

EXHIBIT 1

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

June 18, 2009

Via Electronic Transmission

E. Bret Coulson
Deputy Inspector General Management & Policy
Office of Inspector General
Amtrak
National Railroad Passenger Corporation
10 G Street, NE
Washington, DC 20525

Dear Mr. Coulson:

As a senior member of the United States Senate and as the Ranking Member of the Senate Committee on Finance (Committee), it is my duty under the Constitution to ensure that Inspectors General, which were created by Congress, are permitted to operate without political pressure or interference from their respective agencies. Inspectors General were designed for the express purpose of combating waste, fraud, and abuse and to be independent watchdogs ensuring that federal agencies were held accountable for their actions. I understand that Inspector General Fred Weiderhold, Jr. has retired today.

Based on contacts that my staff had with Mr. Weiderhold on two recent occasions (April 2, 2009 and June 4, 2009), I understand that the OIG has suffered from repeated and continuous interference from the agency. After the most recent discussion, it was agreed that the OIG would provide, among other things, a White Paper and specific examples of agency interference with OIG audits and/or investigations. To date, the OIG has not yet provided any documents. As you know, any interference such as that was described in these previous discussions is a direct violation of the Inspector General Act of 1978.

In light of Mr. Weiderhold's unexpected retirement, please provide these previously requested documentation immediately. I am deeply troubled that these aforementioned meetings with my staff and discussions of the OIG's independence concerns predicated this personnel action with IG Weiderhold. Furthermore, I am even more concerned that there is a lack of accountability, based on the OIG's reported lack of independence, for the \$1.3 billion in stimulus funds that Amtrak has received from American taxpayers.

Due to these recent events, I specifically request all materials at the IG's office be preserved immediately.

In addition to providing the requested documentation, please provide an immediate briefing to my staff on the level of proper oversight the OIG has over of the \$1.3 billion dollars of American taxpayer money, and what role the previously discussed independence issues with the agency played in the elimination of former IG Weiderhold.

All documents responsive to this request should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov. Thank you in advance for your assistance and I would appreciate a response to this inquiry by June 19, 2009. Should you have any questions regarding this matter, please do not hesitate to contact Misha Kelly or Jason Foster of my staff at (202) 224-4515.

Sincerely,



Charles E. Grassley
Ranking Member

cc: The Honorable Thomas C. Carper
Chairman
Amtrak
National Railroad Passenger Corporation

Joseph H. Boardman
President and Chief Executive Officer
Amtrak
National Railroad Passenger Corporation

EXHIBIT 2

*** CURRENT THROUGH PL 111-25, APPROVED 06/02/2009 ***

TITLE 5. GOVERNMENT ORGANIZATION AND EMPLOYEES
TITLE 5--APPENDIX
INSPECTOR GENERAL ACT OF 1978

Preceding § 1

§ 1. Short title

This Act may be cited as the "Inspector General Act of 1978".

§ 2. Purpose and establishment of Offices of Inspector General; departments and agencies involved

In order to create independent and objective units--

(1) to conduct and supervise audits and investigations relating to the programs and operations of the establishments listed in section 12(2);

(2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and

(3) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action;

there is established--

(A) in each of such establishments an office of Inspector General, subject to subparagraph (B); and

(B) in the establishment of the Department of the Treasury--

(i) an Office of Inspector General of the Department of the Treasury; and

(ii) an Office of Treasury Inspector General for Tax Administration.

§ 3. Appointment of Inspectors General; supervision; removal; political activities; appointment of Assistant Inspector General for Auditing and Assistant Inspector General for Investigations

(a) There shall be at the head of each Office an Inspector General who shall be appointed by the President, by and with the advice and consent of the Senate, without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations. Each Inspector General shall report to and be under the general supervision of the head of the establishment involved or, to the extent such authority is delegated, the officer next in rank below such head, but shall not report to, or be subject to supervision by, any other officer of such establishment. Neither the head of the establishment nor the officer next in rank below such head shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation.

(b) An Inspector General may be removed from office by the President. If an Inspector General is removed from office or is transferred to another position or location within an establishment, the President shall communicate in writing the reasons for any such removal or transfer to both Houses of Congress, not later than 30 days before the removal or transfer. Nothing in this subsection shall prohibit a personnel action otherwise authorized by law, other than transfer or removal.

(c) For the purposes of *section 7324 of title 5, United States Code*, no Inspector General shall be considered to be an employee who determines policies to be pursued by the United States in the nationwide administration of Federal laws.

(d) Each Inspector General shall, in accordance with applicable laws and regulations governing the civil service--

(1) appoint an Assistant Inspector General for Auditing who shall have the responsibility for supervising the performance of auditing activities relating to programs and operations of the establishment, and

(2) appoint an Assistant Inspector General for Investigations who shall have the responsibility for supervising the performance of investigative activities relating to such programs and operations.

(e) The annual rate of basic pay for an Inspector General (as defined under section 12(3)) shall be the rate payable for level III of the Executive Schedule under *section 5314 of title 5, United States Code*, plus 3 percent.

(f) An Inspector General (as defined under section 8G(a)(6) or 12(3)) may not receive any cash award or cash bonus, including any cash award under chapter 45 of title 5, United States Code [5 USCS §§ 4501 et seq.].

(g) Each Inspector General shall, in accordance with applicable laws and regulations governing the civil service, obtain legal advice from a counsel either reporting directly to the Inspector General or another Inspector General.

§ 4. Duties and responsibilities; report of criminal violations to Attorney General

(a) It shall be the duty and responsibility of each Inspector General, with respect to the establishment within which his Office is established--

(1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishment;

(2) to review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports required by section 5(a) concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations;

(3) to recommend policies for, and to conduct, supervise, or coordinate other activities carried out or financed by such establishment for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations;

(4) to recommend policies for, and to conduct, supervise, or coordinate relationships between such establishment and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to (A) all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by such establishment, or (B) the identification and prosecution of participants in such fraud or abuse; and

(5) to keep the head of such establishment and the Congress fully and currently informed, by means of the reports required by section 5 and otherwise, concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by such establishment, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.

(b)

(1) In carrying out the responsibilities specified in subsection (a)(1), each Inspector General shall--

(A) comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions;

(B) establish guidelines for determining when it shall be appropriate to use non-Federal auditors; and

(C) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General as described in paragraph (1).

(2) For purposes of determining compliance with paragraph (1)(A) with respect to whether internal quality controls are in place and operating and whether established audit standards, policies, and procedures are being followed by Offices of Inspector General of establishments defined under section 12(2), Offices of Inspector General of designated Federal entities defined under section 8F(a)(2), and any audit office established within a Federal entity defined under section 8F(a)(1), reviews shall be performed exclusively by an audit entity in the Federal Government, including the General Accounting Office [Government Accountability Office] or the Office of Inspector General of each establishment defined under section 12(2), or the Office of Inspector General of each designated Federal entity defined under section 8F(a)(2).

(c) In carrying out the duties and responsibilities established under this Act, each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation.

(d) In carrying out the duties and responsibilities established under this Act, each Inspector General shall report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

§ 5. Semiannual reports; transmittal to Congress; availability to public; immediate report on serious or flagrant problems

(a) Each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30. Such reports shall include, but need not be limited to--

(1) a description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of such establishment disclosed by such activities during the reporting period;

(2) a description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1);

(3) an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed;

(4) a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted;

(5) a summary of each report made to the head of the establishment under section 6(b)(2) during the reporting period;

(6) a listing, subdivided according to subject matter, of each audit report, inspection reports [report], and evaluation reports [report] issued by the Office during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use;

(7) a summary of each particularly significant report;

(8) statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs), for reports--

(A) for which no management decision had been made by the commencement of the reporting period;

(B) which were issued during the reporting period;

(C) for which a management decision was made during the reporting period, including--

(i) the dollar value of disallowed costs; and

(ii) the dollar value of costs not disallowed; and

(D) for which no management decision has been made by the end of the reporting period;

(9) statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management, for reports--

(A) for which no management decision had been made by the commencement of the reporting period;

(B) which were issued during the reporting period;

(C) for which a management decision was made during the reporting period, including--

(i) the dollar value of recommendations that were agreed to by management; and

(ii) the dollar value of recommendations that were not agreed to by management; and

(D) for which no management decision has been made by the end of the reporting period;

(10) a summary of each audit report, inspection reports [report], and evaluation reports [report] issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report;

(11) a description and explanation of the reasons for any significant revised management decision made during the reporting period;

(12) information concerning any significant management decision with which the Inspector General is in disagreement; and

(13) the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

(b) Semiannual reports of each Inspector General shall be furnished to the head of the establishment involved not later than April 30 and October 31 of each year and shall be transmitted by such head to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the report, together with a report by the head of the establishment containing--

(1) any comments such head determines appropriate;

(2) statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of disallowed costs, for audit reports--

(A) for which final action had not been taken by the commencement of the reporting period;

(B) on which management decisions were made during the reporting period;

(C) for which final action was taken during the reporting period, including--

(i) the dollar value of disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise; and

(ii) the dollar value of disallowed costs that were written off by management; and

(D) for which no final action has been taken by the end of the reporting period;

(3) statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management agreed to in a management decision, for audit reports--

(A) for which final action had not been taken by the commencement of the reporting period;

(B) on which management decisions were made during the reporting period;

(C) for which final action was taken during the reporting period, including--

(i) the dollar value of recommendations that were actually completed; and

(ii) the dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed; and

(D) for which no final action has been taken by the end of the reporting period; and

(4) a statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year, containing--

(A) a list of such audit reports and the date each such report was issued;

(B) the dollar value of disallowed costs for each report;

(C) the dollar value of recommendations that funds be put to better use agreed to by management for each report;

and

(D) an explanation of the reasons final action has not been taken with respect to each such audit report,

except that such statement may exclude such audit reports that are under formal administrative or judicial appeal or upon which management of an establishment has agreed to pursue a legislative solution, but shall identify the number of reports in each category so excluded.

(c) Within sixty days of the transmission of the semiannual reports of each Inspector General to the Congress, the head of each establishment shall make copies of such report available to the public upon request and at a reasonable cost. Within 60 days after the transmission of the semiannual reports of each establishment head to the Congress, the head of each establishment shall make copies of such report available to the public upon request and at a reasonable cost.

(d) Each Inspector General shall report immediately to the head of the establishment involved whenever the Inspector General becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of such establishment. The head of the establishment shall transmit any such report to the appropriate committees or subcommittees of Congress within seven calendar days, together with a report by the head of the establishment containing any comments such head deems appropriate.

(e) (1) Nothing in this section shall be construed to authorize the public disclosure of information which is--

(A) specifically prohibited from disclosure by any other provision of law;

(B) specifically required by Executive order to be protected from disclosure in the interest of national defense or national security or in the conduct of foreign affairs; or

(C) a part of an ongoing criminal investigation.

(2) Notwithstanding paragraph (1)(C), any report under this section may be disclosed to the public in a form which includes information with respect to a part of an ongoing criminal investigation if such information has been included in a public record.

(3) Except to the extent and in the manner provided under *section 6103(f) of the Internal Revenue Code of 1986 [26 USCS § 6103(f)]*, nothing in this section or in any other provision of this Act shall be construed to authorize or permit the withholding of information from the Congress, or from any committee or subcommittee thereof.

(f) As used in this section--

- (1) the term "questioned cost" means a cost that is questioned by the Office because of--
- (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
 - (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or
 - (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable;
- (2) the term "unsupported cost" means a cost that is questioned by the Office because the Office found that, at the time of the audit, such cost is not supported by adequate documentation;
- (3) the term "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government;
- (4) the term "recommendation that funds be put to better use" means a recommendation by the Office that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including--
- (A) reductions in outlays;
 - (B) deobligation of funds from programs or operations;
 - (C) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
 - (D) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;
 - (E) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
 - (F) any other savings which are specifically identified;
- (5) the term "management decision" means the evaluation by the management of an establishment of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary; and
- (6) the term "final action" means--
- (A) the completion of all actions that the management of an establishment has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report; and
 - (B) in the event that the management of an establishment concludes no action is necessary, final action occurs when a management decision has been made.

§ 6. Authority of Inspector Generals; information and assistance from Federal agencies; unreasonable refusal; office space and equipment

- (a) In addition to the authority otherwise provided by this Act, each Inspector General, in carrying out the provisions of this Act, is authorized--
- (1) to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act;
 - (2) to make such investigations and reports relating to the administration of the programs and operations of the applicable establishment as are, in the judgment of the Inspector General, necessary or desirable;
 - (3) to request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this Act from any Federal, State, or local governmental agency or unit thereof;
 - (4) to require by subpoena the production of all information, documents, reports, answers, records, accounts, papers, and other data in any medium (including electronically stored information, as well as any tangible thing) and documentary evidence necessary in the performance of the functions assigned by this Act, which subpoena, in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court: *Provided*, That procedures other than subpoenas shall be used by the Inspector General to obtain documents and information from Federal agencies;
 - (5) to administer to or take from any person an oath, affirmation, or affidavit, whenever necessary in the performance of the functions assigned by this Act, which oath, affirmation, or affidavit when administered or taken by or before an employee of an Office of Inspector General designated by the Inspector General shall have the same force and effect as if administered or taken by or before an officer having a seal;
 - (6) to have direct and prompt access to the head of the establishment involved when necessary for any purpose pertaining to the performance of functions and responsibilities under this Act;
 - (7) to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office subject to the provisions of title 5, United States Code, governing appointments in the

competitive service [5 USCS §§ 3301 et seq.], and the provisions of chapter 51 and subchapter III of chapter 53 of such title [5 USCS §§ 5101 et seq., 5331 et seq.] relating to classification and General Schedule pay rates;

(8) to obtain services as authorized by *section 3109 of title 5, United States Code*, at daily rates not to exceed the equivalent rate prescribed for grade GS-18 of the General Schedule by *section 5332 of title 5, United States Code*; and

(9) to the extent and in such amounts as may be provided in advance by appropriations Acts, to enter into contracts and other arrangements for audits, studies, analyses, and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of this Act.

(b)

(1) Upon request of an Inspector General for information or assistance under subsection (a)(3), the head of any Federal agency involved shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Federal agency from which the information is requested, furnished to such Inspector General, or to an authorized designee, such information or assistance.

(2) Whenever information or assistance requested under subsection (a)(1) or (a)(3) is, in the judgment of an Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the establishment involved without delay.

(c) Each head of an establishment shall provide the Office within such establishment with appropriate and adequate office space at central and field office locations of such establishment, together with such equipment, office supplies, and communications facilities and services as may be necessary for the operation of such offices, and shall provide necessary maintenance services for such offices and the equipment and facilities located therein.

(d) (1) (A) For purposes of applying the provisions of law identified in subparagraph (B)--

(i) each Office of Inspector General shall be considered to be a separate agency; and

(ii) the Inspector General who is the head of an office referred to in clause (i) shall, with respect to such office, have the functions, powers, and duties of an agency head or appointing authority under such provisions.

(B) This paragraph applies with respect to the following provisions of title 5, United States Code:

(i) Subchapter II of chapter 35 [5 USCS §§ 3521 et seq.].

(ii) Sections 8335(b), 8336, 8344, 8414, 8468, and 8425(b) [5 USCS §§ 8335(b), 8336, 8344, 8414, 8468, and 8425(b)].

(iii) All provisions relating to the Senior Executive Service [5 USCS §§ 3131 et seq.] (as determined by the Office of Personnel Management), subject to paragraph (2).

(2) For purposes of applying *section 4507(b) of title 5, United States Code*, paragraph (1)(A)(ii) shall be applied by substituting "the Council of the Inspectors General on Integrity and Efficiency (established by section 11 of the Inspector General Act) shall" for "the Inspector General who is the head of an office referred to in clause (i) shall, with respect to such office,".

