FOOD AND BEVERAGE SERVICE:

Potential Opportunities to Reduce Losses

Audit Report OIG-A-2014-001 | October 31, 2013





Office of Inspector General



REPORT HIGHLIGHTS

Why We Did This Review

Amtrak's losses in providing food and beverage services have been a longstanding issue. From fiscal year (FY) 2006 through FY 2012, Amtrak's food and beverage service incurred direct operating losses of more than \$609 million. These losses are covered by ticket revenues and funds provided to Amtrak by an annual federal grant.

Because of the magnitude of the losses, we reviewed the food and beverage service to assess the actions taken by Amtrak to reduce program losses and to determine whether opportunities exist to further reduce the losses.

Focus Area: Train Operations and Business Management

For further information contact, Dave Warren, Assistant Inspector General for Audits 202-906-4600

For the full report, see www.amtrakoig.gov/reading-room

FOOD AND BEVERAGE SERVICE:

Potential Opportunities to Reduce Losses Audit Report OIG-A-2014-001, October 31, 2013

What We Found

Amtrak has reduced food and beverage service losses from a reported \$105 million in FY 2006 to \$72 million in FY 2012 by making incremental changes to the food and beverage business model. We estimate that losses could be further reduced by about \$10.5 million annually by making additional incremental changes to the business model. For example, aligning onboard staffing on long-distance routes with seasonal changes in ridership could have reduced FY 2012 labor costs by an estimated \$6.9 million.

Outsourcing food and beverage services could have more than an incremental effect: it could substantially reduce costs. This option would have significant impacts on the workforce of about 1,200 personnel. Some implementation costs, such as contributions to railroad retirement and insurance, could reduce savings; other qualitative factors, such as the safety and security responsibilities of onboard personnel, would also need to be assessed. These issues notwithstanding, we estimate that outsourcing these services could reduce labor costs by \$51.4 million to \$60.5 million annually.

We also noted that route managers lack key information to effectively manage the food and beverage program, such as cost and revenue by train.

Corrective Actions

To reduce food and beverage losses, we recommend that the President and Chief Executive Officer direct the Vice President, Operations, to take the following actions:

- 1. Pilot contracting out food and beverage services on selected routes to determine the qualitative and quantitative costs and benefits.
- 2. Pilot various options to increase efficiency, such as better aligning staffing and service with customer demand, monitoring sales performance of onboard staff, reducing report times, and charging for services now provided on a complimentary basis.
- 3. Develop food and beverage cost and revenue data by train, car and departure date.
- 4. Ensure that the onboard point-of-sale system can generate relevant business management data.

In commenting on a draft of our report, Amtrak agreed with the spirit of our recommendations.





Memorandum

To:

Joseph Boardman, President and CEO

From:

Ted Alves, Inspector General

Date:

October 31, 2013

Subject:

Food and Beverage Service: Potential Opportunities to Reduce Losses

(Audit Report OIG-A-2014-001)

Each day, Amtrak operates more than 300 intercity trains on the Northeast Corridor, state-supported routes, and long-distance routes. Most long-distance trains include a dining car, which serves full-service meals for breakfast, lunch, and dinner. Most state-supported and Northeast Corridor routes include a café car, which offers sandwiches, snacks, and beverages. The dining and café cars are staffed by Amtrak personnel. ²

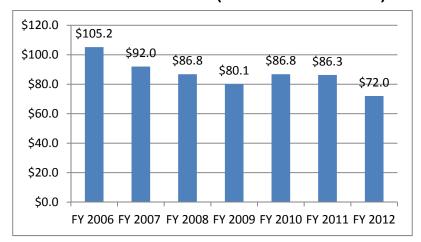
Amtrak's operating losses for providing food and beverage services have been a long-standing issue, requiring either ticket revenues or federal subsidies to support operations. From fiscal year (FY) 2006 through FY 2012, the food and beverage service incurred more than \$609 million in direct operating losses,³ as shown in Figure 1. In FY 2012, food and beverage losses were \$72.0 million, of which \$71.5 came from long-distance routes. Because of the magnitude of losses, we reviewed the food and beverage service program to assess the actions taken by Amtrak to reduce program losses and to determine whether opportunities exist to further reduce the losses.

¹ The Northeast Corridor includes routes operating predominantly between Washington D.C. and Boston, Massachusetts; there are 27 state-supported routes, 15 long-distance routes, and special trains.

² These employees belong to three unions—the Transportation Communications Union, Transport Workers Union, and the UNITE Hotel Employees and Restaurant Employees Union.

³ All figures are reported in 2012 dollars.

Figure 1. Reported Food and Beverage Direct Operating Losses, FY 2006 to FY 2012 (dollars in millions)



Source: Finance department, Food and Beverage Marketing Summary Reports,

FY 2006-FY 2012.

Note: All figures are reported in 2012 dollars.

Consistent with Amtrak's strategic plan,⁴ the company plans to establish six business lines to improve financial performance. Amtrak plans to establish profit and loss accountability for each business line, including Northeast Corridor services, state-supported services, and long-distance services.⁵

Our reporting objective is to assess actions taken by Amtrak to reduce operating losses from the food and beverage service, and also to determine whether opportunities exist to improve financial performance while providing services to the travelling public. Given the extent of reported food and beverage losses on long-distance routes, we focused on ways to improve their financial performance; however, some of our findings also apply to the Northeast Corridor and state-supported routes. For a detailed discussion of our scope and methodology, see Appendix I.

FINANCIAL PERFORMANCE HAS IMPROVED, BUT LOSSES PERSIST

From FY 2006 to FY 2012, food and beverage operating losses decreased by a reported \$33.2 million. Several factors contributed to these reductions, including revenue increases and efficiency improvement efforts to reduce costs—such as staffing

⁴ Amtrak Strategic Plan FY 2011-FY 2015.

⁵ The other three business lines are Northeast Corridor Infrastructure and Investment Development, Commuter Services, and Corporate Asset Development.

reductions, a new commissary contract, and other organizational changes. These actions were effective, but food and beverage operating losses remained significant—a reported \$72.0 million in FY 2012. As noted in our August 2, 2012 testimony,⁶ Amtrak's actions have resulted in relatively small efficiency gains because they have been applied to the existing business model for food and beverage service.

Long-Distance Train Labor Costs Drive Losses

Long-distance routes accounted for 99 percent of food and beverage losses in FY 2012, as shown in Table 1.

Table 1. Reported Food and Beverage Direct Operating Loss, FY 2012 (dollars in millions)

			Direct Costs			
Routes	Food and Beverage Revenue	Onboard Labor	Commissary	Total Direct Costs	Profit/ Loss	Percentage of loss
Northeast Corridor	\$36.5	\$19.0	\$16.7	\$35.7	\$0.8	-1
State- supported	32.9	19.0	15.2	34.2	(1.3) ^a	2
Long- distance	63.5	75.3	59.8	135.0	(71.5)	99
Total	\$132.9	\$113.2	\$91.7	\$204.9	(\$72.0)	100%

Source: Amtrak Finance Department, Food and Beverage Marketing Report for FY 2012. Note: Numbers do not all add to totals due to rounding.

A key factor driving these losses is labor costs, which exceeded revenue on 13 of the 15 long-distance routes in FY 2012, as shown in Table 2.7 Labor costs exceeded revenue on all long-distance routes except the Auto Train and the Palmetto.

^a Food and beverage operating losses on state-supported routes came from the six routes on which Amtrak provided food and beverage services, but the states chose not to subsidize operations. Section 209 of the Passenger Rail Improvement and Investment Act of 2008 directed Amtrak, the states, and other relevant parties to develop and implement a single, nationwide standardized methodology that will ensure equal treatment of the states by October 16, 2013.

⁶ Food and Beverage Service: Opportunities Exist to Build on Program Improvement Initiatives, August 2, 2012, OIG-T-2012-015.

⁷ For a list of long-distances routes, see Appendix II.

