



AMTRAK | Office of
Inspector General
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OIG STATUS REPORT:

APRIL 1 THROUGH JUNE 30, 2014



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OIG Status Report, April 1 through June 30, 2014

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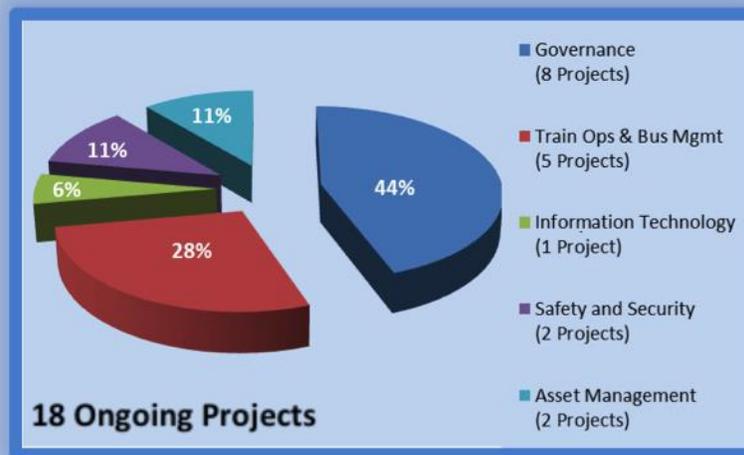
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OIG Status Report April 1 through June 30, 2014

ONGOING AUDIT AND EVALUATION PROJECTS

We had 18 ongoing audits and evaluations addressing 5 focus areas of our Annual Audit, Inspection, and Evaluation Plan as of June 30, 2014.

Project Inventory by Category



Governance

Capital Program Management – Determine the effectiveness of Amtrak’s policies and procedures for managing the execution of capital projects with a focus on best practices. With company for comment. Draft Report Phase

Top Management and Performance Challenges –Identify Amtrak’s top management and performance challenges, and assess the ongoing and planned management initiatives to address those challenges. Draft Report Phase

Monitoring the Work of Amtrak’s Independent Public Accountant Conducting the FY 2013 Financial Statement Audit – Determine whether the IPA performed the audit of Amtrak’s Consolidated Financial Statements in accordance with generally accepted government auditing standards, and follow up on prior recommendations made to the Audit and Finance Committee and Chief Financial Officer. Analysis Phase

Monitoring the Work of Amtrak's Independent Public Accountant Conducting the FY 2013 A-133 Audit – Determine whether the IPA performed the single audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Circular A-133. Analysis Phase

Employee Time Charges – At the request of company management, we initiated a follow-up audit on the management of overtime. The objective of this audit is to develop information on employee time charge patterns (straight time charges).
Draft Report Phase

Data Analytics – Assess the effectiveness of management controls in the corporation's business processes, identify opportunities to control risks and improve efficiency and effectiveness of business operations; and prevent, detect, and deter instances of fraud, waste and abuse in the company. We have three data analytics projects underway.

Payment Terms & Discounting Draft Report Phase

Materials Management Draft Report Phase

Injury Claims Draft Report Phase

Train Operations & Business Management

Follow-up Audit on Progress in Achieving Compliance with the American with Disabilities Act – Assesses the ADA program progresses toward achieving its goals with a focus on addressing issues raised in our prior report related to program management weaknesses. With company for comment. Draft Report Phase

Review of Long-Distance Car Manufacturing Contractual Performance – Assess the adequacy of the Mechanical department's project oversight and administration of contractual requirements for the long-distance rail car purchase focusing on the areas of cost, schedule, and performance. Survey Phase

Survey of Issues Related to the North East Corridor Infrastructure Projects – The successful accomplishment of Northeast Corridor ongoing and planned infrastructure projects in an effective and efficient manner are of high priority to the corporation, the Board of Directors, the Congress, and other stakeholders.

We are actively monitoring phases one and two of the Gateway project. Our overall objective is to stay apprised of NEC infrastructure planning and implementation issues. Our specific objective is to provide stakeholders timely information and recommendations, where appropriate, based on a review of emerging issues.