(e) (1) In addition to the authority otherwise provided by this Act, each Inspector General, any Assistant Inspector General for Investigations under such an Inspector General, and any special agent supervised by such an Assistant Inspector General may be authorized by the Attorney General to--

(A) carry a firearm while engaged in official duties as authorized under this Act or other statute, or as expressly authorized by the Attorney General;

(B) make an arrest without a warrant while engaged in official duties as authorized under this Act or other statute, or as expressly authorized by the Attorney General, for any offense against the United States committed in the presence of such Inspector General, Assistant Inspector General, or agent, or for any felony cognizable under the laws of the United States if such Inspector General, Assistant Inspector General, or agent has reasonable grounds to believe that the person to be arrested has committed or is committing such felony; and

(C) seek and execute warrants for arrest, search of a premises, or seizure of evidence issued under the authority of the United States upon probable cause to believe that a violation has been committed.

(2) The Attorney General may authorize exercise of the powers under this subsection only upon an initial determination that--

(A) the affected Office of Inspector General is significantly hampered in the performance of responsibilities established by this Act as a result of the lack of such powers;

(B) available assistance from other law enforcement agencies is insufficient to meet the need for such powers; and

(C) adequate internal safeguards and management procedures exist to ensure proper exercise of such powers.

(3) The Inspector General offices of the Department of Commerce, Department of Education, Department of Energy, Department of Health and Human Services, Department of Homeland Security, Department of Housing and Urban Development, Department of the Interior, Department of Justice, Department of Labor, Department of State, Department of Transportation, Department of the Treasury, Department of Veterans Affairs, Agency for International Development, Environmental Protection Agency, Federal Deposit Insurance Corporation, Federal Emergency Management Agency, General Services Administration, National Aeronautics and Space Administration, Nuclear Regulatory Commission, Office of Personnel Management, Railroad Retirement Board, Small Business Administration, Social Security Administration, and the Tennessee Valley Authority are exempt from the requirement of paragraph (2) of an initial determination of eligibility by the Attorney General.

(4) The Attorney General shall promulgate, and revise as appropriate, guidelines which shall govern the exercise of the law enforcement powers established under paragraph (1).

(5)

(A) Powers authorized for an Office of Inspector General under paragraph (1) may be rescinded or suspended upon a determination by the Attorney General that any of the requirements under paragraph (2) is no longer satisfied or that the exercise of authorized powers by that Office of Inspector General has not complied with the guidelines promulgated by the Attorney General under paragraph (4).

(B) Powers authorized to be exercised by any individual under paragraph (1) may be rescinded or suspended with respect to that individual upon a determination by the Attorney General that such individual has not complied with guidelines promulgated by the Attorney General under paragraph (4).

(6) A determination by the Attorney General under paragraph (2) or (5) shall not be reviewable in or by any court.

(7) To ensure the proper exercise of the law enforcement powers authorized by this subsection, the Offices of Inspector General described under paragraph (3) shall, not later than 180 days after the date of enactment of this subsection [enacted Nov. 25, 2002], collectively enter into a memorandum of understanding to establish an external review process for ensuring that adequate internal safeguards and management procedures continue to exist within each Office and within any Office that later receives an authorization under paragraph (2). The review process shall be established in consultation with the Attorney General, who shall be provided with a copy of the memorandum of understanding that establishes the review process. Under the review process, the exercise of the law enforcement powers by each Office of Inspector General shall be reviewed periodically by another Office of Inspector General or by a committee of Inspectors General. The results of each review shall be communicated in writing to the applicable Inspector General and to the Attorney General.

(8) No provision of this subsection shall limit the exercise of law enforcement powers established under any other statutory authority, including United States Marshals Service special deputation.

(9) In this subsection, the term "Inspector General" means an Inspector General appointed under section 3 or an Inspector General appointed under section 8G.

(f) (1) For each fiscal year, an Inspector General shall transmit a budget estimate and request to the head of the establishment or designated Federal entity to which the Inspector General reports. The budget request shall specify the aggregate amount of funds requested for such fiscal year for the operations of that Inspector General and shall specify the amount requested for all training needs, including a certification from the Inspector General that the amount requested satisfies all training requirements for the Inspector General's office for that fiscal year, and any resources necessary to support the Council of the Inspectors General on Integrity and Efficiency. Resources necessary to support the Council of the Inspectors General on Integrity and Efficiency shall be specifically identified and justified in the budget request.

(2) In transmitting a proposed budget to the President for approval, the head of each establishment or designated Federal entity shall include--

- (A) an aggregate request for the Inspector General;
- (B) amounts for Inspector General training;
- (C) amounts for support of the Council of the Inspectors General on Integrity and Efficiency; and
- (D) any comments of the affected Inspector General with respect to the proposal.

(3) The President shall include in each budget of the United States Government submitted to Congress--

- (A) a separate statement of the budget estimate prepared in accordance with paragraph (1);
- (B) the amount requested by the President for each Inspector General;
- (C) the amount requested by the President for training of Inspectors General;
- (D) the amount requested by the President for support for the Council of the Inspectors General on Integrity and Efficiency; and

(E) any comments of the affected Inspector General with respect to the proposal if the Inspector General concludes that the budget submitted by the President would substantially inhibit the Inspector General from performing the duties of the office.

§ 7. Complaints by employees; disclosure of identity; reprisals

(a) The Inspector General may receive and investigate complaints or information from an employee of the establishment concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

(b) The Inspector General shall not, after receipt of a complaint or information from an employee, disclose the identity of the employee without the consent of the employee, unless the Inspector General determines such disclosure is unavoidable during the course of the investigation.

(c) Any employee who has authority to take, direct others to take, recommend, or approve any personnel action, shall not, with respect to such authority, take or threaten to take any action against any employee as a reprisal for making a complaint or disclosing information to an Inspector General, unless the complaint was made or the information disclosed with the knowledge that it was false or with willful disregard for its truth or falsity.

§ 8. Additional provisions with respect to the Inspector General of the Department of Defense

(a) No member of the Armed Forces, active or reserve, shall be appointed Inspector General of the Department of Defense.

(b) (1) Notwithstanding the last two sentences of section 3(a), the Inspector General shall be under the authority, direction, and control of the Secretary of Defense with respect to audits or investigations, or the issuance of subpoenas, which require access to information concerning--

(A) sensitive operational plans;

(B) intelligence matters;

(C) counterintelligence matters;

(D) ongoing criminal investigations by other administrative units of the Department of Defense related to national security; or

(E) other matters the disclosure of which would constitute a serious threat to national security.

(2) With respect to the information described in paragraph (1) the Secretary of Defense may prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena, after the Inspector General has decided to initiate, carry out or complete such audit or investigation or to issue such subpoena, if the Secretary determines that such prohibition is necessary to preserve the national security interests of the United States.

(3) If the Secretary of Defense exercises any power under paragraph (1) or (2), the Inspector General shall submit a statement concerning such exercise within thirty days to the Committees on Armed Services and Governmental Affairs of the Senate and the Committee on Armed Services and the Committee on Government Reform and Oversight of the House of Representatives and to other appropriate committees or subcommittees of the Congress.

(4) The Secretary shall, within thirty days after a submission of a statement under paragraph (3), transmit a statement of the reasons for the exercise of power under paragraph (1) or (2) to the congressional committees specified in paragraph (3) and to other appropriate committees or subcommittees.

(c) In addition to the other duties and responsibilities specified in this Act, the Inspector General of the Department of Defense shall--

(1) be the principal adviser to the Secretary of Defense for matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department;

(2) initiate, conduct, and supervise such audits and investigations in the Department of Defense (including the military departments) as the Inspector General considers appropriate;

(3) provide policy direction for audits and investigations relating to fraud, waste, and abuse and program effectiveness;

(4) investigate fraud, waste, and abuse uncovered as a result of other contract and internal audits, as the Inspector General considers appropriate;

(5) develop policy, monitor and evaluate program performance, and provide guidance with respect to all Department activities relating to criminal investigation programs;

(6) monitor and evaluate the adherence of Department auditors to internal audit, contract audit, and internal review principles, policies, and procedures;

(7) develop policy, evaluate program performance, and monitor actions taken by all components of the Department in response to contract audits, internal audits, internal review reports, and audits conducted by the Comptroller General of the United States;

(8) request assistance as needed from other audit, inspection, and investigative units of the Department of Defense (including military departments); and

(9) give particular regard to the activities of the internal audit, inspection, and investigative units of the military departments with a view toward avoiding duplication and insuring effective coordination and cooperation.

(d) Notwithstanding section 4(d), the Inspector General of the Department of Defense shall expeditiously report suspected or alleged violations of chapter 47 of title 10, United States Code [*10 USCS §§ 801 et seq.*] (Uniform Code of Military Justice), to the Secretary of the military department concerned or the Secretary of Defense.

(e) For the purposes of section 7, a member of the Armed Forces shall be deemed to be an employee of the Department of Defense, except that, when the Coast Guard operates as a service of another department or agency of the Federal Government, a member of the Coast Guard shall be deemed to be an employee of such department or agency.

(f) (1) Each semiannual report prepared by the Inspector General of the Department of Defense under section 5(a) shall include information concerning the numbers and types of contract audits conducted by the Department during the reporting period. Each such report shall be transmitted by the Secretary of Defense to the Committees on Armed Services and Governmental Affairs of the Senate and the Committee on Armed Services and the Committee on Government Reform and Oversight of the House of Representatives and to other appropriate committees or subcommittees of the Congress.

(2) Any report required to be transmitted by the Secretary of Defense to the appropriate committees or subcommittees of the Congress under section 5(d) shall also be transmitted, within the seven-day period specified in such section, to the congressional committees specified in paragraph (1).

(g) The provisions of *section 1385 of title 18, United States Code*, shall not apply to audits and investigations conducted by, under the direction of, or at the request of the Inspector General of the Department of Defense to carry out the purposes of this Act.

(h) (1) There is a General Counsel to the Inspector General of the Department of Defense, who shall be appointed by the Inspector General of the Department of Defense.

(2) (A) Notwithstanding *section 140(b) of title 10, United States Code*, the General Counsel is the chief legal officer of the Office of the Inspector General.

(B) The Inspector General is the exclusive legal client of the General Counsel.

(C) The General Counsel shall perform such functions as the Inspector General may prescribe.

(D) The General Counsel shall serve at the discretion of the Inspector General.

(3) There is an Office of the General Counsel to the Inspector General of the Department of Defense. The Inspector General may appoint to the Office to serve as staff of the General Counsel such legal counsel as the Inspector General considers appropriate.

§ 8A. Special provisions relating to the Agency for International Development

(a) In addition to the other duties and responsibilities specified in this Act, the Inspector General of the Agency for International Development shall supervise, direct, and control all security activities relating to the programs and operations of that Agency, subject to the supervision of the Administrator of that Agency.

(b) In addition to the Assistant Inspector Generals provided for in section 3(d) of this Act, the Inspector General of the Agency for International Development shall, in accordance with applicable laws and regulations governing the civil

service, appoint an Assistant Inspector General for Security who shall have the responsibility for supervising the performance of security activities relating to programs and operations of the Agency for International Development.

(c) In addition to the officers and employees provided for in section 6(a)(6) of this Act, members of the Foreign Service may, at the request of the Inspector General of the Agency for International Development, be assigned as employees of the Inspector General. Members of the Foreign Service so assigned shall be responsible solely to the Inspector General and the Inspector General (or his or her designee) shall prepare the performance evaluation reports for such members.

(d) In establishing and staffing field offices pursuant to section 6(c) of this Act, the Administrator of the Agency for International Development shall not be bound by overseas personnel ceilings established under the Monitoring Overseas Direct Employment policy.

(e) The Inspector General of the Agency for International Development shall be in addition to the officers provided for in section 624(a) of the Foreign Assistance Act of 1961 [22 *USCS* § 2384(a)].

(f) As used in this Act, the term "Agency for International Development" includes any successor agency primarily responsible for administering part I of the Foreign Assistance Act of 1961 [22 *USCS* §§ 2151 et seq.].

§ 8B. Special provisions concerning the Nuclear Regulatory Commission

(a) The Chairman of the Commission may delegate the authority specified in the second sentence of section 3(a) to another member of the Nuclear Regulatory Commission, but shall not delegate such authority to any other officer or employee of the Commission.

(b) Notwithstanding sections 6(a)(7) and (8), the Inspector General of the Nuclear Regulatory Commission is authorized to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers and duties of the Office of Inspector General and to obtain the temporary or intermittent services of experts or consultants or an organization thereof, subject to the applicable laws and regulations that govern such selections, appointments and employment, and the obtaining of such services, within the Nuclear Regulatory Commission.

§ 8C. Special provisions concerning the Federal Deposit Insurance Corporation

(a) Delegation. The Chairperson of the Federal Deposit Insurance Corporation may delegate the authority specified in the second sentence of section 3(a) to the Vice Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation, but may not delegate such authority to any other officer or employee of the Corporation.

(b) Personnel. Notwithstanding paragraphs (7) and (8) of section 6(a), the Inspector General of the Federal Deposit Insurance Corporation may select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office of Inspector General and to obtain the temporary or intermittent services of experts or consultants or an organization of experts or consultants, subject to the applicable laws and regulations that govern such selections, appointments, and employment, and the obtaining of such services, within the Federal Deposit Insurance Corporation.

§ 8D. Special provisions concerning the Department of the Treasury

(a)

(1) Notwithstanding the last two sentences of section 3(a) [5 *USCS Appx.* § 3(a)], the Inspector General of the Department of the Treasury shall be under the authority, direction, and control of the Secretary of the Treasury with respect to audits or investigations, or the issuance of subpoenas, which require access to sensitive information concerning--

- (A) ongoing criminal investigations or proceedings;
- (B) undercover operations;
- (C) the identity of confidential sources, including protected witnesses;
- (D) deliberations and decisions on policy matters, including documented information used as a basis for making policy decisions, the disclosure of which could reasonably be expected to have a significant influence on the economy or market behavior;

(E) intelligence or counterintelligence matters; or

(F) other matters the disclosure of which would constitute a serious threat to national security or to the protection of any person or property authorized protection by *section 3056 of title 18, United States Code, section 3056A of title 18, United States Code*, or any provision of the Presidential Protection Assistance Act of 1976 (*18 U.S.C. 3056 note; Public Law 94-524*).

(2) With respect to the information described under paragraph (1), the Secretary of the Treasury may prohibit the Inspector General of the Department of the Treasury from carrying out or completing any audit or investigation, or from issuing any subpoena, after such Inspector General has decided to initiate, carry out, or complete such audit or investigation or to issue such subpoena, if the Secretary determines that such prohibition is necessary to prevent the disclosure of any information described under paragraph (1) or to prevent significant impairment to the national interests of the United States.

(3) If the Secretary of the Treasury exercises any power under paragraph (1) or (2), the Secretary of the Treasury shall notify the Inspector General of the Department of the Treasury in writing stating the reasons for such exercise. Within 30 days after receipt of any such notice, the Inspector General of the Department of the Treasury shall transmit a copy of such notice to the Committees on Governmental Affairs and Finance of the Senate and the Committees on Government Operations and Ways and Means of the House of Representatives, and to other appropriate committees or subcommittees of the Congress.

(4) The Secretary of the Treasury may not exercise any power under paragraph (1) or (2) with respect to the Treasury Inspector General for Tax Administration.

(b) (1) In carrying out the duties and responsibilities specified in this Act, the Inspector General of the Department of the Treasury shall have oversight responsibility for the internal investigations performed by the Office of Internal Affairs of the Tax and Trade Bureau. The head of such office shall promptly report to the Inspector General of the Department of the Treasury the significant activities being carried out by such office.

(2) The Inspector General of the Department of the Treasury shall exercise all duties and responsibilities of an Inspector General for the Department of the Treasury other than the duties and responsibilities exercised by the Treasury Inspector General for Tax Administration.

(3) The Secretary of the Treasury shall establish procedures under which the Inspector General of the Department of the Treasury and the Treasury Inspector General for Tax Administration will--

(A) determine how audits and investigations are allocated in cases of overlapping jurisdiction; and

(B) provide for coordination, cooperation, and efficiency in the conduct of such audits and investigations.

(c) Notwithstanding subsection (b), the Inspector General of the Department of the Treasury may initiate, conduct and supervise such audits and investigations in the Department of the Treasury (including the bureau referred to in subsection (b)) as the Inspector General of the Department of the Treasury considers appropriate.