Table 2. Reported Food and Beverage Direct Operating Losses by Long-Distance Route, FY 2012 (dollars in thousands)

	Food and	Direct Costs			
	Beverage	Onboard		Total Direct	
Route	Revenue	Labor	Commissary	Costs	Loss
Auto Train	\$9,195	\$8,321	\$13,969	\$22,290	(\$13,095)
California Zephyr	7,633	8,955	7,487	16,442	(8,809)
Southwest Chief	5,861	7,339	6,631	13,970	(8,109)
Empire Builder	9,417	9,647	6,149	15,796	(6,379)
Coast Starlight	7,605	9,001	4,522	13,523	
Sunset Limited	2,274	4,941	2,976	7,917	(5,643)
Crescent	2,793	4,278	3,532	7,810	(5,017)
Texas Eagle	3,258	4,400	3,388	7,788	(4,530)
Lake Shore Limited	2,727	3,340	3,020	6,360	(3,633)
Capitol Limited	2,406	3,277	1,964	5,241	(2,835)
City of New Orleans	1,747	2,596	1,668	4,264	(2,517)
Silver Star	3,380	4,005	1,450	5,455	(2,075)
Silver Meteor	3,616	3,738	1,826	5,564	(1,948)
Cardinal	785	881	710	1,591	(806)
Palmetto	791	533	476	1,009	(218)
Total	\$63,488	\$75,252	\$59,770	\$135,020	(\$71,532)

Source: Amtrak Food and Beverage Summary Report for the year-to-date period ending September 30, 2012, and Route Profitability Statement.

Note: Numbers do not all add to totals due to rounding.

Revenue Increases and Actions to Reduce Costs

From FY 2006 through FY 2012, revenue increases have been the largest contributor to reducing food and beverage operating losses.

• To contribute to the cost of meals included in the ticket price, Amtrak transfers a portion of revenue from sleeper-class and Acela first-class tickets to the food and beverage account, according to officials from Finance and customer service. For sleeper-class tickets, the amount transferred is based on the menu price of actual meals consumed by sleeper passengers on long-distance routes. On Acela, it is based on an Amtrak calculation of comparable meal prices that business

travelers would pay at hotels in four cities served by Acela.8 From FY 2006 through FY 2012, reported transfers increased by \$22.1 million. A customer service official stated that it is difficult to precisely determine which factors caused increased sleeper car ticket revenue transfers. However, at least part of this increase was the result of a May 2011 rise in the amount of Acela first-class ticket revenues categorized as food and beverage revenues. This update did not increase the total revenue that Amtrak receives from customers, but instead shifted revenue from the Operations department account to the food and beverage account.

- On all routes, onboard cash and credit card sales increased \$8.9 million from FY 2006 through FY 2012.
- Subsidies for state-supported routes, which Amtrak counts as revenue, increased by \$1.2 million from FY 2006 through FY 2012.

In addition, Amtrak has taken these actions to reduce food and beverage losses:

- In October 2008, Amtrak awarded a new warehouse management contract that provided greater volume discounts and incentives to control costs in select performance areas, according to the Chief of Customer Service. As a result, commissary costs decreased by \$4.5 million from FY 2006 through FY 2012. This net cost reduction demonstrates that purchasing efficiency has improved because it occurred at the same time total sales increased by \$32.3 million.
- In fall 2011, Transportation officials began implementing staffing efficiencies, such as reducing report times for onboard staff. Although labor costs decreased by \$6.2 million in the first full year after implementing these efficiencies, labor costs increased overall by \$3.6 million from FY 2006 through FY 2012.9

Organizational Changes

To improve the performance of the food and beverage service, Amtrak management took a number of organizational actions. For example, until recently, two Amtrak

⁸ To estimate market prices, food and beverage officials surveyed the cost of breakfast and lunch for business travelers at hotels in Boston, New York, Wilmington, and Washington D.C., according to the Chief of Customer Service

⁹ A portion of these increases resulted from a 2010 labor agreement, which provided guaranteed wage increases for food and beverage employees.

departments shared responsibility for the food and beverage service. As we reported in September 2012, neither was accountable for reducing direct operating losses, and they did not effectively coordinate their initiatives to improve financial performance.¹⁰ To address this issue, Amtrak transferred Marketing and Product Development's food and beverage activities to Operations on October 1, 2012.

In February 2013, Amtrak filled the recently established position of Chief of Customer Service, which reports to the Vice President, Operations. The Chief has overall accountability for improving Amtrak's food and beverage program. However, the Chief of Customer Service stated that this position does not control onboard staffing—the key cost driver in the program. Staffing is controlled by the individual route managers, who report to the business line managers. In addition, the research and planning office—which reports to the Vice President, Operations—advises on staffing decisions but does not control staffing, according to a planning official. As a result, accountability for improving financial performance is split between these three parties. Because the Chief of Customer Service does not have the authority to control the entire food and beverage program, final accountability rests with the Vice President, Operations.

Loss-Prevention Unit Established

In response to our June 2011 recommendation, the company established a loss-prevention unit with four dedicated staff and a director. According to the unit's director, the unit reviews systems, records, and documents, and also observes revenue transactions to identify problems and limit the risk of fraud. As of May 24, 2013, the unit reported visiting 155 stations where cash is handled and observing 201 personnel.

Amtrak plans to supplement the unit of five with a nationwide contractor to act as mystery shoppers to observe onboard food and beverage employees, according to the unit's director. Further, as we recommended, Amtrak developed a revenue protection plan to address weaknesses in the onboard food and beverage service. The plan includes fraud awareness briefings for onboard food and beverage employees on program goals, strategies, and metrics to maximize employee compliance with procedures and policies.

¹⁰ Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan, Amtrak OIG, Report No. OIG-A-2012-020, September 7, 2012.

¹¹ Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps, Amtrak OIG, Report No. E-11-03, June 23, 2011.

Planned Cashless Pilot

According to the Chief of Customer Service, Amtrak also plans to establish a pilot project for cashless food and beverage sales, which we recommended. The pilot will be implemented once the onboard point-of-sale system can integrate credit card sales. However, delays from the point-of-sale contractor have prevented needed software updates, according to customer service and business operations officials. The last software update was delivered in August 2013. Amtrak plans to test the new software during fall 2013 and to pilot a cashless sales system in early 2014, according to customer service and business operations officials.

OPPORTUNITIES TO IMPROVE MANAGEMENT AND FINANCIAL PERFORMANCE OF THE EXISTING FOOD AND BEVERAGE BUSINESS MODEL

Our comparative analysis of Amtrak's food and beverage service to railroad industry best practices identified six opportunities to make incremental improvements to the current business model. These opportunities could reduce losses by about \$10.5 million annually:

- aligning dining car staffing with ridership (\$6.9 million)
- improving sales performance of lead service attendants (\$1.6 million)
- shortening reporting times for onboard employees (\$0.1 million)
- aligning the service with variations in ridership and customer demand
- charging passengers for complimentary items (almost \$0.7 million)
- reducing spoilage (\$1.2 million)

Better Aligning Dining Car Staffing with Seasonal Changes in Customer Demand

When staffing dining cars, route managers are not required to consider seasonal changes in customer demand, according to Transportation officials.¹² As a result, some long-distance route managers are incurring unnecessary labor costs by maintaining higher-than-necessary dining car staffing levels during periods of low customer

¹² Amtrak operates 15 long-distance routes; 13 have (1) a dining car that serves hot meals and is staffed with 3 to 7 staff, including a chef, food specialist, and service attendants; and (2) a café car that offers sandwiches, snacks, and beverages, staffed with one onboard lead service attendant. One route (the Cardinal) has a combined dining/café car that serves pre-plated meals, staffed with two service attendants; one route (the Palmetto) has only a café car staffed with one lead service attendant.

demand. We estimate that 13 long-distance routes incurred approximately \$6.9 million in surplus labor costs in FY 2012.¹³

To assess which route managers are considering seasonal changes in customer demand when staffing dining cars, we compared dining car revenue with dining car labor hours for 13 long-distance routes in FY 2012. Periods of low revenue per labor hour indicate possible opportunities to reduce staffing and labor costs. Food and beverage revenue per labor hour on 13 long-distance routes ranged from \$25.81 in January to \$41.24 in June—a difference of \$15.42 per hour (60 percent), as shown in Figure 2.