Audit of the New Jersey Raceway Project - In April, we initiated an audit of the New Jersey High-Speed Rail Improvement project to upgrade 23 miles of right-of-way between Trenton and New Brunswick, NJ. The objective of this audit is to assess the adequacy of the Engineering department's project oversight of (1) contractual services focusing on the areas of cost, schedule, performance, and contract administration, and (2) services performed by Engineering department personnel. Survey Phase

Alstom-Acela Spare Parts – Spare parts for the Acela fleet are provided through a contract between Amtrak and the Alstom Corporation. The objective of this audit is to assess the adequacy of contract oversight, administration and contractor performance for the Alstom contract. We will focus on the company's oversight of contractor cost, schedule, and performance. Analysis Phase

Information Technology

Review of Reservation Ecosystem Next Generation Program – The objective of this audit is to assess the adequacy of planning, development, and oversight of the Reservation Ecosystem Next Generation Program focusing on the areas of cost, schedule, and performance. Survey Phase.

Asset Management

Fleet Utilization - Determine the extent to which Amtrak effectively and efficiently utilizes its fleet of long-distance passenger equipment. Draft Report Phase

Real Property Costs and Revenue – Determine whether opportunities exist to reduce costs and increase revenues from the use of real property assets. Survey Phase.

Safety and Security

Safe-2-Safer – The objective of this audit is to review the effectiveness and efficiency of the program's implementation, and determine the extent to which program goals have been achieved. Draft Report Phase

Survey of Amtrak's Security Programs – We completed our overall survey of security programs and have initiated an audit to assess the Amtrak Police Department's process and practices for meeting workforce needs. Survey Phase

AUDIT AND EVALUATION REPORTS ISSUED

We issued 3 reports since April 1, 2014 addressing 3 focus areas in our Annual Audit, Inspection, and Evaluation Plan.

Governance

OIG-A-2014-005

April 18, 2014, GOVERNANCE: Opportunities Exist To Improve the Travel Card Program and Reduce Risks

We identified opportunities to improve the travel card program's controls and cost-effectiveness. The travel card program is not cost-effective because it is significantly under-enrolled and under-utilized. Amtrak does not require the use of travel cards for business trips; as a result, only 419 employees (33 percent) with multiple business trips had travel cards. Also, these cardholders charged only 33 percent of their business travel expenses to the travel cards. As a result of the underutilization and delayed payments by employees, the corporation received reduced rebates on \$1.3 million charged on the card for 2012.

Our review of best practices showed that many organizations address control and cost-effectiveness issues by shifting hotel and car rental bookings from individual cards to centralized corporate charge cards. Replacing individual cards with centralized corporate card could increase rebates and reduce operating cost and risks.

We recommended and the Chief Financial Officer agreed to evaluate travel card program alternatives, recover unpaid balances, and monitor employee travel expenses using data analytics.

Acquisition and Procurement

OIG-A-2014-006

May 6, 2014, ACQUISITION AND PROCUREMENT: Closer Alignment with Best Practices Can Improve Effectiveness

When comparing Procurement department processes and best practices, we identified 16 opportunities for improvement in 4 major areas. Some high-level examples are:

- **Organizational alignment and leadership.** Best practices have Procurement departments aligned to play a strategic role in procurement processes. Amtrak's Procurement department supports the user departments during the procurement process, but does not play a strategic role.

- **Policies and processes.** The company has documented policies and procedures that provide guidance for procurement processes. However, unlike the best practices of leading organizations, Amtrak's procurement policies and processes do not incorporate strategic planning and activities.
- **Human capital.** At the strategic level, the company has started a new program to improve its human capital management that reflects private industry best practices. Improving the capabilities and capacities of Procurement staff through this program will largely depend on a sustained management commitment.
- **Knowledge and information management.** Best practices for procurement knowledge and information systems ensure accurate reporting and reliable data. Our prior reviews have identified issues with information system data accuracy.

These opportunities for improvement exist because Amtrak has used the Procurement department in a support function, has not provided the department with strategic direction, and has not focused on a company-wide approach to strategic procurement. As a result, the Procurement department's capabilities have been limited, and the company may not be acquiring the highest quality goods at the best prices.

We recommended that the President and Chief Executive Officer consider realigning the organizational responsibility for procurement activities consistent with best practices. Once organizational responsibility is decided, direct the executive responsible for procurement activities to develop a plan that provides strategic direction and focus to the Procurement department to improve its operations based on the best practices discussed in this report. In response to the draft report, the President and Chief Executive Officer agreed to provide such a plan.