(d) If the Inspector General of the Department of the Treasury initiates an audit or investigation under subsection (c) concerning the bureau referred to in subsection (b), the Inspector General of the Department of the Treasury may provide the head of the office of such bureau referred to in subsection (b) with written notice that the Inspector General of the Department of the Treasury has initiated such an audit or investigation. If the Inspector General of the Department of the Treasury issues a notice under the preceding sentence, no other audit or investigation shall be initiated into the matter under audit or investigation by the Inspector General of the Department of the Treasury and any other audit or investigation of such matter shall cease.

(e)

(1) The Treasury Inspector General for Tax Administration shall have access to return information, as defined in *section 6103(b) of the Internal Revenue Code of 1986 [26 USCS § 6103(b)]*, only in accordance with the provisions of *section 6103 of such Code [26 USCS § 6103]* and this Act.

(2) The Internal Revenue Service shall maintain the same system of standardized records or accountings of all requests from the Treasury Inspector General for Tax Administration for inspection or disclosure of returns and return information (including the reasons for and dates of such requests), and of returns and return information inspected or disclosed pursuant to such requests, as described under *section 6103(p)(3)(A) of the Internal Revenue Code of 1986 [26 USCS § 6103(p)(3)(A)]*. Such system of standardized records or accountings shall also be available for examination in the same manner as provided under *section 6103(p)(3) of the Internal Revenue Code of 1986 [26 USCS § 6103(p)(3)]*.

(3) The Treasury Inspector General for Tax Administration shall be subject to the same safeguards and conditions for receiving returns and return information as are described under *section 6103(p)(4) of the Internal Revenue Code of 1986* [26 USCS § 6103(p)(4)].

(f) An audit or investigation conducted by the Inspector General of the Department of the Treasury or the Treasury Inspector General for Tax Administration shall not affect a final decision of the Secretary of the Treasury or his delegate under *section 6406 of the Internal Revenue Code of 1986* [26 USCS § 6406].

(g) (1) Any report required to be transmitted by the Secretary of the Treasury to the appropriate committees or subcommittees of the Congress under section 5(d) [5 USCS Appx. § 5(d)] shall also be transmitted, within the seven-day period specified under such section, to the Committees on Governmental Affairs and Finance of the Senate and the Committees on Government Reform and Oversight and Ways and Means of the House of Representatives.

(2) Any report made by the Treasury Inspector General for Tax Administration that is required to be transmitted by the Secretary of the Treasury to the appropriate committees or subcommittees of Congress under section 5(d) [5 USCS Appx. § 5(d)] shall also be transmitted, within the 7-day period specified under such subsection, to the Internal Revenue Service Oversight Board and the Commissioner of Internal Revenue.

(h) The Treasury Inspector General for Tax Administration shall exercise all duties and responsibilities of an Inspector General of an establishment with respect to the Department of the Treasury and the Secretary of the Treasury on all matters relating to the Internal Revenue Service. The Treasury Inspector General for Tax Administration shall have sole authority under this Act to conduct an audit or investigation of the Internal Revenue Service Oversight Board and the Chief Counsel for the Internal Revenue Service.

(i) In addition to the requirements of the first sentence of section 3(a) [5 USCS Appx. § 3(a)], the Treasury Inspector General for Tax Administration should have demonstrated ability to lead a large and complex organization.

(j) An individual appointed to the position of Treasury Inspector General for Tax Administration, the Assistant Inspector General for Auditing of the Office of the Treasury Inspector General for Tax Administration under section 3(d)(1) [5 USCS Appx. § 3(d)(1)], the Assistant Inspector General for Investigations of the Office of the Treasury Inspector General for Tax Administration under section 3(d)(2) [5 USCS Appx. § 3(d)(2)], or any position of Deputy Inspector General of the Office of the Treasury Inspector General for Tax Administration may not be an employee of the Internal Revenue Service--

- (1) during the 2-year period preceding the date of appointment to such position; or
- (2) during the 5-year period following the date such individual ends service in such position.

(k) (1) In addition to the duties and responsibilities exercised by an inspector general of an establishment, the Treasury Inspector General for Tax Administration--

(A) shall have the duty to enforce criminal provisions under *section 7608(b) of the Internal Revenue Code of 1986* [26 USCS § 7608(b)];

(B) in addition to the functions authorized under section 7608(b)(2) of such Code [26 USCS § 7608(b)(2)], may carry firearms;

(C) shall be responsible for protecting the Internal Revenue Service against external attempts to corrupt or threaten employees of the Internal Revenue Service, but shall not be responsible for the conducting of background checks and the providing of protection to the Commissioner of Internal Revenue; and

(D) may designate any employee in the Office of the Treasury Inspector General for Tax Administration to enforce such laws and perform such functions referred to under subparagraphs (A), (B), and (C).

(2)

(A) In performing a law enforcement function under paragraph (1), the Treasury Inspector General for Tax Administration shall report any reasonable grounds to believe there has been a violation of Federal criminal law to the Attorney General at an appropriate time as determined by the Treasury Inspector General for Tax Administration, notwithstanding section 4(d) [5 USCS Appx. § 4(d)].

(B) In the administration of section 5(d) [5 USCS Appx. § 5(d)] and subsection (g)(2) of this section, the Secretary of the Treasury may transmit the required report with respect to the Treasury Inspector General for Tax Administration at an appropriate time as determined by the Secretary, if the problem, abuse, or deficiency relates to--

- (i) the performance of a law enforcement function under paragraph (1); and

(ii) sensitive information concerning matters under subsection (a)(1)(A) through (F).

(3) Nothing in this subsection shall be construed to affect the authority of any other person to carry out or enforce any provision specified in paragraph (1).

(l)

(1) The Commissioner of Internal Revenue or the Internal Revenue Service Oversight Board may request, in writing, the Treasury Inspector General for Tax Administration to conduct an audit or investigation relating to the Internal Revenue Service. If the Treasury Inspector General for Tax Administration determines not to conduct such audit or investigation, the Inspector General shall timely provide a written explanation for such determination to the person making the request.

(2) (A) Any final report of an audit conducted by the Treasury Inspector General for Tax Administration shall be timely submitted by the Inspector General to the Commissioner of Internal Revenue and the Internal Revenue Service Oversight Board.

(B) The Treasury Inspector General for Tax Administration shall periodically submit to the Commissioner and Board a list of investigations for which a final report has been completed by the Inspector General and shall provide a copy of any such report upon request of the Commissioner or Board.

(C) This paragraph applies regardless of whether the applicable audit or investigation is requested under paragraph (1).

§ 8E. Special provisions concerning the Department of Justice

(a)

(1) Notwithstanding the last two sentences of section 3(a), the Inspector General shall be under the authority, direction, and control of the Attorney General with respect to audits or investigations, or the issuance of subpoenas, which require access to sensitive information concerning--

(A) ongoing civil or criminal investigations or proceedings;

(B) undercover operations;

(C) the identity of confidential sources, including protected witnesses;

(D) intelligence or counterintelligence matters; or

(E) other matters the disclosure of which would constitute a serious threat to national security.

(2) With respect to the information described under paragraph (1), the Attorney General may prohibit the Inspector General from carrying out or completing any audit or investigation, or from issuing any subpoena, after such Inspector General has decided to initiate, carry out, or complete such audit or investigation or to issue such subpoena, if the Attorney General determines that such prohibition is necessary to prevent the disclosure of any information described under paragraph (1) or to prevent the significant impairment to the national interests of the United States.

(3) If the Attorney General exercises any power under paragraph (1) or (2), the Attorney General shall notify the Inspector General in writing stating the reasons for such exercise. Within 30 days after receipt of any such notice, the Inspector General shall transmit a copy of such notice to the Committees on Governmental Affairs and Judiciary of the Senate and the Committees on Government Operations and Judiciary of the House of Representatives, and to other appropriate committees or subcommittees of the Congress.

(b) In carrying out the duties and responsibilities specified in this Act, the Inspector General of the Department of Justice--

(1) may initiate, conduct and supervise such audits and investigations in the Department of Justice as the Inspector General considers appropriate;

(2) except as specified in subsection (a) and paragraph (3), may investigate allegations of criminal wrongdoing or administrative misconduct by an employee of the Department of Justice, or may, in the discretion of the Inspector General, refer such allegations to the Office of Professional Responsibility or the internal affairs office of the appropriate component of the Department of Justice;

(3) shall refer to the Counsel, Office of Professional Responsibility of the Department of Justice, allegations of misconduct involving Department attorneys, investigators, or law enforcement personnel, where the allegations relate to the exercise of the authority of an attorney to investigate, litigate, or provide legal advice, except that no such referral shall be made if the attorney is employed in the Office of Professional Responsibility;

(4) may investigate allegations of criminal wrongdoing or administrative misconduct by a person who is the head of any agency or component of the Department of Justice; and

(5) shall forward the results of any investigation conducted under paragraph (4), along with any appropriate recommendation for disciplinary action, to the Attorney General.

(c) Any report required to be transmitted by the Attorney General to the appropriate committees or subcommittees of the Congress under section 5(d) shall also be transmitted, within the seven-day period specified under such section, to the Committees on the Judiciary and Governmental Affairs of the Senate and the Committees on the Judiciary and Government Operations of the House of Representatives.

(d) The Attorney General shall ensure by regulation that any component of the Department of Justice receiving a non-frivolous allegation of criminal wrongdoing or administrative misconduct by an employee of the Department of Justice, except with respect to allegations described in subsection (b)(3), shall report that information to the Inspector General.

§ 8F. Special provisions concerning the Corporation for National and Community Service [Caution: See prospective amendment note below.]

(a) Notwithstanding the provisions of paragraphs (7) and (8) of section 6(a), it is within the exclusive jurisdiction of the Inspector General of the Corporation for National and Community Service to--

(1) appoint and determine the compensation of such officers and employees in accordance with section 195(b) of the National and Community Service Trust Act of 1993 [42 USCS § 12651f(b)]; and

(2) procure the temporary and intermittent services of and compensate such experts and consultants, in accordance with section 3109(b) of title 5, United States Code, as may be necessary to carry out the functions, powers, and duties of the Inspector General.

(b) No later than the date on which the Chief Executive Officer of the Corporation for National and Community Service transmits any report to the Congress under subsection (a) or (b) of section 5, the Chief Executive Officer shall transmit such report to the Board of Directors of such Corporation.

(c) No later than the date on which the Chief Executive Officer of the Corporation for National and Community Service transmits a report described under section 5(b) to the Board of Directors as provided under subsection (b) of this section, the Chief Executive Officer shall also transmit any audit report which is described in the statement required under section 5(b)(4) to the Board of Directors. All such audit reports shall be placed on the agenda for review at the next scheduled meeting of the Board of Directors following such transmittal. The Chief Executive Officer of the Corporation shall be present at such meeting to provide any information relating to such audit reports.

(d) No later than the date on which the Inspector General of the Corporation for National and Community Service reports a problem, abuse, or deficiency under section 5(d) to the Chief Executive Officer of the Corporation, the Chief Executive Officer shall report such problem, abuse, or deficiency to the Board of Directors.

§ 8G. Requirements for Federal entities and designated Federal entities [Caution: See prospective amendment note below.]

(a) Notwithstanding section 12 of this Act, as used in this section--

(1) the term "Federal entity" means any Government corporation (within the meaning of section 103(1) of title 5, United States Code), any Government controlled corporation (within the meaning of section 103(2) of such title), or any other entity in the Executive branch of the Government, or any independent regulatory agency, but does not include--

(A) an establishment (as defined under section 12(2) of this Act) or part of an establishment;

(B) a designated Federal entity (as defined under paragraph (2) of this subsection) or part of a designated Federal entity;

(C) the Executive Office of the President;

(D) the Central Intelligence Agency;

(E) the General Accounting Office [Government Accountability Office]; or

(F) any entity in the judicial or legislative branches of the Government, including the Administrative Office of the United States Courts and the Architect of the Capitol and any activities under the direction of the Architect of the Capitol;

(2) the term "designated Federal entity" means Amtrak, the Appalachian Regional Commission, the Board of Governors of the Federal Reserve System, the Board for International Broadcasting, the Commodity Futures Trading Commission, the Consumer Product Safety Commission, the Corporation for Public Broadcasting, the Denali Commission, the Equal Employment Opportunity Commission, the Farm Credit Administration, the Federal Communications Commission, the Federal Deposit Insurance Corporation, the Federal Election Commission, the Election Assistance Commission, the Federal Housing Finance Board, the Federal Labor Relations Authority, the Federal Maritime Commission, the Federal Trade Commission, the Legal Services Corporation, the National Archives and Records Administration, the National Credit Union Administration, the National Endowment for the Arts, the National Endowment for the Humanities, the National Labor Relations Board, the National Science Foundation, the Panama Canal Commission, the Peace Corps, the Pension Benefit Guaranty Corporation, the Securities and Exchange Commission, the Smithsonian Institution, the United States International Trade Commission, the Postal Regulatory Commission, and the United States Postal Service;

(3) the term "head of the Federal entity" means any person or persons designated by statute as the head of a Federal entity, and if no such designation exists, the chief policymaking officer or board of a Federal entity as identified in the list published pursuant to subsection (h)(1) of this section;

(4) the term "head of the designated Federal entity" means any person or persons designated by statute as the head of a designated Federal entity and if no such designation exists, the chief policymaking officer or board of a designated Federal entity as identified in the list published pursuant to subsection (h)(1) of this section, except that--

(A) with respect to the National Science Foundation, such term means the National Science Board; and

(B) with respect to the United States Postal Service, such term means the Governors (within the meaning of *section 102(3) of title 39, United States Code*);

(5) the term "Office of Inspector General" means an Office of Inspector General of a designated Federal entity; and

(6) the term "Inspector General" means an Inspector General of a designated Federal entity.

(b) No later than 180 days after the date of the enactment of this section [enacted Oct. 18, 1988], there shall be established and maintained in each designated Federal entity an Office of Inspector General. The head of the designated Federal entity shall transfer to such office the offices, units, or other components, and the functions, powers, or duties thereof, that such head determines are properly related to the functions of the Office of Inspector General and would, if so transferred, further the purposes of this section. There shall not be transferred to such office any program operating responsibilities.

(c) Except as provided under subsection (f) of this section, the Inspector General shall be appointed by the head of the designated Federal entity in accordance with the applicable laws and regulations governing appointments within the designated Federal entity. Each Inspector General shall be appointed without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations.

(d) Each Inspector General shall report to and be under the general supervision of the head of the designated Federal entity, but shall not report to, or be subject to supervision by, any other officer or employee of such designated Federal entity. The head of the designated Federal entity shall not prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation.

(e) If an Inspector General is removed from office or is transferred to another position or location within a designated Federal entity, the head of the designated Federal entity shall communicate in writing the reasons for any such removal or transfer to both Houses of Congress, not later than 30 days before the removal or transfer. Nothing in this subsection shall prohibit a personnel action otherwise authorized by law, other than transfer or removal.

(f)

(1) For purposes of carrying out subsection (c) with respect to the United States Postal Service, the appointment provisions of *section 202(e) of title 39, United States Code*, shall be applied.

(2) In carrying out the duties and responsibilities specified in this Act, the Inspector General of the United States Postal Service (hereinafter in this subsection referred to as the "Inspector General") shall have oversight responsibility for all activities of the Postal Inspection Service, including any internal investigation performed by the Postal Inspection

Service. The Chief Postal Inspector shall promptly report the significant activities being carried out by the Postal Inspection Service to such Inspector General.

(3) (A) (i) Notwithstanding subsection (d), the Inspector General shall be under the authority, direction, and control of the Governors with respect to audits or investigations, or the issuance of subpoenas, which require access to sensitive information concerning--

- (I) ongoing civil or criminal investigations or proceedings;
- (II) undercover operations;
- (III) the identity of confidential sources, including protected witnesses;
- (IV) intelligence or counterintelligence matters; or
- (V) other matters the disclosure of which would constitute a serious threat to national security.

(ii) With respect to the information described under clause (i), the Governors may prohibit the Inspector General from carrying out or completing any audit or investigation, or from issuing any subpoena, after such Inspector General has decided to initiate, carry out, or complete such audit or investigation or to issue such subpoena, if the Governors determine that such prohibition is necessary to prevent the disclosure of any information described under clause (i) or to prevent the significant impairment to the national interests of the United States.