Figure 2. Dining Car Revenue per Onboard Labor Hour, Select Long-Distance Routes, FY 2012



Source: OIG analysis of Amtrak revenue and labor data.

Note: The Auto train and the Palmetto were not included in our source data.

On all 13 routes we reviewed, dining car staffing was not reduced when customer demand was lower during the winter. The Transportation department has guidelines for dining car staffing, but route managers are not required to use them, and some choose not to use them, according to Transportation officials. For example, in FY 2012, the Lake Shore Limited operated with at least four dining car staff year-round. Yet for

¹³ The Auto Train and the Palmetto were not included in our source data.

 $^{^{14}}$ The most common planning factor across all long-distance trains is 3 staff for the first 80 anticipated dining car customers, 4 for 80–120 customers, and 5 for more than 120.

¹⁵ The Lake Shore Limited has daily, round-trip service between New York City/Boston and Chicago. According to a Transportation official, this route added a fifth onboard staff to the dining car for four trips in June 2012.

almost seven weeks in January and February 2012, actual ridership never reached the level specified in the departmental guidelines that would justify a fourth employee. As a result, food and beverage revenue per labor hour was lowest in January, at \$22.98.

Using the yearly peak of \$41.24 in revenue per labor hour as a benchmark, we estimate that 13 long-distance trains used approximately \$6.9 million in surplus labor in FY 2012. We calculated this by determining how much labor staffing would need to be reduced to bring revenue per labor up to \$41.24 for FY 2012. We recognize that guaranteed hour provisions in labor agreements may prevent Amtrak from capturing all of these savings. For example, the current labor agreement between Amtrak and the Amtrak Service Workers Council guarantees full-time employees 180 hours a month and part-time employees 150 hours a month. If a full-time employee is scheduled for 180 hours per month, reducing the hours would yield no savings.

In addition, a Transportation official stated that the department's staffing guidelines are not based on the actual number of coach and sleeper passengers who use the dining car. The officials told us that the guidelines vary by route based on the requests of route managers, and they are working to clarify these staffing guidelines using actual dining car usage rates.

Improving Management of Onboard Staff Could Increase Revenues

Available revenue information shows that the amount of revenue generated by lead service attendants on the same routes varies widely, indicating that there likely are opportunities to capture additional food and beverage revenues. However, managers are not required to use available revenue information to monitor onboard staff performance and identify opportunities to increase revenues, according to customer service officials. We calculated that every one percent increase in revenue for all lead service attendants in calendar year (CY) 2012 would have yielded about \$1.6 million in additional revenue system-wide.

To assess their sales performance, we obtained revenue data for every lead service attendant by train and by day. We combined this with ridership on each train to determine the average sales of lead service attendant per rider. We then compared lead service attendants on the same routes to determine their relative sales performance. Our analysis shows that the lead service attendants who produced the highest revenue on long-distance café cars averaged almost double the revenue per rider as those who

¹⁶ Any additional revenues would be offset somewhat by the purchase cost of additional food and beverage.

produced the lowest revenue.¹⁷ On the Capitol Limited's café car, for example, revenue by lead service attendant per rider ranged from \$3.69 to \$7.61 in CY 2012, as shown in Figure 3.¹⁸

Figure 3. Reported Revenues by Lead Service Attendant, Per Rider, Capitol Limited Café Car, CY 2012

Source: Amtrak OIG Analysis of Amtrak revenue and ridership data.

Likewise, on state-supported routes the highest revenue-producing lead service attendants averaged almost triple the revenue per rider of the lowest-producing lead service attendants. In CY 2012, for example, the revenues of the Carolinian's café car by lead service attendant ranged from \$1.41 to \$5.41 per rider.¹⁹

Transportation officials told us that route managers are not required to use this data to monitor and help improve revenue generated by lead service attendants. Moreover, sales targets or incentives are not used with lead service attendants, customer service officials stated. As a result, higher-selling lead service attendants are not rewarded for good sales, and lower-selling attendants are not held accountable and are not coached to improve sales performance. Best practices show that employee sales incentives can increase food and beverage revenues. For example, the German rail company provides

¹⁷ We could not perform this analysis for lead service attendants on Acela, Northeast Regional, Capital Corridor, Cascades, Pacific Surfliner, Empire Builder and Coast Starlight routes because their revenue data was insufficient for our purposes.

¹⁸ The Capitol Limited operates daily, round-trip service between Chicago and Washington D.C.

¹⁹ The Carolinian runs daily, round-trip service between New York City and Charlotte, North Carolina.

some employees an incentive of up to 15 percent of their salary based on sales performance. According to German rail officials, sales for these employees are consistently higher than other employees who are not provided incentives.

It appears there are opportunities to increase revenues by using performance monitoring tools and employee incentives. For example, a one percent increase in lead service attendant sales in CY 2012 would have yielded about \$1.6 million in additional revenue. Of this, about \$1.0 million would have come from long-distance routes and the Northeast Corridor, and about \$0.6 million from state-supported routes. According to the Chief of Customer Service, Amtrak has begun to develop a report for managers to use in monitoring the sales performance of lead service attendants.

Staff Reporting Times Could be Shortened

We identified an opportunity to reduce costs by shortening reporting times for some onboard staff. According to Transportation officials, the Transportation department does not have standard reporting times for onboard service personnel. Each long-distance route manager determines staff reporting times based on operational needs. As a result, reporting times for onboard staff on the long-distance routes vary from one to five hours before the train's scheduled departure time.

On three routes we rode, onboard staff reported three to four and a half hours early.²⁰ We observed that some onboard staff completed their required duties in less time than allotted, resulting in 30 to 60 minutes of free time prior to the train's departure. In addition, on three of the routes we rode,²¹ lead service attendants and chefs counted their food and beverage inventory twice—once at the commissary and again when it was loaded on the train.²² Two route managers stated that the double-count prevents theft after lead service attendants and chefs accept responsibility for their stock in the commissary and before it is loaded on the train. During this period, staff may not have visibility over the stock.

The Assistant Superintendent in Los Angeles stated that they reduced reporting times in 2012 and required staff to count food stocks only once. In July 2012, for example, the Sunset Limited reduced its report times from three to two hours before departure by

²⁰ Auditors rode five long-distance routes to observe food and beverage operations: the Silver Star, Empire Builder, Southwest Chief, Capitol Limited, and Cardinal.

²¹ The Empire Builder, Southwest Chief, and Capitol Limited

²² On the Silver Star, the lead service attendant and chef reported two hours early and counted the food stock only once—when it was delivered to the train.

directing the food supply contractor to load trains directly. Lead service attendants and chefs now check their stock after the train has been loaded. Officials from other railroads stated that they use this procedure. For example, the food manager for the New South Wales railroad in Australia stated that their staff report 30 to 45 minutes before departure because a contractor loads the trains and inventory is only counted once—when it is delivered.

Transportation officials stated that they have attempted to decrease report times on all long-distance routes, but have sometimes been overridden by route managers. Shortening reporting times for onboard employees by one hour on three long-distance routes we travelled could reduce labor costs by about \$100,000 annually.²³ As above, we recognize that operational differences between routes and guaranteed hour provisions in labor agreements may reduce the savings from these actions.

Alternative Food and Beverage Services

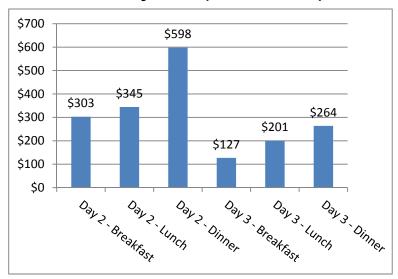
Our analysis identified opportunities to align the level of food and beverage service with variations in ridership, customer demand, and financial performance for each route. Changes could include amending or eliminating the current sit-down dining car service seasonally, on selected routes, or on portions of some routes.