Train Operations & Business Management

OIG-E-2014-007

May 29, 2014, ASSET MANAGEMENT: Amtrak Followed Sound Practices in Developing a Preliminary Business Case for Procuring Next-Generation High-Speed Trainsets and Could Enhance its Final Case with Further Analysis

The company generally followed sound business practices in developing a preliminary business case to support its request for proposals for next-generation high-speed trainsets. The business case was adequate for soliciting proposals from potential manufacturers.

According to the acquisition team leader, the preliminary business case was intended to be a high-level analysis. After receiving additional information from bidders, the team plans to develop a more detailed business case prior to seeking approval to purchase

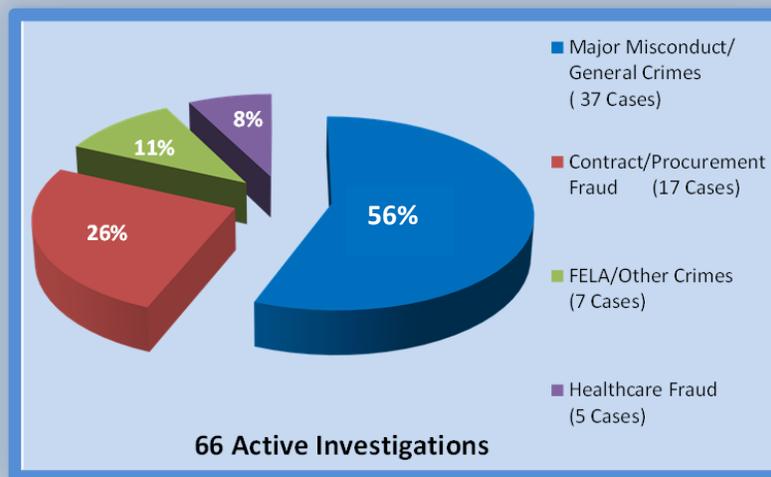
new equipment. Therefore, we have identified several opportunities to enhance the final business case, which the acquisition team has agreed to address, including:

- **High-level forecasts.** We identified opportunities to improve the company's forecasts of projected ridership, potential capacity constraints, maintenance and overhaul costs, and required infrastructure investments. A more refined analysis in these areas could enhance the final business case and minimize the company's risk in procuring new trainsets.
- **Operational challenges.** The business case assumes that the company can add daily round trips between Washington and New York during peak hours to further increase ridership and revenue. However, the preliminary business case did not address the facility modifications and scheduling issues associated with adding trips during peak hours.
- **Integration of regional equipment needs.** The financial projections in the business case for the NEC business line rely on revenue generated from both high-speed and regional service. However, the equipment in regional service is old and, according to Amtrak, needs to be replaced or refurbished. The preliminary business case did not identify how these needs will be addressed, or the impact that aging regional equipment could have on future maintenance costs and revenue growth.

We recommended and Amtrak management agreed that as the final business case is developed, the issues discussed in this report related to forecasts, preferred alternatives, and integrated planning be addressed appropriately.

ONGOING INVESTIGATIVE WORK

As of June 30, 2014, we had 66 active investigations focusing on significant allegations of suspected fraud, waste, and misconduct in the following areas.



Noteworthy Criminal, Civil, And Administrative Actions

Secretary Provides Confidential Passenger Name Reservation (PNR) Information for Payment - A secretary to a Train and Engine crew regularly provided confidential PNR information to U.S. Drug Enforcement Administration (DEA) agents without seeking approval from Amtrak management or the Amtrak Police Department (APD). The employee received \$854,460 in payment from DEA for this information from 1995 to the present. APD and DEA participate in a joint drug enforcement task force. The drug task force members can obtain Amtrak PNR information from APD task force members at no cost. The actions of the secretary prevented APD from jointly working with DEA in narcotics trafficking on Amtrak property, thus depriving APD from receiving \$854,460 in asset forfeiture funds. The secretary was removed from service, and company charges were filed. The secretary chose to retire. We suggested policy changes and other measures to address control weaknesses that Amtrak management is considering.

Theft of Fuel - An Amtrak employee used a company fuel card to purchase more than \$2,000 in fuel for his personal vehicles. He was arrested on May 27, 2014, and charged with theft in Bucks County, Pennsylvania. At the time of arrest, the employee had three packets of heroin in his possession. Also at that time, the employee admitted that he used the Amtrak fuel card to purchase fuel for his personal vehicles and that he used the Amtrak vehicle for his personal use. The employee was removed from service, a company hearing is pending, and a trial is pending on the theft charges.