(iii) If the Governors exercise any power under clause (i) or (ii), the Governors shall notify the Inspector General in writing stating the reasons for such exercise. Within 30 days after receipt of any such notice, the Inspector General shall transmit a copy of such notice to the Committee on Governmental Affairs of the Senate and the Committee on Government Reform and Oversight of the House of Representatives, and to other appropriate committees or subcommittees of the Congress.

(B) In carrying out the duties and responsibilities specified in this Act, the Inspector General--

- (i) may initiate, conduct and supervise such audits and investigations in the United States Postal Service as the Inspector General considers appropriate; and
- (ii) shall give particular regard to the activities of the Postal Inspection Service with a view toward avoiding duplication and insuring effective coordination and cooperation.

(C) Any report required to be transmitted by the Governors to the appropriate committees or subcommittees of the Congress under section 5(d) shall also be transmitted, within the seven-day period specified under such section, to the Committee on Governmental Affairs of the Senate and the Committee on Government Reform and Oversight of the House of Representatives.

(4) Nothing in this Act shall restrict, eliminate, or otherwise adversely affect any of the rights, privileges, or benefits of either employees of the United States Postal Service, or labor organizations representing employees of the United States Postal Service, under chapter 12 of title 39, United States Code [39 USCS §§ 1201 et seq.], the National Labor Relations Act [29 USCS §§ 151 et seq.], any handbook or manual affecting employee labor relations with the United States Postal Service, or any collective bargaining agreement.

(5) As used in this subsection, the term "Governors" has the meaning given such term by *section 102(3) of title 39, United States Code*.

(6) There are authorized to be appropriated, out of the Postal Service Fund, such sums as may be necessary for the Office of Inspector General of the United States Postal Service.

(g)

(1) Sections 4, 5, 6 (other than subsections (a)(7) and (a)(8) thereof), and 7 of this Act shall apply to each Inspector General and Office of Inspector General of a designated Federal entity and such sections shall be applied to each designated Federal entity and head of the designated Federal entity (as defined under subsection (a)) by substituting--

- (A) "designated Federal entity" for "establishment"; and
- (B) "head of the designated Federal entity" for "head of the establishment".

(2) In addition to the other authorities specified in this Act, an Inspector General is authorized to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office of Inspector General and to obtain the temporary or intermittent services of experts or consultants or an organization thereof, subject to the applicable laws and regulations that govern such selections, appointments, and employment, and the obtaining of such services, within the designated Federal entity.

(3) Notwithstanding the last sentence of subsection (d) of this section, the provisions of subsection (a) of section 8C (other than the provisions of subparagraphs (A), (B), (C), and (E) of subsection (a)(1)) shall apply to the Inspector General of the Board of Governors of the Federal Reserve System and the Chairman of the Board of Governors of the Federal Reserve System in the same manner as such provisions apply to the Inspector General of the Department of the Treasury and the Secretary of the Treasury, respectively.

(4) Each Inspector General shall--

(A) in accordance with applicable laws and regulations governing appointments within the designated Federal entity, appoint a Counsel to the Inspector General who shall report to the Inspector General;

(B) obtain the services of a counsel appointed by and directly reporting to another Inspector General on a reimbursable basis; or

(C) obtain the services of appropriate staff of the Council of the Inspectors General on Integrity and Efficiency on a reimbursable basis.

(h)

(1) No later than April 30, 1989, and annually thereafter, the Director of the Office of Management and Budget, after consultation with the Comptroller General of the United States, shall publish in the Federal Register a list of the Federal entities and designated Federal entities and the head of each such entity (as defined under subsection (a) of this section).

(2) Beginning on October 31, 1989, and on October 31 of each succeeding calendar year, the head of each Federal entity (as defined under subsection (a) of this section) shall prepare and transmit to the Director of the Office of Management and Budget and to each House of the Congress a report which--

(A) states whether there has been established in the Federal entity an office that meets the requirements of this section;

(B) specifies the actions taken by the Federal entity otherwise to ensure that audits are conducted of its programs and operations in accordance with the standards for audit of governmental organizations, programs, activities, and functions issued by the Comptroller General of the United States, and includes a list of each audit report completed by a Federal or non-Federal auditor during the reporting period and a summary of any particularly significant findings; and

(C) summarizes any matters relating to the personnel, programs, and operations of the Federal entity referred to prosecutive authorities, including a summary description of any preliminary investigation conducted by or at the request of the Federal entity concerning these matters, and the prosecutions and convictions which have resulted.

§ 8H. Additional provisions with respect to Inspectors General of the intelligence community

(a) (1) (A) An employee of the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, the National Reconnaissance Office, or the National Security Agency, or of a contractor of any of those Agencies, who intends to report to Congress a complaint or information with respect to an urgent concern may report the complaint or information to the Inspector General of the Department of Defense (or designee).

(B) An employee of the Federal Bureau of Investigation, or of a contractor of the Bureau, who intends to report to Congress a complaint or information with respect to an urgent concern may report the complaint or information to the Inspector General of the Department of Justice (or designee).

(C) Any other employee of, or contractor to, an executive agency, or element or unit thereof, determined by the President under *section 2302(a)(2)(C)(ii) of title 5, United States Code*, to have as its principal function the conduct of foreign intelligence or counterintelligence activities, who intends to report to Congress a complaint or information with respect to an urgent concern may report the complaint or information to the appropriate Inspector General (or designee) under this Act [*5 USCS Appx. §§ 1 et seq.*] or *section 17 of the Central Intelligence Agency Act of 1949 [50 USCS § 403q]*.

(2) If a designee of an Inspector General under this section receives a complaint or information of an employee with respect to an urgent concern, that designee shall report the complaint or information to the Inspector General within 7 calendar days of receipt.

(b) Not later than the end of the 14-calendar day period beginning on the date of receipt of an employee complaint or information under subsection (a), the Inspector General shall determine whether the complaint or information appears credible. Upon making such a determination, the Inspector General shall transmit to the head of the establishment notice of that determination, together with the complaint or information.

(c) Upon receipt of a transmittal from the Inspector General under subsection (b), the head of the establishment shall, within 7 calendar days of such receipt, forward such transmittal to the intelligence committees, together with any comments the head of the establishment considers appropriate.

(d) (1) If the Inspector General does not find credible under subsection (b) a complaint or information submitted to the Inspector General under subsection (a), or does not transmit the complaint or information to the head of the establish-

ment in accurate form under subsection (b), the employee (subject to paragraph (2)) may submit the complaint or information to Congress by contacting either or both of the intelligence committees directly.

(2) The employee may contact the intelligence committees directly as described in paragraph (1) only if the employee-

(A) before making such a contact, furnishes to the head of the establishment, through the Inspector General, a statement of the employee's complaint or information and notice of the employee's intent to contact the intelligence committees directly; and

(B) obtains and follows from the head of the establishment, through the Inspector General, direction on how to contact the intelligence committees in accordance with appropriate security practices.

(3) A member or employee of one of the intelligence committees who receives a complaint or information under paragraph (1) does so in that member or employee's official capacity as a member or employee of that committee.

(e) The Inspector General shall notify an employee who reports a complaint or information under this section of each action taken under this section with respect to the complaint or information. Such notice shall be provided not later than 3 days after any such action is taken.

(f) An action taken by the head of an establishment or an Inspector General under subsections (a) through (e) shall not be subject to judicial review.

(g) (1) The Inspector General of the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, the National Reconnaissance Office, and the National Security Agency shall each submit to the congressional intelligence committees each year a report that sets forth the following:

(A) The personnel and funds requested by such Inspector General for the fiscal year beginning in such year for the activities of the office of such Inspector General in such fiscal year.

(B) The plan of such Inspector General for such activities, including the programs and activities scheduled for review by the office of such Inspector General during such fiscal year.

(C) An assessment of the current ability of such Inspector General to hire and retain qualified personnel for the office of such Inspector General.

(D) Any matters that such Inspector General considers appropriate regarding the independence and effectiveness of the office of such Inspector General.

(2) The submittal date for a report under paragraph (1) each year shall be the date provided in section 507 of the National Security Act of 1947 [50 USCS § 415b].

(3) In this subsection, the term "congressional intelligence committees" shall have the meaning given that term in section 3 of the National Security Act of 1947 (50 U.S.C. 401a).

(h) In this section:

(1) The term "urgent concern" means any of the following:

(A) A serious or flagrant problem, abuse, violation of law or Executive order, or deficiency relating to the funding, administration, or operations of an intelligence activity involving classified information, but does not include differences of opinions concerning public policy matters.

(B) A false statement to Congress, or a willful withholding from Congress, on an issue of material fact relating to the funding, administration, or operation of an intelligence activity.

(C) An action, including a personnel action described in *section 2302(a)(2)(A) of title 5, United States Code*, constituting reprisal or threat of reprisal prohibited under section 7(c) [5 USCS Appx. § 7(c)] in response to an employee's reporting an urgent concern in accordance with this section.

(2) The term "intelligence committees" means the Permanent Select Committee on Intelligence of the House of Representatives and the Select Committee on Intelligence of the Senate.

§ 8I. Special provisions concerning the Department of Homeland Security

(a) (1) Notwithstanding the last two sentences of section 3(a), the Inspector General of the Department of Homeland Security shall be under the authority, direction, and control of the Secretary of Homeland Security with respect to audits or investigations, or the issuance of subpoenas, that require access to sensitive information concerning--

(A) intelligence, counterintelligence, or counterterrorism matters;

(B) ongoing criminal investigations or proceedings;

(C) undercover operations;

(D) the identity of confidential sources, including protected witnesses;

(E) other matters the disclosure of which would, in the Secretary's judgment, constitute a serious threat to the protection of any person or property authorized protection by *section 3056 of title 18, United States Code*, section 3056A of title 18 of such Code, or any provision of the Presidential Protection Assistance Act of 1976 (*18 U.S.C. 3056* note); or

(F) other matters the disclosure of which would constitute a serious threat to national security.

(2) With respect to the information described in paragraph (1), the Secretary of Homeland Security may prohibit the Inspector General of the Department of Homeland Security from carrying out or completing any audit or investigation, or from issuing any subpoena, after such Inspector General has decided to initiate, carry out, or complete such audit or investigation or to issue such subpoena, if the Secretary determines that such prohibition is necessary to prevent the disclosure of any information described in paragraph (1), to preserve the national security, or to prevent a significant impairment to the interests of the United States.

(3) If the Secretary of Homeland Security exercises any power under paragraph (1) or (2), the Secretary shall notify the Inspector General of the Department of Homeland Security in writing within seven days stating the reasons for such exercise. Within 30 days after receipt of any such notice, the Inspector General shall transmit to the President of the Senate, the Speaker of the House of Representatives, and appropriate committees and subcommittees of Congress the following:

(A) A copy of such notice.

(B) A written response to such notice that includes a statement regarding whether the Inspector General agrees or disagrees with such exercise, and the reasons for any disagreement.

(b) The exercise of authority by the Secretary described in paragraph (2) should not be construed as limiting the right of Congress or any committee of Congress to access any information it seeks.

(c) Subject to the conditions established in subsections (a) and (b) above, in carrying out the duties and responsibilities specified in this Act, the Inspector General of the Department of Homeland Security may initiate, conduct, and supervise such audits and investigations in the Department of Homeland Security as the Inspector General considers appropriate.

(d) Any report required to be transmitted by the Secretary of Homeland Security to the appropriate committees or subcommittees of Congress under section 5(d) shall be transmitted, within the seven-day period specified under such section, to the President of the Senate, the Speaker of the House of Representatives, and appropriate committees and subcommittees of Congress.

(e) Notwithstanding any other provision of law, in carrying out the duties and responsibilities specified in this Act, the Inspector General of the Department of Homeland Security shall have oversight responsibility for the internal investigations performed by the Office of Internal Affairs of the United States Customs Service, the Office of Inspections of the United States Secret Service, the Bureau of Border Security, and the Bureau of Citizenship and Immigration Services. The head of each such office or bureau shall promptly report to the Inspector General the significant activities being carried out by such office or bureau.

(f) (1) The Inspector General of the Department of Homeland Security shall designate a senior official within the Office of Inspector General, who shall be a career member of the civil service at the equivalent to the GS-15 level or a career member of the Senior Executive Service, to perform the functions described in paragraph (2).

(2) The senior official designated under paragraph (1) shall--

(A) coordinate the activities of the Office of Inspector General with respect to investigations of abuses of civil rights or civil liberties;

(B) receive and review complaints and information from any source alleging abuses of civil rights and civil liberties by employees or officials of the Department and employees or officials of independent contractors or grantees of the Department;

(C) initiate investigations of alleged abuses of civil rights or civil liberties by employees or officials of the Department and employees or officials of independent contractors or grantees of the Department;

(D) ensure that personnel within the Office of Inspector General receive sufficient training to conduct effective civil rights and civil liberties investigations;

(E) consult with the Officer for Civil Rights and Civil Liberties regarding--

(i) alleged abuses of civil rights or civil liberties; and

(ii) any policy recommendations regarding civil rights and civil liberties that may be founded upon an investigation by the Office of Inspector General;

(F) provide the Officer for Civil Rights and Civil Liberties with information regarding the outcome of investigations of alleged abuses of civil rights and civil liberties;

(G) refer civil rights and civil liberties matters that the Inspector General decides not to investigate to the Officer for Civil Rights and Civil Liberties;

(H) ensure that the Office of the Inspector General publicizes and provides convenient public access to information regarding--

(i) the procedure to file complaints or comments concerning civil rights and civil liberties matters; and

(ii) the status of corrective actions taken by the Department in response to Office of the Inspector General reports; and

(I) inform the Officer for Civil Rights and Civil Liberties of any weaknesses, problems, and deficiencies within the Department relating to civil rights or civil liberties.

§ 8J. Rule of construction of special provisions

The special provisions under section 8, 8A, 8B, 8C, 8D, 8E, 8F, or 8H of this Act relate only to the establishment named in such section and no inference shall be drawn from the presence or absence of a provision in any such section with respect to an establishment not named in such section or with respect to a designated Federal entity as defined under section 8G(a).

§ 8K. Authority to establish Inspector General of the Office of the Director of National Intelligence

If the Director of National Intelligence determines that an Office of Inspector General would be beneficial to improving the operations and effectiveness of the Office of the Director of National Intelligence, the Director of National Intelligence is authorized to establish, with any of the duties, responsibilities, and authorities set forth in this Act, an Office of Inspector General.

§ 8L. Information on websites of Offices of Inspectors General

(a) Direct links to Inspectors General Offices.

(1) In general. Each agency shall establish and maintain on the homepage of the website of that agency, a direct link to the website of the Office of the Inspector General of that agency.

(2) Accessibility. The direct link under paragraph (1) shall be obvious and facilitate accessibility to the website of the Office of the Inspector General.

(b) Requirements for Inspectors General websites.

(1) Posting of reports and audits. The Inspector General of each agency shall--

(A) not later than 3 days after any report or audit (or portion of any report or audit) is made publicly available, post that report or audit (or portion of that report or audit) on the website of the Office of Inspector General; and

(B) ensure that any posted report or audit (or portion of that report or audit) described under subparagraph (A)--

(i) is easily accessible from a direct link on the homepage of the website of the Office of the Inspector General;

(ii) includes a summary of the findings of the Inspector General; and

(iii) is in a format that--

(I) is searchable and downloadable; and

(II) facilitates printing by individuals of the public accessing the website.

(2) Reporting of fraud, waste, and abuse.

(A) In general. The Inspector General of each agency shall establish and maintain a direct link on the homepage of the website of the Office of the Inspector General for individuals to report fraud, waste, and abuse. Individuals reporting

fraud, waste, or abuse using the direct link established under this paragraph shall not be required to provide personally identifying information relating to that individual.

(B) Anonymity. The Inspector General of each agency shall not disclose the identity of any individual making a report under this paragraph without the consent of the individual unless the Inspector General determines that such a disclosure is unavoidable during the course of the investigation.

