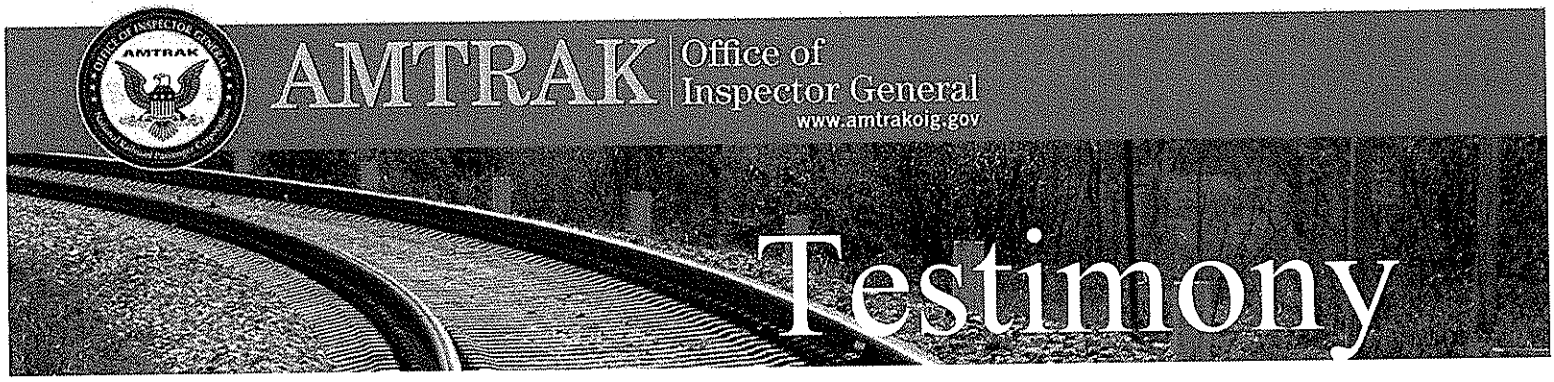

Before the Committee on Transportation and Infrastructure,
House of Representatives

Opportunities for Amtrak to Build on Its Initiatives to Improve Efficiency and Effectiveness

Statement of Ted Alves
Inspector General
National Railroad Passenger Corporation

Thursday, September 20, 2012

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AMTRAK

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

Thank you for the opportunity to discuss how improvements in the efficiency and effectiveness of Amtrak's operations and service can lead to financial benefits and help reduce Amtrak's reliance on federal subsidies. The company received $562 million and $466 million from the federal government for operations in Fiscal Years (FY) 2011 and 2012, respectively. The company also received $922 million and $952 million from the federal government for general capital and debt service in FYs 2011 and 2012, respectively.

Over the past couple of years, Amtrak has taken important steps to set a foundation for improving its operational efficiency and effectiveness. At the same time, Amtrak has opportunities to do more to improve its bottom line while meeting the expectations of Congress and the American traveling public.

My testimony today will discuss three areas:

1. Initiatives Amtrak has underway to improve the efficiency and effectiveness of its operations and service.
2. Opportunities we have identified based on our recent work where Amtrak can build on those initiatives to reduce federal subsidies.
3. Future work we plan to accomplish to identify additional opportunities for Amtrak to become more efficient and effective.

INITIATIVES TO IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF OPERATIONS AND SERVICE

Today, Amtrak is more focused than before on improving the efficiency and effectiveness of its operations and service. It has in the last year issued a strategic plan with specific goals, key metrics, and targets to guide the company's efforts to improve its performance, including achieving organizational excellence and improving financial performance.[1] It is also taking action to hold people accountable for results. We are supportive of these actions and encourage the company to sustain its efforts in these areas.

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[1] *Amtrak Strategic Plan, FY 2011–FY 2015*, September 30, 2011.

Central to Amtrak's initiatives to become more efficient and effective is its strategic plan for FYs 2011 through 2015. This plan communicates Amtrak management's vision for the company, along with strategies and tactics to achieve that vision.

Within its strategic plan, Amtrak established five goals to drive performance across the company: safety and security, customer focus, mobility and connectivity, environment and energy, and financial and organizational excellence. To accomplish these goals, Amtrak established a series of metrics and 5-year performance targets for each goal. It also established seven corporate-level strategies, such as the establishment of business lines to better manage financial performance and respond to the wants, needs, and expectations of various customer groups.

Since the plan was issued, Amtrak has undertaken a series of initiatives to begin realigning operations to help position the company to accomplish its goals. These initiatives include

- integrating operating departments within geographic regions to align them with the strategic plan's new business lines and assigning accountability for achieving results, to include improving profit-and-loss results;
- strengthening human capital management to address existing deficiencies, including hiring a chief human capital officer; and
- developing a strategic management system to guide the execution of the strategic plan and mitigate risks that could affect successful execution.

While these important initiatives show Amtrak's commitment to make changes that will reduce federal subsidies, the company is still in the early stages of its change process. To be successful, Amtrak will need to sustain these initiatives over the long term, and implement them effectively.