When deciding the level of food and beverage service, considering ridership and customer demand patterns on individual routes can provide opportunities to improve financial performance. Currently, route managers retain their base dining car service year-round for the duration of each long-distance trip, regardless of customer demand, according to Transportation officials.²⁴ For example, the Sunset Limited operates between Los Angeles and New Orleans. On this route, FY 2012 ridership was lowest between San Antonio and New Orleans, resulting in lower dining car revenue, particularly during the low ridership season. Low season revenue on the eastbound train drops on the third day, after the train departs San Antonio, as shown in Figure 4.

²³ To calculate estimated savings, we multiplied the fully loaded hourly labor rate for a lead service attendant and chef by three routes the auditors travelled, and then multiplied the total labor hour cost by daily trips (365 days).

²⁴ Amtrak has a sit-down dining car service on 13 of the 15 long-distance routes. The Cardinal has a combined dining/café car, and the Palmetto has only a café car.

Figure 4. Reported Dining Car Revenue by Meal Period, Eastbound Sunset Limited, January 2013 (Low Season)



Source: Amtrak OIG analysis of lead service attendant revenue data. Note: The eastbound Sunset Limited leaves Los Angeles at 10:00 pm, so there is no dining service on Day 1.

This sales pattern occurs because the Sunset Limited removes one sleeper car and one coach car from the eastbound train in San Antonio but maintains the dining car. Despite this change in carrying capacity, route managers retain three onboard employees and the same sit-down dining car service year-round for the duration of the trip, according to Transportation officials.²⁵ To reduce costs, the Alaska Railroad removes its dining car and four employees from its trains during the low season. During that time, the railroad operates a café car staffed with one onboard employee.

The Department of Transportation Office of Inspector General (DOT OIG) also identified an opportunity to adjust the level of food and beverage service. In July 2005, DOT OIG reported that removing sleeper cars, dining cars, and other amenities from long-distance routes while still maintaining basic coach service could save \$75 million to \$158 million in annual operating costs. DOT OIG recommended that Amtrak implement multiple pilot projects on its worst-performing long-distance routes, including the removal of sleeper and dining cars from service. In commenting on the report, Amtrak acknowledged that long-distance rail service cannot remain viable

²⁵ We attempted to conduct this same meal period analysis on five other long-distance routes; however, Amtrak data was not sufficiently complete for that purpose.

without significant reductions in expenses, and said that Amtrak will be launching a number of pilot projects to address long-distance operating cost issues.²⁶ According to DOT OIG officials, these recommendations were not implemented because when the report was released, Amtrak was completing an upgrade of its sleeper car equipment. The officials said that Amtrak did not want to pilot removing sleeper cars because of this investment.

Amtrak's Marketing department has conducted market research of the potential revenue impact of various options for providing food and beverage services. In 2012, the department asked 2,495 recent Amtrak customers for their preferences on various food and beverage options, including reducing or eliminating dining and café car service. The market research indicated that reducing or eliminating food service, or charging more for existing service, would reduce ridership and revenue. The study concluded that Amtrak would lose (1) about 1 million riders and \$91 million in ticket revenue if food service on all short-distance routes was eliminated,²⁷ and (2) about 345,000 riders and \$93 million in ticket revenue if dining car service was eliminated on all long-distance routes. The study addressed only the potential impact on ridership and ticket revenues—not the potential cost savings associated with the various alternatives.

Operational considerations will require a case-by-case assessment of each route and season. However, opportunities exist to better align food and beverage service with customer demand. From FY 2010 to FY 2012, the Marketing department conducted such an analysis of all 15 long-distance routes;²⁸ however, several plans that involved reducing onboard labor were proposed but not ultimately accepted, according to a Marketing official.

Charging for Complimentary Food and Beverage Items

Costs could be decreased and revenues potentially increased by charging passengers for complimentary items. Complimentary wine and champagne are offered as an amenity

²⁶ Analysis of Cost Savings on Amtrak's Long-Distance Services, CR-2005-068, July 22, 2005.

Acela was not included in the scope of the research; however, these forecasts included expected losses from eliminating all Acela food services. The Acela estimate was extrapolated based on Northeast Regional results.
 This analysis was conducted in accordance with the Passenger Rail Investment and Improvement Act of 2008. The company analyzed each long-distance route and developed a plan to improve their financial performance.

to customers in sleeper cars on three long-distance routes;²⁹ complimentary wine and cheese are offered to passengers on the Auto Train. In FY 2012, these complimentary offerings cost about \$428,000, according to a customer service official.³⁰ Also, Amtrak procedures allow individuals on personal travel using an employee pass to receive free meals on the Auto Train if their ticket is free.³¹ In FY 2012, employee pass riders on free, personal travel consumed about \$260,000 in meals on the Auto Train.³² Employees on personal travel also received some undetermined amount on the other long-distance routes, according to a revenue management official.

Improve Food and Beverage Inventory Management to Reduce Spoilage

We identified opportunities to improve inventory management practices and reduce spoilage costs. In FY 2012, food and beverage spoilage accounted for about \$3.1 million (8.3 percent) of the about \$37.9 million in food and beverages sold onboard.³³ The experience of another railroad shows that lower spoilage rates are possible. For example, the Great Southern Rail in Australia has a food spoilage rate of about 5 percent of food sold onboard, according to the Food and Beverage Manager. If Amtrak reduced spoilage to a similar level, it would reduce losses by more than \$1.2 million annually.

According to officials from customer service and the commissary contractor, ARAMARK, several factors contribute to food spoilage:

• **High onboard stock levels**. ARAMARK officials stated that they work together with Amtrak to establish train stock levels. However, some trains return most of their food and beverage stock to the commissary after each trip. In FY 2012, for example, the state-supported Vermonter and Ethan Allen Express³⁴ routes returned more than 69 percent of their stock; Acela trains returned almost 68 percent; and 14 of the 15 long-distance trains returned 35–57 percent of their

 $^{^{29}}$ The routes are the Empire Builder, the Lake Shore Limited, and the Coast Starlight. Champagne is offered only on the Empire Builder.

³⁰ Total purchase cost.

³¹ Amtrak Employee Pass Procedures, March 4, 2013.

³² Retail value.

³³ Purchase cost.

³⁴ The Vermonter operates between Saint Albans, Vermont, and Washington D.C. The Ethan Allen Express operates between Rutland, Vermont, and New York City.

stock. By contrast, the Auto Train returns one percent of its stock.³⁵ Customer service officials and ARAMARK officials stated that the high return-to-stock rates on most routes occur because service attendants do not want to run out of any items. Customer service officials stated that this culture stems from the 1980s when lead service attendants were discouraged from running out of stock.

- Backordering. Amtrak's Service Standards Manual states that lead service attendants may order more stock for their trains when additional supplies are needed—a process called backordering. However, because of the culture of not running out of stock, some lead service attendants backorder too much stock, which can lead to spoilage, according to customer service and ARAMARK officials. Amtrak's Service Standards Manual states that backorders should be approved by a manager whenever possible, but there is no standard process for obtaining supervisory approval beforehand, according to customer service officials. Further, Amtrak's inventory management system lacks the capability to track instances of supervisory approval, or the reasons for backorders. Without a system of prior approval or the ability to track why backorders occurred, accountability over backorders is limited.
- Acela first-class order time. Food is ordered based on booked ridership up to 24 hours before a train's departure, according to customer service officials.
 However, Acela customers frequently make last minute booking changes, which makes accurate purchasing challenging, according to customer service officials.