§ 9. Transfer of functions

(a) There shall be transferred--

(1) to the Office of Inspector General--

(A) of the Department of Agriculture, the offices of that department referred to as the "Office of Investigation" and the "Office of Audit";

(B) of the Department of Commerce, the offices of that department referred to as the "Office of Audits" and the "Investigations and Inspections Staff" and that portion of the office referred to as the "Office of Investigations and Security" which has responsibility for investigation of alleged criminal violations and program abuse;

(C) of the Department of Defense, the offices of that department referred to as the "Defense Audit Service" and the "Office of Inspector General, Defense Logistics Agency", and that portion of the office of that department referred to as the "Defense Investigative Service" which has responsibility for the investigation of alleged criminal violations;

(D) of the Department of Education, all functions of the Inspector General of Health, Education, and Welfare or of the Office of Inspector General of Health, Education, and Welfare relating to functions transferred by section 301 of the Department of Education Organization Act [20 *USCS* § 3441];

(E) of the Department of Energy, the Office of Inspector General (as established by section 208 of the Department of Energy Organization Act [former 42 *USCS* § 7138]);

(F) of the Department of Health and Human Services, the Office of Inspector General (as established by title II of Public Law 94-505 [former 42 *USCS* §§ 3521 et seq.]);

(G) of the Department of Housing and Urban Development, the office of that department referred to as the "Office of Inspector General";

(H) of the Department of the Interior, the office of that department referred to as the "Office of Audit and Investigation";

(I) of the Department of Justice, the offices of that Department referred to as (i) the "Audit Staff, Justice Management Division", (ii) the "Policy and Procedures Branch, Office of the Comptroller, Immigration and Naturalization Service", the "Office of Professional Responsibility, Immigration and Naturalization Service", and the "Office of Program Inspections, Immigration and Naturalization Service", (iii) the "Office of Internal Inspection, United States Marshals Service", (iv) the "Financial Audit Section, Office of Financial Management, Bureau of Prisons" and the "Office of Inspections, Bureau of Prisons", and (v) from the Drug Enforcement Administration, that portion of the "Office of Inspections" which is engaged in internal audit activities, and that portion of the "Office of Planning and Evaluation" which is engaged in program review activities,

(J) of the Department of Labor, the office of that department referred to as the "Office of Special Investigations";

(K) of the Department of Transportation, the offices of that department referred to as the "Office of Investigations and Security" and the "Office of Audit" of the Department, the "Offices of Investigations and Security, Federal Aviation Administration", and "External Audit Divisions, Federal Aviation Administration", the "Investigations Division and the External Audit Division of the Office of Program Review and Investigation, Federal Highway Administration", and the "Office of Program Audits, Urban Mass Transportation Administration";

(L) (i) of the Department of the Treasury, the office of that department referred to as the "Office of Inspector General", and, notwithstanding any other provision of law, that portion of each of the offices of that department referred to as the "Office of Internal Affairs, Tax and Trade Bureau", the "Office of Internal Affairs, United States Customs Service", and the "Office of Inspections, United States Secret Service" which is engaged in internal audit activities; and

(ii) of the Treasury Inspector General for Tax Administration, effective 180 days after the date of the enactment of the Internal Revenue Service Restructuring and Reform Act of 1998 [enacted July 22, 1998], the Office of Chief Inspector of the Internal Revenue Service;

(M) of the Environmental Protection Agency, the offices of that agency referred to as the "Office of Audit" and the "Security and Inspection Division";

(N) of the Federal Emergency Management Agency, the office of that agency referred to as the "Office of Inspector General";

(O) of the General Services Administration, the offices of that agency referred to as the "Office of Audits" and the "Office of Investigations";

(P) of the National Aeronautics and Space Administration, the offices of that agency referred to as the "Management Audit Office" and the "Office of Inspections and Security";

(Q) of the Nuclear Regulatory Commission, the office of that commission referred to as the "Office of Inspector and Auditor";

(R) of the Office of Personnel Management, the offices of that agency referred to as the "Office of Inspector General", the "Insurance Audits Division, Retirement and Insurance Group", and the "Analysis and Evaluation Division, Administration Group";

(S) of the Railroad Retirement Board, the Office of Inspector General (as established by section 23 of the Railroad Retirement Act of 1974 [former 45 *USCS* § 231v]);

(T) of the Small Business Administration, the office of that agency referred to as the "Office of Audits and Investigations";

(U) of the Veterans' Administration, the offices of that agency referred to as the "Office of Audits" and the "Office of Investigations"; [and]

(V) of the Corporation for National and Community Service, the Office of Inspector General of ACTION;

(W) of the Social Security Administration, the functions of the Inspector General of the Department of Health and Human Services which are transferred to the Social Security Administration by the Social Security Independence and Program Improvements Act of 1994 (other than functions performed pursuant to section 105(a)(2) of such Act [42 *USCS* § 901 note]), except that such transfers shall be made in accordance with the provisions of such Act and shall not be subject to subsections (b) through (d) of this section; and

(2) to the Office of the Inspector General, such other offices or agencies, or functions, powers, or duties thereof, as the head of the establishment involved may determine are properly related to the functions of the Office and would, if so transferred, further the purposes of this Act,

except that there shall not be transferred to an Inspector General under paragraph (2) program operating responsibilities.

(b) The personnel, assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorization, allocations, and other funds employed, held, used, arising from, available or to be made available, of any office or agency the functions, powers, and duties of which are transferred under subsection (a) are hereby transferred to the applicable Office of Inspector General.

(c) Personnel transferred pursuant to subsection (b) shall be transferred in accordance with applicable laws and regulations relating to the transfer of functions except that the classification and compensation of such personnel shall not be reduced for one year after such transfer.

(d) In any case where all the functions, powers, and duties of any office or agency are transferred pursuant to this subsection, such office or agency shall lapse. Any person who, on the effective date of this Act [effective Oct. 1, 1978], held a position compensated in accordance with the General Schedule, and who, without a break in service, is appointed in an Office of Inspector General to a position having duties comparable to those performed immediately preceding such appointment shall continue to be compensated in the new position at not less than the rate provided for the previous position, for the duration of service in the new position.

§ 10. Conforming and technical amendments

[This section amended 5 *USCS* §§ 5315 and 5316 and 42 *USCS* § 3522, which amendments have been executed.]

§ 11. Establishment of the Council of the Inspectors General on Integrity and Efficiency

(a) Establishment and mission.

(1) Establishment. There is established as an independent entity within the executive branch the Council of the Inspectors General on Integrity and Efficiency (in this section referred to as the "Council").

(2) Mission. The mission of the Council shall be to--

(A) address integrity, economy, and effectiveness issues that transcend individual Government agencies; and

(B) increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General.

(b) Membership.

(1) In general. The Council shall consist of the following members:

(A) All Inspectors General whose offices are established under--

(i) section 2; or

(ii) section 8G.

(B) The Inspectors General of the Office of the Director of National Intelligence and the Central Intelligence Agency.

(C) The Controller of the Office of Federal Financial Management.

(D) A senior level official of the Federal Bureau of Investigation designated by the Director of the Federal Bureau of Investigation.

(E) The Director of the Office of Government Ethics.

(F) The Special Counsel of the Office of Special Counsel.

(G) The Deputy Director of the Office of Personnel Management.

(H) The Deputy Director for Management of the Office of Management and Budget.

(I) The Inspectors General of the Library of Congress, Capitol Police, Government Printing Office, Government Accountability Office, and the Architect of the Capitol.

(2) Chairperson and Executive Chairperson.

(A) Executive Chairperson. The Deputy Director for Management of the Office of Management and Budget shall be the Executive Chairperson of the Council.

(B) Chairperson. The Council shall elect 1 of the Inspectors General referred to in paragraph (1)(A) or (B) to act as Chairperson of the Council. The term of office of the Chairperson shall be 2 years.

(3) Functions of Chairperson and Executive Chairperson.

(A) Executive Chairperson. The Executive Chairperson shall--

(i) preside over meetings of the Council;

(ii) provide to the heads of agencies and entities represented on the Council summary reports of the activities of the Council; and

(iii) provide to the Council such information relating to the agencies and entities represented on the Council as assists the Council in performing its functions.

(B) Chairperson. The Chairperson shall--

(i) convene meetings of the Council--

(I) at least 6 times each year;

(II) monthly to the extent possible; and

(III) more frequently at the discretion of the Chairperson;

(ii) carry out the functions and duties of the Council under subsection (c);

(iii) appoint a Vice Chairperson to assist in carrying out the functions of the Council and act in the absence of the Chairperson, from a category of Inspectors General described in subparagraph (A)(i), (A)(ii), or (B) of paragraph (1), other than the category from which the Chairperson was elected;

(iv) make such payments from funds otherwise available to the Council as may be necessary to carry out the functions of the Council;

(v) select, appoint, and employ personnel as needed to carry out the functions of the Council subject to the provisions of title 5, United States Code, governing appointments in the competitive service, and the provisions of chapter 51 and subchapter III of chapter 53 of such *title* [5 USCS §§ 5101 et seq. and 5331 et seq.], relating to classification and General Schedule pay rates;

(vi) to the extent and in such amounts as may be provided in advance by appropriations Acts, made available from the revolving fund established under subsection (c)(3)(B), or as otherwise provided by law, enter into contracts and other arrangements with public agencies and private persons to carry out the functions and duties of the Council;

(vii) establish, in consultation with the members of the Council, such committees as determined by the Chairperson to be necessary and appropriate for the efficient conduct of Council functions; and

(viii) prepare and transmit a report annually on behalf of the Council to the President on the activities of the Council.

(c) Functions and duties of Council.

(1) In general. The Council shall--

(A) continually identify, review, and discuss areas of weakness and vulnerability in Federal programs and operations with respect to fraud, waste, and abuse;

(B) develop plans for coordinated, Governmentwide activities that address these problems and promote economy and efficiency in Federal programs and operations, including interagency and interentity audit, investigation, inspection, and evaluation programs and projects to deal efficiently and effectively with those problems concerning fraud and waste that exceed the capability or jurisdiction of an individual agency or entity;

(C) develop policies that will aid in the maintenance of a corps of well-trained and highly skilled Office of Inspector General personnel;

(D) maintain an Internet website and other electronic systems for the benefit of all Inspectors General, as the Council determines are necessary or desirable;

(E) maintain 1 or more academies as the Council considers desirable for the professional training of auditors, investigators, inspectors, evaluators, and other personnel of the various offices of Inspector General;

(F) submit recommendations of individuals to the appropriate appointing authority for any appointment to an office of Inspector General described under subsection (b)(1)(A) or (B);

(G) make such reports to Congress as the Chairperson determines are necessary or appropriate; and

(H) perform other duties within the authority and jurisdiction of the Council, as appropriate.

(2) Adherence and participation by members. To the extent permitted under law, and to the extent not inconsistent with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions, each member of the Council, as appropriate, shall--

(A) adhere to professional standards developed by the Council; and

(B) participate in the plans, programs, and projects of the Council, except that in the case of a member described under subsection (b)(1)(I), the member shall participate only to the extent requested by the member and approved by the Executive Chairperson and Chairperson.

(3) Additional administrative authorities.

(A) Interagency funding. Notwithstanding *section 1532 of title 31, United States Code*, or any other provision of law prohibiting the interagency funding of activities described under subclause (I), (II), or (III) of clause (i), in the performance of the responsibilities, authorities, and duties of the Council--

(i) the Executive Chairperson may authorize the use of interagency funding for--

(I) Governmentwide training of employees of the Offices of the Inspectors General;

(II) the functions of the Integrity Committee of the Council; and

(III) any other authorized purpose determined by the Council; and

(ii) upon the authorization of the Executive Chairperson, any department, agency, or entity of the executive branch which has a member on the Council shall fund or participate in the funding of such activities.

(B) Revolving fund.

(i) In general. The Council may--

(I) establish in the Treasury of the United States a revolving fund to be called the Inspectors General Council Fund; or

(II) enter into an arrangement with a department or agency to use an existing revolving fund.

(ii) Amounts in revolving fund.

(I) In general. Amounts transferred to the Council under this subsection shall be deposited in the revolving fund described under clause (i)(I) or (II).

(II) Training. Any remaining unexpended balances appropriated for or otherwise available to the Inspectors General Criminal Investigator Academy and the Inspectors General Auditor Training Institute shall be transferred to the revolving fund described under clause (i)(I) or (II).

(iii) Use of revolving fund.

(I) In general. Except as provided under subclause (II), amounts in the revolving fund described under clause (i)(I) or (II) may be used to carry out the functions and duties of the Council under this subsection.

(II) Training. Amounts transferred into the revolving fund described under clause (i)(I) or (II) may be used for the purpose of maintaining any training academy as determined by the Council.

(iv) Availability of funds. Amounts in the revolving fund described under clause (i)(I) or (II) shall remain available to the Council without fiscal year limitation.

(C) Superseding provisions. No provision of law enacted after the date of enactment of this subsection shall be construed to limit or supersede any authority under subparagraph (A) or (B), unless such provision makes specific reference to the authority in that paragraph.

(4) Existing authorities and responsibilities. The establishment and operation of the Council shall not affect--

- (A) the role of the Department of Justice in law enforcement and litigation;
- (B) the authority or responsibilities of any Government agency or entity; and
- (C) the authority or responsibilities of individual members of the Council.

(d) Integrity Committee.

(1) Establishment. The Council shall have an Integrity Committee, which shall receive, review, and refer for investigation allegations of wrongdoing that are made against Inspectors General and staff members of the various Offices of Inspector General described under paragraph (4)(C).

(2) Membership. The Integrity Committee shall consist of the following members:

(A) The official of the Federal Bureau of Investigation serving on the Council, who shall serve as Chairperson of the Integrity Committee, and maintain the records of the Committee.

(B) Four Inspectors General described in subparagraph (A) or (B) of subsection (b)(1) appointed by the Chairperson of the Council, representing both establishments and designated Federal entities (as that term is defined in section 8G(a)).

(C) The Special Counsel of the Office of Special Counsel.

(D) The Director of the Office of Government Ethics.

(3) Legal advisor. The Chief of the Public Integrity Section of the Criminal Division of the Department of Justice, or his designee, shall serve as a legal advisor to the Integrity Committee.

(4) Referral of allegations.

(A) Requirement. An Inspector General shall refer to the Integrity Committee any allegation of wrongdoing against a staff member of the office of that Inspector General, if--

(i) review of the substance of the allegation cannot be assigned to an agency of the executive branch with appropriate jurisdiction over the matter; and

(ii) the Inspector General determines that--

(I) an objective internal investigation of the allegation is not feasible; or

(II) an internal investigation of the allegation may appear not to be objective.

(B) Definition. In this paragraph the term "staff member" means any employee of an Office of Inspector General who--

(i) reports directly to an Inspector General; or

(ii) is designated by an Inspector General under subparagraph (C).

(C) Designation of staff members. Each Inspector General shall annually submit to the Chairperson of the Integrity Committee a designation of positions whose holders are staff members for purposes of subparagraph (B).

(5) Review of allegations. The Integrity Committee shall--

(A) review all allegations of wrongdoing the Integrity Committee receives against an Inspector General, or against a staff member of an Office of Inspector General described under paragraph (4)(C);

(B) refer any allegation of wrongdoing to the agency of the executive branch with appropriate jurisdiction over the matter; and

(C) refer to the Chairperson of the Integrity Committee any allegation of wrongdoing determined by the Integrity Committee under subparagraph (A) to be potentially meritorious that cannot be referred to an agency under subparagraph (B).

(6) Authority to investigate allegations.

(A) Requirement. The Chairperson of the Integrity Committee shall cause a thorough and timely investigation of each allegation referred under paragraph (5)(C) to be conducted in accordance with this paragraph.

(B) Resources. At the request of the Chairperson of the Integrity Committee, the head of each agency or entity represented on the Council--

(i) may provide resources necessary to the Integrity Committee; and

(ii) may detail employees from that agency or entity to the Integrity Committee, subject to the control and direction of the Chairperson, to conduct an investigation under this subsection.

(7) Procedures for investigations.

(A) Standards applicable. Investigations initiated under this subsection shall be conducted in accordance with the most current Quality Standards for Investigations issued by the Council or by its predecessors (the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency).

(B) Additional policies and procedures.