OPPORTUNITIES TO BUILD ON INITIATIVES

The company's ongoing initiatives are important and needed steps for improving its operational efficiencies and effectiveness. Our recent work shows that sustaining and effectively implementing these initiatives has the potential to significantly reduce Amtrak's reliance on federal support. Using a risk management approach to improve management controls is also needed to help Amtrak focus on improving financial results. I have selected examples from our recently issued investigative, audit, and evaluation reports to illustrate those opportunities:

- ***Overtime Fraud and Abuse.*** We recently reported that multiple employees defrauded Amtrak by being paid for regular and overtime hours not worked.[2] We also identified other serious abuses, including misuse and potential theft of property, misuse of computer resources, and a pervasive lack of supervision by responsible union and management officials. Specifically, we found that first-level management and union supervisors provided inadequate supervision and oversight and did not prevent the fraud or abuse that occurred. While we were not able to conclusively quantify the full amount lost to fraud in this investigation, it is likely that additional employees were paid for hours that were not worked; losses could total over $100,000. In response to our report, Amtrak management has acted quickly and aggressively to discipline those employees who committed fraud, misused company resources, or failed in their supervisory responsibilities.

  Given the breakdown in management controls, and concerns about excessive overtime paid to employees (overtime paid at Amtrak totaled over $200 million in Calendar Year 2011), we have audit work underway reviewing company-wide management controls over employees' use of overtime.

- ***Food and Beverage Service.*** In 2011 and 2012, we reported that the company could improve management controls over its on-board food and beverage service.[3] In our 2011 report, we estimated that $4 million to $7 million of Amtrak's on-board food and beverage sales could be at risk of theft because of inadequate management controls. Further, in our 2012 report, we identified two areas in which food and beverage program management could be improved—accountability for program results and program-wide planning. Responding to our recommendations, Amtrak established a loss-prevention unit and has plans to implement an action plan to address weaknesses and gaps in the on-board food and beverage service. Amtrak also established a chief of customer service position within the Transportation Department, which will have accountability for improving Amtrak's food and beverage service program. Also, on August 6, 2012, Amtrak's President and CEO indicated that a test of cashless sales will be conducted. To improve program planning, we recommended that Amtrak develop a 5-year plan for reducing food and beverage direct operating losses. Amtrak concurred with this recommendation and stated that a plan will be developed within 6 months of filling the chief of customer service position.

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[2] *Fraud: Overtime Fraud and Abuse by Amtrak's Mid-Atlantic Communications and Signals Department Employees* (OIG-I-2012-018, September 5, 2012).

[3] *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) and *Food and Beverage Service: Initiatives to Help Reduce Direct Operating Losses Can Be Enhanced by Overall Plan* (OIG-A-2012-020, September 7, 2012).

Our ongoing food and beverage work is focusing on ways to further mitigate the food and beverage direct operating losses of $84.6 million in FY 2011. We are examining best practices used by other public- and private-sector entities that provide food and beverage services to passengers, such as foreign passenger railroads, cruise lines, and airlines.

- ***Mechanical Maintenance.*** In May 2012, we reported that Amtrak had made significant progress in improving its mechanical maintenance processes and procedures for the Acela fleet.[4] These improvements increased the reliability and availability of the Acela fleet and allowed Amtrak to deploy two additional trainsets, generating over $50 million in additional revenue. However, similar improvements have not been achieved for Amtrak's conventional fleets. Improving the reliability and availability of the conventional fleets to a comparable level as Acela would result in significant financial benefit. We recommended that Amtrak apply the Acela maintenance practices to the conventional fleets. Amtrak management agreed with our recommendation and also acknowledged that opportunities exist for further progress.

- ***On-time-Performance Incentives.*** Over time, we have identified more than $83 million in overpayments to host railroads.[5] These overpayments occurred because host railroad invoices were not consistently calculated in accordance with the operating agreements between Amtrak and the respective host railroad, or were unsupported. These errors went undetected and the invoices were paid because Amtrak did not have in place an adequate invoice-review process. In a series of reports identifying overpayments, we made several recommendations to improve Amtrak's invoice-review process. Over the last 2 years, Amtrak has established an invoice-review process that should help avoid the practices that resulted in past overpayments, thereby reducing the payments that Amtrak makes to host railroads.

An underlying cause of the deficiencies identified in these reports is the absence of, or a breakdown in, management controls. A sound system of management controls encompasses policies, processes, people, and technology, and serves the needs of all stakeholders by directing and controlling activities with good business savvy, objectivity, accountability, and integrity. For too many programs at Amtrak, sound control systems do not exist; we believe that this is a systemic issue that needs to be strategically addressed on a company-wide basis.

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[4] *Mechanical Maintenance: Improved Practices Have Significantly Enhanced Acela Equipment Performance and Could Benefit Performance of Equipment Company-wide* (OIG-E-2012-008, May 21, 2012).