One railroad reduces spoilage by selling food reaching its expiration date at the end of trips at reduced prices. The Northern New England Passenger Rail Authority, which manages the state-supported Downeaster,³⁶ reduces the price of food reaching its expiration date, according to the Executive Director. One hour before the last daily trip reaches its final destination, the food and beverage attendant makes an announcement that certain items are being sold at reduced prices.

Route managers and customer service officials told us that they do not use this practice. The Chief of Customer stated that before this practice could be adopted, a point-of-sale system must be deployed that tracks the time when the items are sold. In addition,

³⁵ The Auto Train operates under different guidelines than the other long-distance trains. All food and beverages that are still good at the end of each Auto Train trip are transferred to another train for immediate use on the next trip.

³⁶ The Downeaster makes daily round trips between Boston, Massachusetts, and Brunswick, Maine.

policies must be developed that specify which items can be sold at reduced prices and when they can be sold. As previously mentioned, business operations officials are working to implement an automated point-of-sale system on all café cars, but delays from the point-of-sale contractor have prevented needed software updates, according to customer service and business operations officials. The last software update was delivered in August 2013. Business operations officials plan to test the new software during fall 2013 and to pilot a cashless sales system in early 2014.

Sleeper Passengers

Sleeper car passengers' transportation and meals are included in their ticket price. However, when establishing the price of sleeper tickets, the Marketing department does not consider the cost of providing food and beverage services, according to Marketing officials. They set ticket prices based on an assessment of customer demand and price sensitivity.

Other railroads consider the cost of food and beverages in establishing their ticket prices. For example, officials from two private railroads—the Great Southern Rail in Australia and the Rocky Mountaineer in Canada—stated that they set ticket prices to recover the costs of their food and beverage service. To accommodate riders with different preferences, both railroads offer three levels of service. Amtrak offers two levels of service on long-distance trains: coach (which does not include meals) and sleeper. Although there are limits to how much more Amtrak can charge customers without adversely affecting total revenue, opportunities may exist to increase the price of sleeper tickets to cover costs.

CONTRACTING FOR FOOD AND BEVERAGE SERVICES WOULD HAVE SIGNIFICANT WORKFORCE AND FINANCIAL IMPLICATIONS

Contracting for food and beverage services would have significant implications for the workforce; however, the financial benefits could be significant. In assessing whether to contract for onboard food and beverage services, Amtrak must weigh certain qualitative factors, such as the safety and security responsibilities of onboard personnel, and the possibility of labor unrest. Nevertheless, the financial benefits of contracting could be significant. Comparing Amtrak's labor and benefit costs for onboard food and beverage personnel to the costs of railroads that contract for food and beverage services, we estimate that contracting could potentially reduce labor costs by \$51.4 million to \$60.5

million annually.³⁷ These potential labor cost reductions could be affected by the applicability of various railroad labor statutes such as Railroad Retirement, and railroad workers' compensation to a third-party contractor. If the third-party contractor is subject to the above taxes, the estimated labor savings would be reduced by about \$3.5 million to \$5.1 million.

Amtrak Can and Has Contracted for Food and Beverage Services

Amtrak has the authority to contract for its food and beverage service.³⁸ It has used this authority on two occasions:

- In 1999, Amtrak contracted its commissary operations, which affected approximately 330 union members, according to the Leader, Labor Relations. Amtrak negotiated severance pay for the affected employees. The Leader stated that management believed that commissary operations constituted a gray area under the authority to outsource food and beverage service since the warehouses stored some items not used for the food and beverage service; as a result, management decided to negotiate with the union. However, Amtrak has the clear legal authority to contract its food and beverage service. This authority was also included in the current labor agreement. The Leader noted that, while not required, management could decide to offer severance packages to affected employees.
- In 2004, Amtrak contracted with Subway restaurants to provide food and beverage services on the state-supported Empire Service, according to Operations officials.³⁹ This service had previously been eliminated on this route as a cost-savings measure, according to senior Amtrak officials. The officials noted that the Subway franchise paid a small amount to lease the café car, but ended this service after only four days because of protests by Amtrak union employees.

³⁷ To estimate potential savings, we multiplied the current number of Amtrak onboard food and beverage employees (1,189) by the average annual salary and benefits for Amtrak and the highest- and lowest-paid contractors identified. We then calculated the difference.

³⁸ P.L. 105-134, Section 121, December 2, 1997.

³⁹ The Empire Service operates between New York City and Toronto, Ontario.

Other Railroad Experience in Contracting for Food and Beverage Services

We identified several business models in the railroad industry for contracting food and beverage services. Although these models do not provide a direct comparison to Amtrak's food and beverage service, they are generally similar. They can provide useful information for identifying and considering ways to reduce food and beverage service losses:

- The Downeaster, a state-supported Amtrak route in New England, has contracted for its entire food and beverage service since the railroad's inception in 2001, according to the railroad's Executive Director. The contractor operates one café car, serving sandwiches, snacks, and beverages, staffed by one onboard employee. The longest trip is almost 3½ hours one-way. The contractor provides supplies, food preparation, loading, management, and onboard sales and service. Amtrak owns the food service car and equipment.
- The Alaska Railroad is a state-owned freight and passenger railroad. According to the Vice President of Business Development, the Alaska Railroad contracts for its entire food and beverage service, including supplies, food preparation, loading, management, and onboard sales and service. The longest route runs between Anchorage and Fairbanks and takes about two days round-trip. According to the Vice President of Business Development, the railroad operates one single-level café car serving sandwiches, snacks, and beverages, staffed by one employee year round. During the high season, the railroad operates two double-level dining cars (each with four onboard employees, two contracted chefs and one manager) plus one single-level café car. The Alaska Railroad owns the food service cars and equipment.
- The Rocky Mountaineer, a private railroad in Canada, contracts for onboard chefs who prepare the food, and also for food supply and loading, according to the Manager of Onboard Operations. The Rocky Mountaineer's employees serve the food. The Onboard Operations Manager stated that the longest route that contracted employees work is about four days, and the service runs from April to October. The Rocky Mountaineer owns the food service cars and equipment.

Possible Qualitative and Quantitative Factors

As part of the decision-making process to contract for food and beverage services, Amtrak would need to assess certain qualitative factors. Onboard service employees

play an important safety and security role. According to a union representative, onboard employees are usually the first responders for emergencies in remote locations, and frequently are an important point of contact for riders. According to the Director of Operating Practices, Amtrak's onboard employees receive 21 hours of initial training in safety and emergency preparedness, including first aid, CPR, and safety rules. Every two years thereafter, employees receive approximately eight hours of refresher training in security and emergency preparedness. By comparison, we were told that contracted employees for the Rocky Mountaineer receive 24 hours of safety and first aid training, which is repeated annually.

Also, labor unrest could arise from contracting for food and beverage service. Onboard employees are represented by three unions,⁴⁰ which also represent reservation agents, ticket agents, and baggage personnel.

Amtrak would also need to assess quantitative factors that could affect implementation costs, such as the applicability of railroad labor statutes. Amtrak could incur additional costs if it is determined that a third-party entity and its employees providing food and beverages aboard its trains are covered by the Railroad Retirement Act.⁴¹ Usually, the Railroad Retirement Board (RRB) makes this determination, using a broad interpretation of the two statutes. In April 2007, for instance, the U. S. Court of Appeals for the District of Columbia upheld an RRB judgment that the American Orient Express Railway Company⁴² was a rail carrier, and thus was a covered employer liable for contributions under the Railroad Retirement Act and Railroad Unemployment Insurance Act.⁴³ Similarly, issues may arise concerning whether employees of a vendor are considered employees of the railroad rather than the contractor for purposes of application of liability under the Federal Employers' Liability Act (FELA).⁴⁴ The FY 2013 taxes for Railroad Retirement are 12.6 percent of wages; the taxes for FELA are 5.39

⁴⁰ The Transportation Communications Union, Transport Workers Union, and the UNITE Hotel Employees and Restaurant Employees Union.

⁴¹ 45 U.S.C. Section 231, et seq.