(i) Establishment. The Integrity Committee, in conjunction with the Chairperson of the Council, shall establish additional policies and procedures necessary to ensure fairness and consistency in--

(I) determining whether to initiate an investigation;

(II) conducting investigations;

(III) reporting the results of an investigation; and

(IV) providing the person who is the subject of an investigation with an opportunity to respond to any Integrity Committee report.

(ii) Submission to congress. The Council shall submit a copy of the policies and procedures established under clause (i) to the congressional committees of jurisdiction.

(C) Reports.

(i) Potentially meritorious allegations. For allegations described under paragraph (5)(C), the Chairperson of the Integrity Committee shall make a report containing the results of the investigation of the Chairperson and shall provide such report to members of the Integrity Committee.

(ii) Allegations of wrongdoing. For allegations referred to an agency under paragraph (5)(B), the head of that agency shall make a report containing the results of the investigation and shall provide such report to members of the Integrity Committee.

(8) Assessment and final disposition.

(A) In general. With respect to any report received under paragraph (7)(C), the Integrity Committee shall--

(i) assess the report;

(ii) forward the report, with the recommendations of the Integrity Committee, including those on disciplinary action, within 30 days (to the maximum extent practicable) after the completion of the investigation, to the Executive Chairperson of the Council and to the President (in the case of a report relating to an Inspector General of an establishment or any employee of that Inspector General) or the head of a designated Federal entity (in the case of a report relating to an Inspector General of such an entity or any employee of that Inspector General) for resolution; and

(iii) submit to the Committee on Government Oversight and Reform of the House of Representatives, the Committee on Homeland Security and Governmental Affairs of the Senate, and other congressional committees of jurisdiction an executive summary of such report and recommendations within 30 days after the submission of such report to the Executive Chairperson under clause (ii).

(B) Disposition. The Executive Chairperson of the Council shall report to the Integrity Committee the final disposition of the matter, including what action was taken by the President or agency head.

(9) Annual report. The Council shall submit to Congress and the President by December 31 of each year a report on the activities of the Integrity Committee during the preceding fiscal year, which shall include the following:

(A) The number of allegations received.

(B) The number of allegations referred to other agencies, including the number of allegations referred for criminal investigation.

(C) The number of allegations referred to the Chairperson of the Integrity Committee for investigation.

(D) The number of allegations closed without referral.

(E) The date each allegation was received and the date each allegation was finally disposed of.

(F) In the case of allegations referred to the Chairperson of the Integrity Committee, a summary of the status of the investigation of the allegations and, in the case of investigations completed during the preceding fiscal year, a summary of the findings of the investigations.

(G) Other matters that the Council considers appropriate.

(10) Requests for more information. With respect to paragraphs (8) and (9), the Council shall provide more detailed information about specific allegations upon request from any of the following:

(A) The chairperson or ranking member of the Committee on Homeland Security and Governmental Affairs of the Senate.

(B) The chairperson or ranking member of the Committee on Oversight and Government Reform of the House of Representatives.

(C) The chairperson or ranking member of the congressional committees of jurisdiction.

(11) No right or benefit. This subsection is not intended to create any right or benefit, substantive or procedural, enforceable at law by a person against the United States, its agencies, its officers, or any person.

§ 12. Definitions

As used in this Act--

(1) the term "head of the establishment" means the Secretary of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Labor, State, Transportation, Homeland Security, or the Treasury; the Attorney General; the Administrator of the Agency for International Development, Environmental Protection, General Services, National Aeronautics and Space, Small Business, or Veterans' Affairs; the Director [Administrator] of the Federal Emergency Management Agency, or the Office of Personnel Management; the Chairman of the Nuclear Regulatory Commission or the Railroad Retirement Board;[,] the Chairperson of the Thrift Depositor Protection Oversight Board; the Chief Executive Officer of the Corporation for National and Community Service; the Administrator of the Community Development Financial Institutions Fund; the chief executive officer of the Resolution Trust Corporation; the Chairperson of the Federal Deposit Insurance Corporation; the Commissioner of Social Security, Social Security Administration; the Director of the Federal Housing Finance Agency; the Board of Directors of the Tennessee Valley Authority; the President of the Export-Import Bank; or the Federal Cochairpersons of the Commissions established under *section 15301 of title 40, United States Code*; as the case may be;

(2) the term "establishment" means the Department of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, Homeland Security, or the Treasury; the Agency for International Development, the Community Development Financial Institutions Fund, the Environmental Protection Agency, the Federal Emergency Management Agency, the General Services Administration, the National Aeronautics and Space Administration, the Nuclear Regulatory Commission, the Office of Personnel Management, the Railroad Retirement Board, the Resolution Trust Corporation, the Federal Deposit Insurance Corporation, the Small Business Administration, the Corporation for National and Community Service, the Veterans' Administration, the Social Security Administration, the Federal Housing Finance Agency, the Tennessee Valley Authority, the Export-Import Bank, or the Commissions established under *section 15301 of title 40, United States Code*, as the case may be;

(3) the term "Inspector General" means the Inspector General of an establishment;

(4) the term "Office" means the Office of Inspector General of an establishment; and

(5) the term "Federal agency" means an agency as defined in section 552(f) of title 5 (including an establishment as defined in paragraph (2), United States Code, but shall not be construed to include the General Accounting Office [Government Accountability Office]).

§ 13. Effective date

The provisions of this Act and the amendments made by this Act shall take effect October 1, 1978.

EXHIBIT 3

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General



APRIL 1, 2006 – SEPTEMBER 30, 2006

Semiannual Report to Congress



NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

Semiannual Report to Congress

REPORT NO. 34

APRIL 1, 2006 – SEPTEMBER 30, 2006





October 31, 2006

Honorable David Laney
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

This report, submitted pursuant to the Inspector General Act, summarizes the more significant audits, evaluations, and investigations for the six-month period ending September 30, 2006.

The OIG issued 17 audit reports in the last two quarters, including performing oversight work for the company's audited financial statements, evaluating Amtrak's procurement card implementation, performing federal grant compliance reviews for the New York Fire and Life Safety project, and conducting several other procurement reviews.

Our investigators and special agents opened 79 new cases in the past six months and closed 81 cases; 317 investigations remain active as of September 30. We made 13 criminal referrals to the Attorney General, obtaining one indictment, four declinations, three case resolutions, and five pending prosecutorial review. We continue to investigate several cases of employee-related fraud and embezzlement, with a number of employee administrative dismissals and subsequent successful prosecutions.

The OIG Inspections and Evaluations team issued a report on Amtrak's train fleet management processes, making a number of recommendations to improve asset management of rolling stock. We also issued a report regarding the potential financial impact of poor on-time performance affecting Amtrak's long-distance routes, drawing attention to the difficulty Amtrak has had in managing this important aspect of passenger service.

We have been increasing our outreach and coordination efforts with Amtrak's security partners. Working with the New York Police Department, we have assisted in promoting the Northeast Rail Coalition, a group founded by NYPD and Amtrak to increase state and local law enforcement support of Amtrak's security needs. We have also conducted further secu-

*Honorable David Laney
October 31, 2006
Page 2*



city reviews of several major urban stations, and we are making specific recommendations to management with regard to needed infrastructure counter-measures.

I appreciate your and the Board's continued support of the OIG's oversight efforts. We look forward to working with you in the coming new fiscal year.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General

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Inspector General Viewpoint

FY 2006 YEAR-END FINANCIAL RESULTS

Amtrak completed the fiscal year with \$2.017 billion in total revenue (\$1.565 billion in passenger related revenues), and total expenses were \$2.940 billion. Amtrak's adjusted losses, before depreciation, were \$1.127 billion, \$101.8 million better than budget, and \$65.5 million better than last fiscal year.

Stronger than expected passenger revenues helped drive improved revenue performance, with notable performance improvements from corridor services, including Amtrak's Northeast Corridor Regional trains, California's Pacific Surfliners and San Joaquins, and the Carolinian. All long distance trains also showed revenue growth. Total operating expenses were unfavorable to budget and to last year, with favorable results from salaries and wages offset by increased expenses in fuel and material expenses.

Capital investments were \$117.1 million, 16 percent less than budget. The available operating cash budget at year-end was \$215.1 million, with cash balances being higher predominantly due to lower than expected capital spending.

AMTRAK'S STRATEGIC REFORM INITIATIVES UPDATE

In previous Semiannual Reports, I commented on the company's efforts to act on several major strategic initiatives, which were embodied in the Strategic Reform Initiatives (SRIs) provided to Congress (April 2005). I have included some prior comments with this report. The full text of the plan is at www.amtrak.com located at "Inside Amtrak" and other related reports are found at the Amtrak Web site.

Since my last report, some SRI projects have advanced, but other initiatives remain in the planning stages. The OIG agrees with management that the company must undertake a different approach to managing the company in order to reduce reliance on federal operating subsidy, and we are encouraged by the SRI efforts to date. From my perspective, here are some of the challenges.

State Rail Corridors – Amtrak has had considerable success in the past in working with its state rail partners. These successes arose from a legislated program (403(b) of the rail Passenger Service Act, since superseded) whereby the participating state agreed to fund various levels of avoidable operating losses of the contracted service. Over time, depending upon the willingness of the state to accept passenger rail service as a needed transportation mode, various states contributed both to the operating and capital needs for corridor development. California and Washington State,



Pacific Surfliner | San Diego, CA

in particular, expanded passenger rail service, investing heavily in stations, equipment acquisition, and operations.

Shorter distance rail passenger services represent real growth opportunities for Amtrak, as an operator, maintainer, and supplier of various passenger rail services. The Strategic Reform Initiative calls for new legislation whereby states can apply for matching federal funds (programs similar to highways/transit) to grow passenger rail in their state.

The challenge for Amtrak is to continue to offer services that current, and prospective, state partners perceive as 'value added' and worthwhile. Most states are willing to pay more for Amtrak in their state, but as their payments increase, they will want to see higher quality, more reliable service. Additionally, the participating states do not necessarily perceive a 'level playing field' in that some state corridor services evolved as part of Amtrak's base system. These corridor services were not covered by the former 403(b) program, or by any other state-supported contract, but rather the services were holdovers from the former designated national system prescribed by Congress.

Included in the "Lott-Lautenberg" draft bill (S. 1516) are provisions that over time will grant states greater access to federal matching monies for passenger rail expansion. Section 302 of the draft bill allows that each state prepare and maintain a state rail plan that will establish the authority and criteria for submitting eligible plans to the Secretary of Transportation for consideration for a long range rail investment. The OIG believes that these state rail authorities, and subsequent plans, will be critical to the success of both intra-state, as well as interstate, rail passenger service growth, and we encourage Amtrak management to position itself to take full advantage of this legislative opportunity.



Regional | Schuylkill River Bridge, Philadelphia, PA

Northeast Corridor: State of Good Repair – Much of Amtrak’s capital budget in recent years has been invested in restoring the ‘state of good repair’ to the Northeast Corridor.

The OIG is in strong support of this initiative, but we believe more work is required to bound the effort and lay out a more rigorous analysis of return on capital invested. Amtrak needs to delineate specifically the results of these programs. For example, Amtrak can prescribe a level of utility (class of track to permit high-speed operations) for all sections of the Northeast Corridor track infrastructure. Amtrak can categorize the incremental costs for maintaining track at Class 7 (MPH) or Class 8 (MPH), and can tie revenue projections to scheduled performance. Other efforts can be oriented to major bridge and tunnel work, e.g. - to keep the useful life of an asset within 90 percent of its expected useful life before replacement). Additionally, a more complete inventory of major programs and projects, by asset type, should be maintained and shared with Congress and rail partners.

The Board also expects that the actual costs for maintaining the Northeast Corridor infrastructure should be re-examined, and, as necessary, be re-apportioned among the Corridor users. While there are a number of joint benefit funding agreements in place with the major users of the Corridor, not all users participate in these agreements, and there are disagreements as to what capital and operating expenses are incremental and should be shared. The existing agreements must be honored through their contract terms, and more studies around cost sharing must be conducted. Additionally, new contractual arrangements will have to be negotiated with those states and regional authorities as directed by the Board.

Within S. 1516, Congress also is calling for changes with respect to how Amtrak plans for achieving a ‘state of good repair’ by FY 2011. Congress will require that a capital spending plan be submitted to the Secretary of Transportation for review and approval.

National Long Distance Operations – One of the more contested area of Amtrak’s operations is the operation of its long distance train services. There have been many studies conducted since Amtrak’s inception that attempt to describe, rank order, and make recommendations to restructure the national route structure. Until 1997, Congress had mandated specific performance guidelines that attempted to set a ‘threshold’ by which determinations could be made to continue, or discontinue, any given route. Today, Amtrak has the ability to re-structure its national route system, but there is no consensus among Amtrak’s various stakeholders as to how this may be accomplished.

The challenge for the Board, and Amtrak management, is to build the necessary consensus for examination of the route structure, select the appropriate performance criteria (financial/ridership), and then to establish a timetable by which routes would achieve those criteria, or be subject to elimination. S. 1516, Section 210, calls for a re-appraisal of all long-distance routes, with required remediation, and possible restructuring, over time.

Ancillary Businesses – The Board has directed that management closely examine its ‘non-core’ businesses, that is, its operation of commuter services, real estate, commercial activities, and reimbursable work. These businesses provide a net profit to Amtrak, and the Board desires that Amtrak manage these business lines more closely to ensure these activities complement, rather than detract, from core activities.

The OIG agrees with the general directive of the Board, but the OIG also believes there is more opportunity for Amtrak to leverage its assets, both physical and human capital assets. Amtrak has made several decisions in recent years to remove itself from some business lines, including some commuter operations and the mail and express business. We agree with some of those decisions, but we also believe there has not been sufficient analysis to remove Amtrak from all parts of such businesses. For example, prior to Amtrak’s foray into the express business, Amtrak’s handling of U. S. mail was a profitable business line.

SAFETY & SECURITY

SAFETY

Amtrak has reinstated its System Safety program, but the program is not as fully integrated and as visible as we believe it should be. We repeat our recommendation now to the company that more effort and attention must be paid to this vital performance area.

SECURITY

In September 2006, the OIG sponsored the Washington meeting for the regional Anti-Terrorism Advisory Council (ATAC). ATAC is an FBI-sponsored group that involves local and regional law enforcement in an information-sharing forum, and Amtrak OIG agents participate in several ATAC meetings across the country.

The OIG reiterates its concern that more federal funds should be available for passenger rail security counter-measures. While Amtrak finally became eligible to receive a portion of new security-related appropriations for rail and transit operations, Congress must do more to address the shortfall, particularly in the area of adding canine units, improving retention of Amtrak Police, and acting on recommendations included in Amtrak's security funding plans.

CONCLUSIONS

The OIG supports the passage of S. 1516, and we believe many of the bill's provisions may result in positive changes for Amtrak and our nation's passenger rail services.

Amtrak needs to find its place as part of a more integrated and rationalized national transportation plan.



Sunset Limited | Louisiana

Amtrak Profile

BACKGROUND

Amtrak is incorporated under the District of Columbia Business Corporation Act in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Amtrak is governed by a seven-member Board of Directors appointed under the Amtrak Reform and Accountability Act (December 2, 1997). The company operates as a for-profit corporation providing inter-city rail passenger service as its principal business.

Amtrak operates more than 260 daily inter-city trains over 23,000 route miles serving over 500 communities in every state but two in the contiguous United States. Of this route system, Amtrak owns the right-of-way of more than 2,600 track miles in the Northeast Corridor. This includes Washington, DC-New York City-Boston, Philadelphia-Harrisburg, New Haven-Springfield, CT and short segments in Michigan and New York. Amtrak also operates rail services in several areas around the country under contract with state and regional commuter authorities.

Amtrak owns many of its passenger stations and also leases other stations from the freight railroads. It owns most of the maintenance and repair facilities for its fleet of about 2,000 cars and locomotives. Amtrak employs 20,000 persons, of which about 18,000 are agreement-covered employees. These employees work in on-board services, maintenance of way, station and reservations services, and other support areas. Outside the Northeast Corridor (NEC), Amtrak contracts with freight railroads for the right to operate over their tracks. On their property, the host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.