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

In March 2012, we reported that Amtrak in general lacks an organization-wide system of management controls that provides reasonable assurance that operations are carried out in an efficient and effective manner. That report also found that Amtrak does not have a formal, coordinated, and systematic enterprise-wide framework to identify, analyze, and manage risk.[6] A risk management framework provides a mechanism to identify and deal with any risk, but focuses on risks that could prevent a company from accomplishing its mission and goals. We recommended that Amtrak ultimately develop and implement a risk management framework for the entire company, but given the weak management control environment, begin by focusing on its strategic goal to improve financial performance.

In commenting on our report, the Chairman of the Board of Directors and the President and CEO stated that it is imperative that the Board discuss our recommendations with an answer to the time, resources, and priority needed to make a commitment. They said that once the Board has had an opportunity to understand the commitment this will take, guidance will be provided to management, and the company will provide the OIG with more detailed information about Amtrak's plan to implement enterprise risk management. We look forward to receiving the Board's response and will continue to monitor the status of the company's plan.

FUTURE WORK WILL FOCUS ON ADDITIONAL OPPORTUNITIES TO IMPROVE EFFICIENCY AND EFFECTIVENESS

As I mentioned, Amtrak needs to continue to build on its operational improvement initiatives. In that context, we will continue to provide reporting that is intended to identify opportunities for operational improvements and financial benefits. Some of the key issues we plan to address in FY 2013 include the following:

- Auditing Amtrak's processes for managing its capital programs. The objective of this audit will be to determine the adequacy of Amtrak's capital program management practices; this will include policies and procedures for managing its capital programs in the areas of estimating, oversight, and project closeout. Effective management for capital projects is critical, given that Amtrak spent almost $1.7 billion in FY 2011 for capital programs.[7]

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

[7] Figure includes federal capital subsidies, American Recovery and Reinvestment Act of 2009 funds, Department of Homeland Security grants, and funds from various state and local entities.

- Completing a series of management control-focused audits in the acquisition and procurement area. This work is designed to identify opportunities to reduce losses in areas such as duplicate payments, overpayments, excessive purchases of inventory, and purchasing the wrong inventory. We will accomplish this work using data analytics tools and methodologies that we have developed during this fiscal year.

- Reviewing the adequacy of contract management for two multiple-year equipment procurements valued together at over $800 million. We will compare Amtrak's management and contracting oversight practices with industry best practices, with a view toward controlling costs and achieving desired, timely results.

- Reviewing the adequacy of a multiple-year information technology contract valued at over $565 million, according to a senior contracting official. This review will also use best practices analysis to determine whether the contract is structured to ensure that projects are delivered on time, within budget, and achieving their intended benefits.

- Evaluating Amtrak's current fleet allocation and utilization practices and comparing them with best practices at other transportation companies. Amtrak carries about 82,000 riders per day on more than 300 trains, utilizing an active fleet of over 1,500 cars and more than 400 locomotives. To capture additional demand on trains with high ridership, Amtrak is proposing new fleet purchases. If Amtrak could better allocate its existing fleet to match its demand, it could potentially capture the additional ridership and revenue without the need for new fleet purchases.

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

Mr. Chairman, in closing, I thank the Committee for its support of the Amtrak OIG. This concludes my testimony, and I am prepared to answer any questions that you or other members of the Committee may have.

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name: Ted Alves

(2) Other than yourself, name of entity you are representing: Amtrak Office of Inspector General

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES **If yes, please provide the information requested below and attach your curriculum vitae.**

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing: None

Signature

9/13/12
Date

AMTRAK
OFFICE OF INSPECTOR GENERAL

Amtrak's Inspector General

Theodore (Ted) Alves

Theodore (Ted) Alves was appointed Amtrak's Inspector General in November 2009. Mr. Alves was the Deputy Inspector General at the U.S. Department of Transportation (DOT) when he retired in January 2009 after 35 years of Federal service. DOT is the federal agency responsible for achieving a safe, efficient, and effective transportation system that enhances the quality of life of the American people. As the Deputy Inspector General, Mr. Alves was responsible for providing executive level leadership and direction of all Office of Inspector General (OIG) audits and investigations as well as overseeing operational support activities such as human resource, information technology, accounting and budgeting, and procurement activities for the OIG.

He served the DOT OIG for over eight years in several executive positions, including Principal Assistant Inspector General for Audits and Evaluations, Assistant Inspector General for Financial and Information Technology Audits, and Assistant Inspector General for Surface Infrastructure Audits.

Before joining DOT, Mr. Alves led the Financial Management Audits Branch at the Federal Emergency Management Agency (FEMA). He was responsible for overseeing financial statement, financial management, and information technology audits. Prior to joining FEMA, Mr. Alves spent 4 years as the Director of Information Technology and Special Audits at the U.S. Agency for International Development and 22 years with the U.S. Government Accountability Office.

Mr. Alves was born in Medford, Massachusetts and has a bachelor's degree in Management from Northeastern University, in Boston. He is a Certified Inspector General and a Certified Government Financial Manager. He is also a member of the Association of Inspectors' General, the Association of Government Accountants, and the Institute of Internal Auditors.