⁴² The Orient Express offered luxury train travel in the United States. The company owned the railcars and employed onboard service workers, including chefs, waiters, and bartenders, and contracted with Amtrak to provide locomotives and engine crews.

⁴³ Our reference to the Orient Express decision is not intended as a conclusion that the facts and determination equate with Amtrak's potential utilization of a third-party vendor for food and beverage purposes. It does demonstrate the standard applied and the deference accorded the RRB. The American Orient Express suspended operations on August 28, 2008.

^{44 45} U.S.C. Section 51, et seq.

percent of wages. If the third party is subject to these taxes, the potential labor savings would be reduced by about \$3.5 million to \$5.1 million.⁴⁵

In addition, Amtrak's costs could change if it is determined that a third-party entity and its employees providing food and beverages aboard its trains are covered by the Railroad Unemployment Insurance Act. ⁴⁶ Payment of Railroad Unemployment Insurance taxes by a contractor could increase or decrease its costs depending on an employee's state of residence, state tax caps, and reporting requirements. Further, because Amtrak employees have traditionally performed food and beverage work, there are also issues concerning whether contract employees would be covered by the Railway Labor Act. ⁴⁷ Answering this question may depend on the level of control and supervision that Amtrak exercises over the contractor and its employees, and other factors.

Finally, according to a Law department official, Amtrak is required to maintain liquor licenses in each state and locality that trains operate. A contractor would likely have to obtain their own liquor licenses. Amtrak spend about \$88,000 per year for these licenses, not including the administrative costs of researching applicable state and local laws.

Significant Financial Impact to Contracting Food and Beverage Services

Contracting for onboard food and beverage service could have a significant financial impact. Labor rates for food and beverage personnel on the three railroads we reviewed are significantly lower than Amtrak's. According to Downeaster and Alaska Railroad officials, hourly labor rates for contracted staff, including servers and chefs, on those two railroads ranged from \$7.75 to \$13.00, with no employee benefits. In FY 2012, hourly labor rates for contracted chefs on the Rocky Mountaineer averaged \$14.70, including limited benefits. In FY 2012, Amtrak paid onboard employees an average of \$41.19 per hour, including full benefits.⁴⁸ For a comparison of average labor costs, see Table 3.

⁴⁵ The FY 2013 rates for Railroad Unemployment Insurance taxes range from 0.65 percent to 12 percent on monthly compensation up to \$1,405. The 2013 state unemployment tax rates range from 0.0 percent in Iowa to 13.5 percent in Maryland; caps on covered wages vary from \$7,000 to \$38,900.

⁴⁶ 45 U.S.C. Section 351, et seq.

⁴⁷ 45 U.S.C. § 151et seq.

⁴⁸ Labor rate based on the average hourly rate plus hourly benefit rate for the highest wage position (lead service attendant) and lowest wage position (service attendant). Amtrak benefits include medical insurance, railroad retirement, post-employment benefits, dental insurance, disability insurance, life insurance, unemployment, railroad workers compensation and administrative fees. The Rocky Mountaineer's benefits include only medical insurance.

Table 3. Average Labor Costs for Amtrak and Railroads That Contract for Food and Beverage Services

Category	Average Labor Costs ^a (FY 2012)					
	Downeaster	Alaska	Rocky	Amtrak		
		Railroad	Mountaineer			
Hourly wage ^b	\$10.00	\$10.38	\$14.10	\$25.54		
Hourly benefits ^c			\$0.60	\$15.65		
Hourly wage, plus benefits	\$10.00	\$10.38	\$14.70	\$41.19		
Monthly salary, plus benefits ^d	\$1,800	\$1,868	\$2,646	\$7,414		
Annual salary, plus benefits ^e	\$21,600	\$22,410	\$31,748	\$88,970		
	Estimated Labor Savings					
Category						
	Downeaster	Alaska	Rocky	Amtrak		
		Railroad	Mountaineer			
Annual labor costs ^f	\$19,410,000	\$20,138,000	\$28,529,000	\$79,951,000		
Difference between Amtrak & other railroads	\$60,541,000	\$59,813,000	\$51,421,000	N/A		

Source: Amtrak OIG analysis of Downeaster, Alaska Railroad, Rocky Mountaineer, and Amtrak FY 2012 labor data.

Notes:

^a Hourly wage and benefits do not include overtime.

b Hourly wage for Downeaster, Alaska Railroad, and Rocky Mountaineer is the average of the lowest and highest wage rates of onboard employees. For Amtrak, the hourly wage is the weighted average of three rates in effect in FY 2012: those starting on July 1, 2011, January 1, 2012, and July 1, 2012. We then averaged the highest wage position (lead service attendant) and lowest wage position (service attendant).

C Hourly benefits for Amtrak is the average benefit rate for the highest wage position (lead service attendant) and lowest wage position (service attendant), weighted by the three wage rates in effect in FY 2012. According to a Finance department official, these benefits include medical insurance, railroad retirement, post-employment benefits, dental insurance, disability insurance, life insurance, unemployment, railroad workers compensation (FELA), and administrative fees. Collectively, these benefits added 55.98 to 63.03 percent to FY 2012 hourly wage rates. According to a Rocky Mountaineer official, hourly benefits for the Rocky Mountaineer are the average paid for Culinary Employee Medical Service Plan costs.

^d Based on 180 hours worked per month under Amtrak work rules for full-time, agreement employees.

^e Annual salary plus benefits is monthly salary plus benefits multiplied by 12. All figures are estimates, not actuals. For Amtrak, actual annual salary plus benefits is higher due to overtime, according to the Chief of Customer Service.

23

Amtrak Office of Inspector General Food and Beverage Service: Potential Opportunities to Reduce Losses Audit Report OIG-A-2014-001

^f Annual labor costs is annual salary plus benefits multiplied by 906 regular and 283 on-call onboard service employees on long-distance and Northeast Corridor trains, engaged in food and beverage activities. We did not include employees on state-supported routes because, according to a Finance department official, their wages are subsidized by the states, and contracting their services would have no effect on Amtrak's direct labor costs.

IMPROVED BUSINESS PERFORMANCE INFORMATION ESSENTIAL TO EFFECTIVELY MANAGING FOOD AND BEVERAGE SERVICE

Route managers and customer service officials do not have adequate business performance information to efficiently and effectively manage the food and beverage service. Consistent with Amtrak's strategic plan, the company plans to establish six business lines—including long-distance, state-supported, and Northeast Corridor services. It plans to establish profit and loss accountability for each business line. However, Amtrak does not have adequate labor cost and revenue data to evaluate the financial performance of the food and beverage service within each business line. A senior Amtrak official stated that a working group has been established to address these and other business-line financial management issues.

In addition, Amtrak lacks adequate business information to efficiently and effectively manage the food and beverage service. Customer service officials are attempting to implement an automated point-of-sale system to collect this information. However, contractor performance issues have delayed the system's implementation, according to customer service and business operations officials.

Lack of Adequate Data on Cost, Revenue, and Performance

Route managers and customer service officials do not have adequate labor cost and revenue data to effectively manage the food and beverage service. Best practices show that financial data should be collected and compiled at the lowest meaningful operating level. Because some Amtrak trains run seven days a week with unique ridership characteristics by day, the lowest meaningful operating level is each train and food service car, by departure date. Although food and beverage revenue and cost data is available system-wide, it is not available at the level of individual food service cars or by departure date, as shown in Table 4.