OIG PROFILE

Amtrak's Office of Inspector General (OIG) was formed under the provisions of the Inspector General Act Amendment of 1988. The OIG is an independent entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel and to promote economy and efficiency in Amtrak operations. The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG also audits and evaluates Amtrak operations and assists management in promoting integrity, economy, efficiency, and effectiveness. The OIG consists of the following offices with specific responsibilities:

The **Office of Audits** is responsible for conducting independent reviews of Amtrak's internal controls; overseeing and assisting audits of Amtrak's financial statements; reviewing information technology programs and information security; providing accounting counsel to, and oversight of, Finance Department operations; reviewing certain procurements and material acquisitions for appropriateness of cost and pricing and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

The **Office of Investigations** is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. It is also charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Office of Inspections and Evaluations** is a hybrid unit within the OIG whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies. The evaluative process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve program cost efficiency and effectiveness, management, and the overall quality of service delivery throughout Amtrak.

The **Office of Counter Terrorism and Intelligence (CT&I)** is responsible for facilitating, and overseeing projects and tasks pertaining to rail security, counter-terrorism and intelligence related to the country's war on terrorism. CT&I also works with external agencies to provide focus on the importance of rail security and the need for integrated approaches for addressing the many challenges in securing an open-architecture rail passenger system.

OIG personnel are located in eight offices in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Office of Audits

SIGNIFICANT AUDIT ACTIVITIES

INTERNAL OPERATIONS REVIEWS

Control Deficiencies were noted in record-keeping, follow-up, and segregation of duties.

Report #108-2005 – Issued 07/27/2006

The Amtrak Police Department (APD) participates in a federal asset-sharing program known as the Federal Equitable Sharing Program. This program is authorized under the Comprehensive Crime Control Act of 1984 (Act). The Act authorizes the Attorney General to share proceeds from seized assets with participating state and local law enforcement agencies. The objective of this audit was to determine if APD was complying with the procedures outlined in the guide published by the Department of Justice (DOJ) in March 1994 and a subsequent addendum in March 1998.

The audit identified that there are inadequate record keeping and follow-up processes in place to ensure that all funds due Amtrak are claimed and received in a timely manner. Thirteen percent of the claims in the audit sample were not filed within the 60 day deadline required under the Department of Justice Guide. In addition, Amtrak police department had not implemented internal control procedures with respect to segregation of duties over the processes for cash receipts and disbursements, banking relations, and procurement; and cash and other assets obtained through the sharing funds are not recorded on Amtrak's books.

APD agreed with the OIG recommendations and is taking steps to implement corrective actions.

Financial Statement Preparation – The Balance Sheet Account Reconciliation area lacks a comprehensive procedures manual, and some strengthened process controls.

Report #111-2005 – Issued 09/08/2006

Amtrak management has been implementing corrective actions to remedy the internal control weaknesses arising from a material weakness finding with Amtrak's FY 2001 financial statements. Since then, as part of their annual audits, Amtrak's external auditor, KPMG, made a number of follow-up assessments of Amtrak's internal controls and indicated that management had addressed many of the deficiencies earlier identified. These control issues were addressed in subsequent Management Letters issued by KPMG. This audit was a continuation of the OIG oversight over Amtrak's progress in implementing the corrective action plan and specifically addressed the Balance Sheet Account Reconciliations.



Adirondack | Plattsburgh, NY

The objective of this assignment was to review the internal control processes established by Amtrak's Finance Department and determine if the balance sheet accounts were reconciled in a timely manner, adequate supporting documentation was maintained to support the general ledger account balances, and any reconciling differences were properly analyzed and resolved.

Overall, compliance was satisfactory except for the following: Audit identified that there are inadequate written procedures for performing many balance sheet account reconciliations, accounts reconciled by Corporate Accounting and Chicago Union Station Corporation (CUSCO) were not subject to an oversight review, and account reconciliations for the Employee Overpayments account lacked adequate documentation to substantiate the amount owed to Amtrak; and the reconciliations for the Lead Service Attendant Suspense account were not properly analyzed or supported by adequate documentation.

The OIG recommended that Finance implement relevant process controls, and dedicate sufficient resources to prepare a comprehensive procedures manual for performing balance sheet account reconciliations. The Controller agreed with our recommendations and provided an action plan to implement corrective actions.

Emergency Exchange Voucher Review – The process does not adequately document station management's review of transactions

Report #207-2006 – Issued 4/17/2006

The OIG performed a review of Emergency Exchange Vouchers (EEV) transactions that were reported by Washington Union

Station (WUS) between October through December 2005 to determine if EEVs were processed in accordance with established company procedures. EEVs are used locally to assist passengers who are seriously inconvenienced due to service disruptions. We determined that the station's EEV process does not adequately document station management's review of EEV transactions and that the documentation supporting these transactions does not consistently comply with procedures. In addition, management could not determine whether tickets were collected in cases where alternate transportation was provided as the collected tickets were not attached to the EEV. Management agreed with our findings and recommendations and will take appropriate corrective actions.

Etrax Procurement P-Card System – Internal Control Weaknesses Noted

Report #202-2005 – Issued 6/19/2006

We completed a review of Procurement Card (Pcard) charges processed through the Electronic Transaction Express (eTrax) Software System to determine the level of compliance with Amtrak's policies and procedures related to Pcard transactions. We found varying degrees of non-compliance with the Pcard reconciliation and approval process and recommended improvements and discussed revising and updating manuals and instructions and the need to determine corrective action or revised training requirements. Management has already initiated certain corrective actions. Amtrak's Accounts Payable Department has also agreed to perform monthly audits. In addition, a new eTrax report will be created that identifies all Pcard reconciliation transactions that are in violation of the policy for follow-up by Accounts Payable. Other corrective actions involving Pcard applications, Pcard limits and other issues have also been taken.

CONTRACTS/GRANTS

Grant Agreement for New York Tunnels Fire and Life Safety Improvements – Fire Suppression System Installation Project-Non-compliance with the Grant Agreement, accounting errors and internal control weaknesses noted.

Report #107-2005 – Issued 8/1/2006

Fire and Life Safety – Working Capital Advance – Amtrak complied with the conditions of the Grant Agreement when the fund was liquidated

Report #213-2006 – Issued 05/22/2006

During this reporting period, the OIG performed two Grant Agreement compliance audits and issued two separate reports. The review of the Fire Suppression System Installation Project

(Report #107-2005) disclosed various miscodes of project costs, certain project costs were not included in billings to Long Island Railroad and adequate contractor records were not maintained. The audit for the liquidation of the Working Capital Advance fund (Report #213-2006) was found to be in compliance with Amendment No. 1 of the Agreement (DTFRDV-02-G-60034).

Attleboro Agreement - Amtrak proceeded with capital improvements without formally requesting funding from the MBTA as required by the Attleboro Agreement. Report #217-2005 – Issued 9/29/2006

The OIG reviewed the contract administration and management of the Attleboro Agreement in which Amtrak provides maintenance of way and dispatching services on the MBTA portion the Northeast Corridor. The Agreement requires that Amtrak shall submit an annual report to the MBTA listing the capital improvement projects that Amtrak recommends the MBTA to fund and undertake in each of the five years following the date of the report. In accordance with the Agreement, the MBTA is responsible for securing funding for the projects. Amtrak has been inconsistent in submitting the required information and in obtaining response from the MBTA. Amtrak requested a "2004 Capital Requirements for the Attleboro Line" outlining the proposed capital projects to be completed over the next year. Amtrak also submitted a more formal Recommendation for Recapitalization Report that covers FY 2006 through FY 2010 proposed capital projects. A request for FY 2005 capital improvements was not submitted. In addition, Amtrak has not received a response from MBTA to either request for capital improvements. As a result, Amtrak continues to incur all the capitalization costs for the Attleboro Line.

We estimated that during a two-year period (FY 2004 and FY 2005), it cost Amtrak approximately \$22.7 million to operate and maintain (including capital improvements) the Attleboro Line. Approximately \$13.9 million of the costs consisted of capital improvements. Amtrak proceeded with capital improvements without formally requesting funding from the MBTA as required by the Attleboro Agreement.

Management agreed with our recommendation that a five-year recapitalization report must be submitted annually to the MBTA and that a response be sought from the MBTA with respect to that report. Additionally, management recommends a review be made to identify items of specific benefit to the MBTA before the request is made. We will continue to monitor the administration of this important contract.



Pennsylvanian | Amish Farmland, PA

PROCUREMENT CONTRACTS

Kiewit Construction Company Audit Identified \$244,947 in Questioned Costs Report Number: 503-2005 – Issued 07/11/2006

Amtrak's Procurement Department requested an audit of the base contract and a contract modification awarded to Kiewit Construction Company for Phase I work related to Amtrak's Holgate Street Improvement Project, and Phase II work south of Holgate in Seattle, Washington. Of the net proposed total of \$4.1 million, our audit identified \$244,947 in questioned costs related to overstated or overestimated proposed costs for subcontractor work, jobsite overhead, allowances, insurance and bonds, and associated overhead and profit additives. Additionally, we identified a minor questioned cost of \$9,313 related to items outside the initial audit scope. The OIG recommended that the questioned costs be recovered in accordance with the contract terms.

In its July 2006 response, management agreed to use the audit findings to reach a negotiated settlement with the Contractor. By September 2006, a settlement amount had tentatively been agreed to with Kiewit representatives. However, Kiewit's senior management's approval had yet to be obtained. A closing settlement is anticipated in the next reporting period.

Cleveland Track Material, Inc. Report #201-2006 – Issued 8/15/2006

We reviewed the contractor's proposed costs for modifications to slip switches at Penn Station, New York. We determined that the contractor had erroneously included interest expense, entertainment meals and contributions in its general and administrative overhead pool. We recommended to management that these erroneous expenses be disallowed.

Bombardier First Class Car Repairs – Costs Were Overstated Report #202-2006 – Issued 9/25/2006

The purpose of our review was to verify the accuracy and acceptability of the cost and pricing data shown on Bombardier's final invoice of \$882,294 for the wreck repair of an Acela First Class Car. We determined that the audited costs were \$845,652. Additionally, we found that Amtrak management negotiated and signed a final contract agreement which included modifications to the audit and inspection of records clause without consulting our office.

LEASE AUDITS

KWO Associates Lease Audit – The tenant's hours of operation differed from those listed in the Lease Agreement and Gross Sales were under reported for calendar year 2004 Report #214-2006 – Issued 09/08/2006

Our review of the tenant's reported Gross Sales to Amtrak for calendar year 2004 disclosed that sales were under reported, which resulted in an additional minor payment to Amtrak. Also the utility fee was increased by 30% to compensate Amtrak for an increase in the tenant's hours of operation, which were above the hours listed in the Lease Agreement.

RAILROAD AUDITS

CPR/SOO – On-Time Performance Incentives Audit \$33,056 Excess Billings Identified Report #405-2005 – Issued 5/16/2006

Under the April 16, 1971 Agreement provisions, the Canadian Pacific Railroad (CPR) bills Amtrak each month for specific services and facilities for intercity rail passenger operations. During this reporting period the OIG continued its efforts in reviewing the on-time performance incentives and identified an additional \$33,056 in excess and unsupported billings for the period January 2002 through May 2004. CPR representatives and Amtrak management agreed with the finding. Amtrak agreed to initiate a final settlement letter and has collected monies due Amtrak.

CPR/SOO – Non-On-Time Performance Items Audit Basis for Contract Provisions were Misleading Report #407-2005 – Issued 6/2/2006

The OIG performed a compliance audit on the April 16, 1971 Agreement between The National Railroad Passenger Corporation (Amtrak) and the Canadian Pacific Railway (CPR), successor of the SOO Line Railroad and the Chicago, Milwaukee, St. Paul, and

Pacific Railroad Companies, for intercity rail passenger operations on tracks and properties owned by CPR. Under the agreement provisions, the CPR bills Amtrak each month for specific services and facilities for intercity rail passenger operations. The period reviewed - January 1, 2000 through May 31, 2004 - included all non-on-time performance billable accounts. The audit sample represented \$5,300,793 or 95 percent of the total amount billed for these items. We found that the services or activities for which payment was made did not clearly relate to the agreement and recommended that management collect \$1,910,812 for services not performed. Management agreed that the basis for payment of administrative costs was misleading under the agreement, and has subsequently renegotiated a revised agreement that modifies the payments rendered.

Based on management’s response and discussions with the Law Department, it was determined that of the \$1,910,812 identified, \$563,522 pertaining to the audit period does not appear to be collectable and will be categorized as funds to be put to better use; \$370,060 pertaining to the period subsequent to the audit period will be revisited in the next CPR audit of the new contract; and \$977,230 pertaining to the questioned D&H NRPC Officer payments from 1991 to May 2004 are covered by a separate agreement between Amtrak and D&H, that should be addressed by a separate D&H audit.

UNRESOLVED AUDIT ISSUES

Appendices 1 and 2 show the status of management decisions on audit recommendations and dollar values of questioned costs, unsupported cost, and funds to be put to better use.

Section 5(a)(10) of the Inspector General Act of 1978 as amended requires “a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. . .” Such reports are shown in Appendix 1 and 2. Section 5(a)(11) requires “a description and explanation of the reasons for any significant revised management decision made during the reporting period.” There were none during this reporting period. Section 5(a)(12) requires “information concerning any significant management decision with which the Inspector General is in disagreement.” Again, no such decisions were made during this reporting period.”

MANAGEMENT RESPONSES OVER 180 DAYS OLD FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

The following items were reported in previous semiannual reports. As of this reporting period, there are no significant developments to report.

Southern Pacific Central States Line – Questioned Costs Not Yet Resolved

	<i>Semiannual Period Ending</i>	<i>Response Date</i>
Report #01-506 –	09/30/2001	09/04/2001
Report #01-507 –	09/30/2001	09/04/2001
Report #01-508 –	09/30/2001	10/12/2001
Report 01-509 –	09/30/2001	10/12/2001

Audit Questioned \$4 million of Commissary Services Contract Costs – Corrective Action Not Yet Completed Report #218-2004 - Response 7/16/2004

The following are either new items within this category or items that have been included in previous Semiannual reports and additional information has been reported.

CSXT – Non-On-Time Performance Items Audit \$1,003,964 Erroneous Billings Identified Report #01-105 – Response 8/20/2001

On April 27, 2005, OIG officials met with CSXT internal and external counsel to discuss outstanding non-OTP audit findings approximating \$1 million. CSXT counsel stated that they did not want to discuss the audit findings in detail, but proposed a negotiated settlement of \$400,000 to close the audit period through May 1999, with the stipulation that this amount would include all OTP billings. The offer is unacceptable to Amtrak and no further contact has occurred with CSXT since April 27, 2005 regarding this matter.

CSX – NY High Speed Line Agreement Report #207-2003 – Response 5/18/2005 Report #222-2005 – Response 3/8/2006

We identified \$217,537 in questioned costs related to CSXT’s use of certain tracks. Management has yet to reach a settlement with CSXT on these findings.

**Kiewit Pacific Company – Oakland Maintenance Facility
Report #502-2005 – Response 01/10/2006**

On December 21, 2005, OIG issued a report to Procurement identifying questioned costs of \$329,753 for a roof over the Service and Inspection building in the new Oakland Maintenance Facility. Kiewit representatives requested that the proposed adjustments be delayed and settled simultaneously with their Seattle Holgate project. (See Audit Report: 503-2005 under Procurement Audits issued in this reporting period)

In September 2006, management advised that negotiations on the Kiewit Oakland audit had been concluded. Management further indicated that it was awaiting Kiewit senior management’s approval of the proposed settlement amount. Settlement is anticipated in the next reporting period.

**Amtrak’s Overtime Expenses – Internal Controls Issues
Not Yet Resolved
Report #205-2003 – Response 4/20/2005**

We received a response from management addressing our findings. Management will ensure proper training and oversight of timekeepers and ensure the completion of payroll operation field audits. Recently, management informed us that they expected to update FI-4 during FY 2007 based on our audit recommendations. A draft of FI-4 was recently reviewed by us and returned to Amtrak’s Controller Office for further discussion. We will continue to monitor.

**Reimbursable Work Trains – Actions Still Being
Considered
Report #212-2003 – Response 10/28/2003**

We recommended that Amtrak establish a more efficient system to fuel Mid-Atlantic work trains. We recently met with management to discuss the issue and management agreed to further review our recommendation and respond to us.

