-159 Washington, DC 20002 (202) 906-4134 coulsob@amtrak.com</p>