Fraud by Amtrak Engineering Safety Officer - An Amtrak Engineering Safety Officer used his company Purchase Card to make more than \$9,000 in personal purchases. This employee also charged more than \$3,000 on a company fuel card while on leave from Amtrak. The Delaware Superior Court issued an indictment, and the employee was arrested on June 13, 2014. Our investigation revealed that the employee filed false expense reports, attended school on company time, and used an Amtrak cell phone extensively for personal use. The total cost to Amtrak of the employee's fraudulent activity was \$23,903. The employee was removed from service, and a trial is pending.

Insurance Fraud - A man who claimed to be picking up a passenger at Amtrak's train station in Providence, Rhode Island, requested reimbursement of \$6,380 in medical bills that he stated were incurred as a result of a fall at the station. A video surveillance camera clearly showed the man staging the accident by pouring water on the floor and then returning to slip on the wet floor. The man, who had a long criminal record, was arrested on April 4, 2014, and charged with insurance fraud and attempted larceny in Rhode Island Superior Court. He pled guilty to one count of insurance fraud and was sentenced to one year of incarceration, which was suspended and he was placed on a one-year probation.

Theft of Amtrak Property - An Amtrak machinist ordered goods from Amtrak's Work Management System that he did not need to fulfill his job duties. When confronted, the machinist admitted to ordering goods that he took home for personal use, gave away, or sold. On April 15, 2014, he was arrested and charged with felony theft in the Circuit Court of Cook County, Illinois. The employee voluntarily resigned, and a trial is pending.

Theft of Electricity - In 1997, Amtrak sold property in North Haven, Connecticut. The purchaser did not notify the utility providers of the sale and allowed power usage to be billed to Amtrak. The purchaser opened a second business on the property, and connected it to the power line that was billed to Amtrak. Amtrak did not detect the inappropriate charges and paid the bills. The cost of the electricity from 2009 to 2014

was \$28,419. On April 28, 2014, the property owner was arrested and charged with larceny in the first degree in Connecticut Superior Court. Trial is pending.

Theft of Fuel – Our investigation of suspected fraudulent fuel activity on company issued fuel cards revealed that an Amtrak employee made \$9,927 in fuel purchases while on leave. The employee was purchasing fuel for personal vehicles. During the investigation, the employee voluntarily separated from Amtrak. The employee was charged with two counts of larceny, two counts of credit card fraud, and two counts of conspiracy in Suffolk County, Massachusetts. He was summoned to appear before the court, and a trial is pending.

Theft of Time - A Passenger Engineer Trainee input hours that he did not work into Amtrak's Paperless Time Ticket Computer System. The engineer trainee who was paid \$3,955 for 20 days he did not work, was indicted in Cook County, Illinois, on one count of theft, one count of forgery, and one count of wire fraud. He was summoned to appear before the court, prosecution is pending, and he is no longer employed by Amtrak.

Contractor's Hire Illegal Aliens – The Pennsylvania Department of Transportation (PennDOT) awarded a contract for the painting and preservation of four overhead bridges in Philadelphia, including one bridge at Amtrak's 30th Street Station. Amtrak entered into an agreement with PennDOT to provide engineering and protection services during resurfacing and painting of the overhead bridge at the station. A joint investigation was conducted to determine if contract workers were using false social security numbers for illegal aliens working on the project. Amtrak OIG worked with the Department of Transportation OIG, Department of Labor OIG, Social Security Administration OIG, FBI, IRS CID, and ICE. One business owner and two contract employees were subsequently indicted on one count of conspiracy to obstruct justice and one count of harboring an alien; the business owner and one contract employee were also charged with one count of witness tampering; one contract employee had an additional charge of one count of perjury; and one contract employee had an additional charge of one count of false statements. Prosecution is pending.

Fraud Awareness Training

Since April 1, 2014, we presented 12 fraud awareness and outreach briefings to 155 Amtrak management and union employees.

Fraud Waste And Abuse Hotline

Since April 1, 2014, we processed 100 hotline matters, most of which were referred to the company for management consideration.

OIG MISSION AND CONTACT INFORMATION

Amtrak OIG's Mission

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

Obtaining Copies of OIG Reports and Testimony

Available at our website: www.amtrakoig.gov.

To Report Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):

Web: www.amtrakoig.gov/hotline

Phone: 800-468-5469

Tom Howard Inspector General

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Washington, DC 20002

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