Table 4. Availability of Food and Beverage Financial Data by Operational Level

Operational Level	Revenues	Costs			
		Labor			Commissary
		Wages	Labor		
		& Benefits	Support ^a	Food	
System-Wide	Available	Available	Available	Available	Available ^b
Route ^c	Available	Available	Available ^e	Available	Available ^f
Train, by Departure Date ^d	Limited Availability	Available, but not calculated by departure date	Available ^e	Available	Available ^f
Food Service Car, by Departure Date	Limited Availability	Unavailable	Available ^e	Available	Available ^f

Source: Amtrak OIG analysis of Amtrak data and officials' statements. Notes:

<u>Limited Availability of Revenue Data at the Train Level</u>

Amtrak's food and beverage revenue data comes from the Warehouse Inventory Management System.⁴⁹ According to a Finance official, the system assigns inventory only to the first train that lead service attendants work in a given shift. As a result, revenue data is not consistently recorded against the train on which it was received. If a service attendant rides two or more trains during one work trip without returning to the commissary, revenues would be recorded only to the first train. The second, third, and fourth trains are recorded as having no revenue. Because revenues are not regularly captured by train, customer service officials and route managers cannot accurately evaluate financial performance at the train or food-car level, or by the departure date.

Because revenues are not regularly captured by train, revenue is aggregated by route. However, the number of trains operating on a route varies from 2 to 43 trains. For

^a Consists of crew meals, crew hotels, uniforms, training, and some crew base costs

^b Actual food costs are tracked and available for each of the 11 commissaries.

^c There are 44 different routes (not including special trains).

^d More than 300 trains operate each day.

^e These costs are allocated.

^f These costs are allocated based on the number of trains served by each commissary.

⁴⁹ This data is later reconciled with the paper forms that lead service attendants use to track onboard sales, along with the funds and credit card receipts they remit at the end of each work trip.

example, the Northeast regional trains are considered one route for data reporting purposes, but up to 43 Northeast regional trains operate every weekday. Each train has its own café car. All revenues from all Northeast regional trains are aggregated, making it impossible to isolate train-by-train financial performance. Likewise, revenue from as many as 33 Acela trains is also aggregated. According to revenue management officials, only aggregate revenue data will be available until a point-of-sale system is established that can generate accurate sales data by train.

Labor Cost Data Not Available By Train and By Departure Date

According to Finance department officials, onboard labor costs consist of wages, benefits, and some management expenses. According to a Labor Management System manager, wages and benefits are actual costs; they are available from the Labor Management System at the train level. ⁵⁰ However, wages and benefits are not recorded by the departure date of individual trains. Thus, when two or more like-numbered trains are en route on the same date—which occurs with multi-day trains that depart daily—managers cannot isolate the food and beverage wages and benefits for one of those trains.

For example, train number 8, the Empire Builder, takes about 47 hours to travel from Seattle to Chicago; however, because the train departs in the evening, its trip spans 3 calendar days. Therefore, three train number 8s are en route every day: one that recently left Seattle, one that is mid-route, and one that is approaching Chicago. The Labor Management System does not track data by each individual train and by departure date. To identify employee wages and benefits for an individual train by departure date would require modifying the Labor Management System software.

Commissary and Labor Support Costs Are Allocated

According to Finance department officials, the Performance Tracking system tracks costs for the 11 commissaries. Commissary costs are allocated by route or train based on the number of trains supported by each commissary. Labor support costs, which include other management expenses, are tracked by cost centers; these costs are also allocated. In March 2013, DOT OIG reported that this practice is systemic, noting that Amtrak's business practices do not require collecting detailed cost data. About 20 percent of company-wide costs are assigned and the remaining 80 percent is allocated. This practice reduces the precision of performance reporting and the reliability of

⁵⁰ The Labor Management System is used to track all hours and wages of onboard employees.

information used to make operational decisions. DOT OIG also reported that other railroads assign as much as 80 percent of their costs.⁵¹

Lack of Point-of-Sale Information

Amtrak's food and beverage accounting process lacks the capability to generate the business information needed to efficiently and effectively run the food and beverage service. We noted that four of the railroads and both cruise lines we contacted use automated point-of-sale systems. Two of the railroads use these systems to capture the time of every individual sale, which Amtrak does not collect. Without this data, managers cannot align staffing with peak customer demand.⁵² As previously discussed, customer service officials are working to implement an automated point-of-sale system.

CONCLUSIONS

Our work showed that over the last several years, Amtrak has reduced food and beverage losses. We also identified a number of opportunities to further reduce losses. Some actions could be taken to improve the existing business model; however, they would not substantially reduce overall operating losses. Changing the business model can yield substantial savings. Contracting for onboard food and beverage services could reduce labor costs, and in turn the operating loss. We recognize that any initiatives in this area would significantly impact the labor force, which could result in labor unrest and therefore would have to be carefully considered. Other qualitative and quantitative factors would have to be addressed. When the significant risk and reward of changes to business practices are being considered, a commonly used best practice is to pilot the proposed changes. This gives managers the opportunity to fully weigh the quantitative and qualitative impact of the changes. In September 2012, we recommended the Vice President, Operations, direct the chief of Customer Service to develop a five-year plan for reducing direct operating losses. Any pilot programs could be included in this five-year plan.

In addition, Amtrak lacks complete, accurate, and consistent cost and revenue data to establish profit and loss accountability for its food and beverage service by business lines. Having this information is also essential to Amtrak's successful implementation of its strategic plan to manage by business lines.

⁵¹ CR-2013-056, March 27, 2013.

⁵² According to the Chief of Customer Service, Amtrak is attempting to begin capturing time-of-sale data.

RECOMMENDATIONS

To improve the financial and operational performance of the food and beverage service, we recommend that the President and CEO direct the Vice President, Operations, to take the following steps:

- 1. Pilot contracting with a third party to provide onboard food and beverage services on selected routes to determine the qualitative and quantitative costs and benefits of this approach.
- 2. Pilot various options to increase efficiency, including:
 - Align the food and beverage service model with variations in ridership, customer demand, and financial performance for each route. Consider amending or eliminating the current sit-down dining car service seasonally, on selected routes, or on portions of some routes.
 - Develop performance measures and metrics for assessing the sales performance of service attendants.
 - Develop a program to reward high sales performers and counsel or hold accountable low sales performers.
 - Reduce report times and eliminate the practice of double-counting food stocks.
 - Ensure that the financial impact of complimentary items is considered when developing the prices of sleeper car tickets.
 - Charge Amtrak employees who are travelling for free on the Auto Train or long-distance sleeper cars for the cost of the food and beverage services they consume.
 - Reduce spoilage by clarifying the backordering policy, reducing onboard stock levels, reducing the frequency of menu changes, and allowing service attendants to sell expiring goods at reduced prices at the end of the trips after a point-of-sale system is fully implemented.
- 3. Develop food and beverage cost and revenue data by train, car, and departure date to reduce the reliance on allocated financial data when developing financial performance reports.
- 4. Ensure that the onboard point-of-sale system includes the capability to provide relevant business management data, such as time-of-sale.

MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of our report, the President and CEO agreed with the spirit of our recommendations. He stated that management has developed a high-level plan for eliminating food and beverage losses within the next five years, and that he expects to finalize a detailed plan by the end of CY 2013. He also noted that, in evaluating each of our recommendations, Amtrak must assess the impact of any potential changes on customer satisfaction, ridership, revenue, and the company brand. We believe that Amtrak's response generally meets the intent of our recommendations. We will continue to monitor Amtrak's specific implementation actions and report as appropriate.

On October 3, 2013, Amtrak announced that it is moving forward with a five-year plan to eliminate losses on the food and beverage service. According to the announcement, this plan will include a number of initiatives discussed in this report, such as aligning dining car staffing with customer demand, establishing metrics to assess the onboard sales of service attendants, and reducing spoilage. This announcement is consistent with our prior recommendation to develop such a five-year plan.

For a copy of Amtrak's comments, see Appendix III. Management also provided technical comments, which we addressed as appropriate in this report.

Appendix I

SCOPE AND METHODOLOGY

This report provides the results of our review to assess actions taken by Amtrak to reduce operating losses from food and beverage and also to determine whether there are opportunities to improve financial performance of the food and beverage service, while providing services to the travelling public. We conducted this audit work from November 2012 through September 2013 in Washington D.C.; Wilmington, Delaware; Chicago, Illinois; Los Angeles, California; Seattle, Washington; Lorton, Virginia; and Miami, Florida.

To determine whether there are opportunities to improve financial performance of the food and beverage service, we obtained and analyzed information on Amtrak operations and railway industry best practices for providing food and beverage service. We interviewed officials from Finance, Marketing and Product Development, Law, Customer Service, Corporate Labor Relations, and Transportation regarding operations of Amtrak's food and beverage service.

We also interviewed officials of domestic and foreign passenger railway to identify best practices from their organizations that Amtrak can apply to its food and beverage service operations. We interviewed officials from the Northeastern New England Passenger Rail Authority (Maine), the Alaska Railroad, and the North Carolina Department of Transportation. We also interviewed officials from these foreign railways: Via Rail (Canadian government-owned), Country Link (government-owned Rail Corporation of Australia province of New South Wales),⁵³ Great Southern Rail (privately owned in Australia), and Deutsche Bahn in Germany. We interviewed officials who represent four cruise lines that attach rail cars to the Alaska Railroad: Royal-Celebrity, which operate together, and Holland America/Princess, which also operate together.

To assess the costs and benefits of contracting with a third party, we compared labor rates, benefits, and operational models of three railroads that contract food and beverage service with those of Amtrak. We also considered other potential cost factors, such as the Railroad Retirement Act, the Railroad Unemployment Insurance Act, and

⁵³ On July 1, 2013, NSW TrainLink replaced the Regional train and coach services that were formerly provided by CountryLink.

the Federal Employers' Liability Act. In addition, we considered other qualitative factors, such as safety and security.

To assess Amtrak's current commissary operations, we visited and observed Amtrak's warehouse operations in Chicago, Los Angeles, Seattle, Miami, and Washington D.C. Finally, we travelled on 5 of Amtrak's 15 long-distance routes to interview food and beverage staff, observed operations, and understand the current food and beverage service model. To determine the financial viability of Amtrak's current operational model, we reviewed staffing levels, labor rates, and benefits. We reviewed the adequacy of financial data for management oversight and decision-making purposes. We reviewed data from the Amtrak Performance Tracking system, Warehouse Inventory Management System, and Labor Management System.

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 objectives.

Internal Controls

Our audit reviewed Amtrak's management controls to account for costs and revenues associated with the food and beverage service. We also reviewed the adequacy of policies, procedures, guidelines, and financial data for managing food and beverage operations. This report discusses weaknesses in the financial data, policies, procedures, and guidelines.

Computer-Processed Data

We relied on data from Amtrak's Finance department, which provided food and beverage costs and revenues for the Northeast Corridor, state-supported routes, and long-distance routes. For Fiscal Year (FY) 2006 through FY 2010, the data came from Amtrak's Financial Information System; for FY 2011 and FY 2012, the data came from Amtrak's SAP Enterprise Resource Planning system. To verify the accuracy of the data, we compared two versions of Amtrak's FY 2010 data—one generated from the Financial Information System, and one from the SAP Enterprise Resource Planning system. We

noted some minor differences between the figures, but these differences were not material to the results of our analysis.

We also obtained Amtrak's audited financial statements for FY 2006 through FY 2011 and compared them with data provided by Finance officials. This comparison identified some minor procedural limitations with the data; however, because the data differences and limitations we identified were not material, we concluded that the data was sufficiently reliable to be used in meeting our audit objectives.

Prior Audit Reports

The following Amtrak OIG reports are relevant to this audit's objectives:

- Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan (Report No. OIG-A-2012-020, September 7, 2012).
- Food and Beverage Service: Opportunities Exist to Build on Program Improvement Initiatives (OIG-T-2012-015, August 2, 2012) [Congressional Testimony].
- 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).

These Department of Transportation OIG reports are relevant to this audit's objectives:

- Amtrak's New Cost Accounting System is a Significant Improvement but Concerns Over Precision and Long Term Viability Remain (Report No. CR-2013-056, March 27, 2013).
- Analysis of Cost Savings on Amtrak's Long-Distance Services (Report No. CR-2005-068, July 22, 2005).

Appendix II

Table 5. Long-Distance Routes

	1	T
Routes	From	Distance (Miles)
Auto Train	Lorton, Virginia–Sanford, Florida	855
California Zephyr	Chicago–San Francisco	2,438
Capitol Limited	Washington D.CChicago	780
Cardinal	Chicago-New York	1,147
City of New Orleans	Chicago-New Orleans	934
Coast Starlight	Seattle-Los Angeles	1,377
Crescent	New York-New Orleans	1,377
Empire Builder	Chicago-Portland/Seattle	2,255(Chi-Port)
	-	2,205 (Chi–Sea)
Lake Shore Limited	Chicago–New York/Boston	959 (Chi–NY)
		1018 (Chi–Bos)
Palmetto	New York-Savannah, Georgia	829
Silver Meteor	New York-Miami, Florida	1,389
Silver Star	New York–Miami, Florida	1,532
Southwest Chief	Chicago-Los Angeles	2,265
Sunset Limited	Los Angeles-New Orleans	1,995
Texas Eagle	Chicago-Los Angeles	2,728
Carrage Ametrals register de	,	

Source: Amtrak route data.

Appendix III

COMMENTS FROM AMTRAK'S MANAGEMENT

NATIONAL RAILROAD PASSENGER CORPORATION

Memo

Date October 30, 2013

To Ted Alves, Inspector General

From Joseph Boardman, President and CEO

Subject Response to OIG Audit Report - Food and

Beverage Service: Potential Opportunities to

Reduce Losses

This is our response to your Draft Audit Report dated September 5, 2013 entitled *Food and Beverage Service: Potential Opportunities to Reduce Losses*. The report clearly shows that the OIG performed significant work and detailed analysis in order to develop these recommendations, and that work is appreciated.

The OIG report concludes that while progress has been made in creating efficiencies within the Food and Beverage service, opportunities continue to exist to improve the financial performance. The report identifies potential savings opportunities in various aspects of the program, and makes numerous recommendations that could improve our performance. Management agrees with the spirit of the recommendations, and is committed to eliminating the loss associated with Food and Beverage Service within the next five years. As you know, food and beverage is just one element in the ridership experience, and in evaluating each of the recommendations we must consider the impact of any change on the customer satisfaction and on our brand, as well as the projected impact of changes on future ridership and revenue. This is a complex situation that deserves considerable analysis which we are committed to completing. Throughout this process we will thoroughly explore the options raised by the OIG team, as well as others we deem appropriate.

Management has developed a high level plan for eliminating our losses in this area. We expect to finalize the detailed plan for achieving this goal by the end of the calendar year. The plan will likely include many of the recommendations included in your report. We will share the plan with you when it is complete, and invite you to continue to monitor our progress and share observations throughout the process.

Again, we thank you for your work on this and look forward to continued conversations surrounding this complex challenge.

Appendix IV

ABBREVIATIONS

CY Calendar Year

DOT OIG Department of Transportation Office of Inspector General

FELA Federal Employers' Liability Act

FY Fiscal Year

OIG Office of Inspector General

Appendix V

OIG TEAM MEMBERS

David R. Warren, Assistant Inspector General, Audits

Michael Kennedy, Senior Director

John Marzullo, Auditor-in-Charge

George Atuobi, Senior Auditor

Kira Rao, Auditor

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission

The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits, inspections, evaluations, and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.

Obtaining Copies of OIG Reports and Testimony

Available at our website: www.amtrakoig.gov.

To Report Fraud, Waste, or Abuse

Report suspicious or illegal activities to the OIG Hotline

(you can remain anonymous):

Web: <u>www.amtrakoig.gov/hotline</u>

Phone: 800-468-5469

Congressional and Public Affairs

David R. Warren

Assistant Inspector General, Audits

Mail: Amtrak OIG

10 G Street, N.E., 3W-300 Washington, D.C. 20002

Phone: 202-906-4742

E-mail: david.warren@amtrakoig.gov