**eTrax Payment Requests – Fiscal Year 2003 Procedures
Not Followed and Internal Control Weaknesses Noted
Report #202-2004 – Response 1/14/2005**

The OIG review of eTrax payment request identified several weaknesses in internal controls.

We made several recommendations which management has addressed. We are performing follow-up work to determine if the controls have been strengthened and improvements have been made.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 4/1/06	55
Audit projects postponed or cancelled	13
Audit projects started	19
Audit reports issued	17
Audit projects in progress 9/30/06	44

Audit Findings

Questioned costs	\$311,197
Unsupported costs	\$12,928
Funds to be put to better use	\$15,854,469
Total	\$16,178,594

**Mass Transit – Termination for Default for Superliner I
Overhaul
Questioned Costs \$63,184
Report #219-2005 – Response 1/25/2006**

At the request of Amtrak Procurement department, the OIG performed a limited review related to the termination for default of a contract. The project was terminated due to the contractor’s failure to timely and satisfactorily perform its obligations under the contract. Amtrak is negotiating a final settlement with the contractor.

**Etrax Trip Manager Review – Agreed to Actions in
Progress
Report #215-2005 – Response 9/9/2005**

In OIG’s previous review of the Etrax Trip Manager System, Amtrak management agreed to write a procedure to address the approval process for inconvenienced passenger and union employee airfares. Management also agreed to resolve operational issues and have airfares paid through the Pcard program. These actions are still in process.

**Parsons, Brinckerhoff, Quade & Douglas – Negotiations of
Proposed Labor Costs in Progress
Report #211-2005 – Response 1/30/2006**

We reviewed the contractor’s proposed labor costs and cost questioned \$29,677 in certain labor costs. Management is currently negotiating a settlement with the contractor.

Office of Investigations

CASE STATUS OF INVESTIGATIONS

4/1/06 – 9/30/06

Total Open Cases as of 4/1/06	319
Closed Cases	81
Opened Cases	79
Total Ongoing Cases as of 9/30/06	317

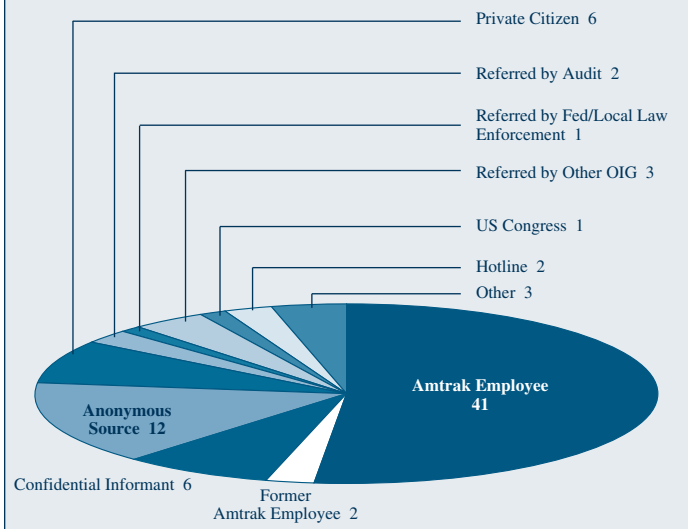
CASE HANDLING

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 317 investigations; in the last six months, we opened 79 cases and closed 81 cases.

As shown below, under “Sources of Allegations”, employees and anonymous source referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 41 of the 79 allegations of 51 percent. All allegations are reviewed, screened and resources are allocated based upon, among other things, the seriousness of the allegations and potential harm to Amtrak or the public.

SOURCES OF ALLEGATIONS

4/1/06 – 9/30/06



The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE twenty-four hours a day by calling Amtrak Telephone System number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., OIG staff answers the calls on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine. In addition, people can write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received two telephonic HOTLINE complaints during this reporting period. The HOTLINE complaints received during this reporting period were from a private citizen and an Amtrak employee.

HOTLINE STATISTICS

4/1/06 – 9/30/06

Total

Hotline Complaints Received	2
Sources of Hotline Complaints	
Amtrak Employee	1
Private Citizen	1
Classification of Complaints	
Theft/Embezzlement	2
Complaints Referred To:	
OI Field Offices	0
Office of Diversity	0

SIGNIFICANT INVESTIGATIONS

Fraud takes on many forms and can be committed through many methods, including mail, wire, phone and the Internet. Organizations that fail to implement measures to prevent and detect internal fraud assume significant risk. As a result, the OIG spends considerable time and effort towards identifying and addressing the many types or forms of fraud. Illustrative of such investigations are those mentioned below.

- A former Amtrak Assistant conductor based in Shelby, Montana, pleaded guilty in the United States District Court for the District of Montana, Great Falls Division, to violation of 18 U.S.C. 666(a) (1) (A), Theft from Amtrak—An

Organization Receiving Federal Funds. The former Conductor failed to remit over \$21,000 in Amtrak funds he obtained from on board ticket sales.

- The OIG's investigation found that a Pacific Surfliner conductor withheld remittances for nearly a year. The investigation identified \$8,687.35 owed to Amtrak. The OIG presented the case to the San Luis Obispo District Attorney's Office. The conductor was arraigned and charged with Grand Theft. The conductor subsequently pled guilty to the charge and was ordered to pay restitution to Amtrak in the amount of \$8,687.35.
- The OIG determined through an investigation that an Amtrak Station Manager utilized Emergency Exchange Vouchers (EEV) to reimburse himself. On several occasions the manager reimbursed himself with the EEV and again submitted expense reports for expenditures already reimbursed or having been credited because of cancellations. The manager was terminated and the case was presented to the Assistant U. S. Attorney for consideration.
- A former Amtrak Conductor based out of Charlotte, North Carolina was terminated from Amtrak for dishonesty stemming from misappropriation of cash fare tickets sold aboard Amtrak trains. Subsequent to progressive appeals made by the conductor, the Public Law Board (Board) upheld the conductor's termination, citing that the conductor failed in his responsibilities to utilize proper revenue handling. The conductor also claimed that the OIG went beyond the established time limits of scheduling a company investigation (twenty days from management's first knowledge of the incident). The Board determined that the OIG is "independent of Amtrak" and the OIG notification to the Carrier's Management was timely (six days). Consequently, the Board found no procedural issues.
- The OIG received an allegation stating that a union employee was misusing their personal rail pass privileges and time off attributed to the Family Medical Leave Act (FMLA). The subsequent investigation proved that the employee was falsifying time under FMLA, allowing non-authorized family members to use the employee rail travel privilege pass, and found that the employee was issuing illegal rail refunds to himself. The employee was formally charged with these allegations, but signed a Voluntary Waiver of Formal Investigation to avoid prosecution. As a result, the employee has been permanently disqualified from holding any positions within Amtrak dealing with finance, was issued a 30-day suspension and was required to pay complete restitution to Amtrak prior to returning to service.

JOINT INVESTIGATIONS

- During this reporting period, a joint investigation between the OIG, United States Postal Service, United States Secret Service and the Federal Bureau of Investigations regarding identify theft, fraudulent cashing of checks and the use of fictitious Amtrak identification cards was conducted. Several individuals were involved in fraudulent check cashing estimated of over \$500,000. This joint investigation led to the successful prosecution of three individuals through the United States Attorney's Office.

FRAUDULENT MISUSE OF AMTRAK ASSETS

- As the result of an allegation, the OIG conducted an investigation into the Reprographics Department and the use of Amtrak supplies and machinery to perform outside copy jobs for either the Reprographics employees or others during company time. The subsequent investigation substantiated the allegations as well as the finding that one employee regularly used their Amtrak-issued cell phone for personal business. The employees had utilized Amtrak equipment and supplies for personal and third party projects. The OIG recommended that management take appropriate disciplinary action as well as implement better internal controls and monitoring practices.

EFFICIENCY AND EFFECTIVENESS

In addition to detecting and deterring fraud, waste, abuse and wrong doing in Amtrak's programs and operations, OIG investigations also provide information and recommendations to company employees and officials towards improving efficiency, effectiveness and adaptability. During this reporting period, OIG investigations have led to recommendations towards quality improvement to which management responded positively and implemented, for the most part, in their entirety as detailed below:

- The OIG received an allegation that the integrity of Amtrak's monthly Random Drug Testing Program and the roster of employees eligible for testing may have been compromised in the New York Division. While we did not substantiate the allegations, the OIG determined that serious deficiencies existed in the actual testing protocol. The OIG recommended, via referral, that management take corrective action to correct the deficiencies, and improve security issues to preserve the integrity of the testing protocol. Management responded favorably to the majority of the recommendations, and implemented key recommendations.

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

4/1/06 – 9/30/06

Type	Number
Fraud	19
Theft/Embezzlement	12
Bribery	1
False Claims	2
False Statements	2
False T&A Issues	1
Other – Criminal	10
Waste	5
Abuse of Position	11
Mismanagement	4
Conflict of Interest	2
Administrative Inquiries	4
Other Administrative	6
TOTAL	79

- The OIG conducted a proactive review of all New England Division (NED) Engineering Department vehicles with alternative garaging privileges. The analysis resulted in identifying commuting gasoline costs for all NED Engineering Department vehicles to be about \$336,223 per year. As a result of the analysis, a recommendation was made that all take home vehicle justifications be reviewed to determine if they are necessary and cost effective.
- The OIG conducted an investigation which substantiated allegations that an Amtrak operational department had systematically spent exorbitant funds (exceeding thousands of dollars) on promotional materials, functions, meetings, training sessions, and other events; and that senior managers had circumvented Amtrak's financial system of checks and balances by disguising the nature and extent of the spending, including falsifying supporting documents and structuring payment requests. As a result of the OIG's findings one high-level manager was terminated and another demoted, and the system by which this department's spending is overseen has been tightened significantly.

PROSECUTIVE REFERRALS

4/1/06 – 9/30/06

Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	1	0	1
Convictions/Pleas	0	0	0
Pending*	5	0	5
Declinations	4	0	4
Resolved	3	0	3
TOTAL			13
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	1	0	1
TOTAL			1
Total Civil and Criminal			14

*Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution, or other resolutions.

CONFLICT OF INTEREST

- The OIG investigated an allegation that certain New England Division Engineering Division employees may have violated Amtrak's Conflict of Interest Policy by engaging in personal business transactions with vendors doing business with Amtrak.

Our results identified that at least one (1) employee did, in fact, contract for personal business services with a firm simultaneously engaged in business with Amtrak; and that the employee(s) immediate supervisor had knowledge and did not report the conduct to higher authorities.

We recommended that management prohibit the employee from further work with the vendor, and recommended disciplinary action as appropriate, or necessary. Management implemented the recommendations.



Chicago, IL

ATTENDING TO DUTIES

- The OIG performed a facility check at a New York mechanical facility and discovered some employees were not attending to their duties by either sleeping on the job or they were not present for duty during their scheduled hours of service. As a result two Amtrak managers and three union employees were disciplined and a new security system was installed at the entrance to the facility building.

TIME AND ATTENDANCE REVIEWS

- The OIG conducted an investigation into a North Carolina Baggage Handler, who was alleged to be punching in at the time clock and either leaving the station without permission or refusing to work. It was also alleged that the employee asked other employees to punch in their time card when they were going to be late. As a result of the investigation, the Baggage Handler was charged with violations under Amtrak's Standards of Excellence and received a letter of counseling.

REVENUE PROTECTION EFFORTS

The Revenue Protection Unit (RPU) provides critical guidance and support in the strengthening of management accountabilities and responsibilities as well as internal controls.

RPU INITIATED FOOD & BEVERAGE REVIEWS

Amtrak provides food and beverage service to millions of passengers each year through sales conducted on board trains in Café Cars and Dining Cars, provided on select trains. These sales generate millions of dollars in revenue each year as well as provide an opportunity for revenue abuse by dishonest employees.

During this reporting period, through observations and analysis of the applicable programs, systems and documents, RPU prepared and distributed seventy-four (74) administrative referral letters on two union positions, Lead Service Attendant (LSA) and Debriefing Clerk, that have some responsibility in accounting for food and beverage usage.

At the close of the reporting period, sixty-one (61) responses have been received with discipline ranging from verbal or written counseling's to formal reprimand or suspensions and final warnings. In addition, several procedural changes have been addressed and adopted to reinforce accountability and responsibility for LSAs.

Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

AMTRAK MECHANICAL OPERATIONS

In September 2005, we issued report E-05-04, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, we recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications.

Our report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past year we have been working with the Mechanical Department to help them implement our recommendations.

■ **Implementation of Reliability-Centered Maintenance**

To assist the Mechanical Department in evaluating the possible use of Reliability-Centered Maintenance, we engaged a consulting firm, T-solutions, who had facilitated the implementation of RCM at both the U.S. Navy and the U.S. Coast Guard. We recommended that the initial efforts to determine the application of RCM be focused on the Acela high-speed fleet. Through a series of Maintenance Effectiveness Reviews, every preventive maintenance task has been reviewed and either validated, modified or eliminated. Based on the results of these reviews, plans are now being developed by management to reschedule when and where preventive maintenance will be done. We anticipate significant improvements in reliability and availability of the Acela Fleet in FY07 based on this initiative. We also expect maintenance costs per Acela train mile to noticeably decrease during FY07. Once RCM is fully implemented for the Acela fleet, efforts will move to Amtrak's conventional fleets of equipment.

■ **Mechanical Maintenance Process Improvement**

In addition to helping Amtrak evaluate an RCM approach, we have been facilitating an effort to improve maintenance efficiency by improving the cycle time of key maintenance processes. To assist with this effort, the OIG engaged the services of Thomas Group Inc. (TGI), with the initial effort focused on Amtrak's Ivy City Maintenance Facility in Washington, DC. Through the establishment of regularly scheduled meetings of cross-functional teams, numerous obstacles to achieving higher performance have been eliminated. This has resulted in significant improvements in process cycle times. For example, for Amfleet cars, the preventative maintenance cycle time has been reduced from 4 days to 3 days, the unscheduled repair cycle time from 3 days

to 2 days, and the number of cars requiring additional work after completion of the preventive maintenance process was reduced by 25%. Similar results have been achieved for electric locomotives. During the next reporting period, we plan on continuing to stay engaged at Ivy City while we roll this effort out to additional maintenance locations throughout the country.

■ **Amtrak Fleet Planning Process – Improvements can lead to better equipment utilization and productivity** **Report E-06-02 – issued 4/6/2006**

One of the recommendations contained in OIG Report E-05-04 (Amtrak Mechanical Maintenance Operations) was that Amtrak “develop, and keep current, a comprehensive fleet plan (that includes both locomotives and cars) to be used to forecast and prioritize mechanical capital expenditures.” The Chairman of Amtrak's Board of Directors requested the OIG facilitate the implementation of this recommendation. To assist with this effort, the OIG engaged the Thomas Group to conduct an assessment of Amtrak's current Fleet Planning Process.

The assessment found that, in the past, Amtrak used a tactical versus a strategic process to develop its Fleet Plan; that critical fleet related functions are managed separately rather than as cross-functionally linked processes; and that effective metrics are not used to quantify either the productivity of the fleet or the implementation of the Fleet Plan. The assessment also found that these shortcomings have helped to produce lower average load factors and a lower percentage of fleet availability than what is reasonably expected from a rail operator that closely manages its assets. It was estimated that Amtrak has the opportunity to improve its overall financial performance by \$28 million to \$36 million annually by increasing the productivity and/or utilization of its rolling stock fleet.

Using this assessment, the OIG developed specific recommendations on how Amtrak should produce, implement and monitor its Fleet Plan so that it supports the corporate long-term strategic goals and optimizes the productivity of Amtrak's fleet of locomotives and cars.

LONG DISTANCE TRAIN OTP

Long Distance Train OTP – Financial impact of poor OTP quantified

Report E-06-05 – Issued 09/29/2006

- The on-time performance (OTP) of Amtrak's Long Distance Trains have been steadily declining for the past five years and the OTP of some of these trains has declined to the point where over 80% of the trains arrive late at their final destination. The

purpose of this report was to examine the financial impact of the poor OTP of Amtrak's Long Distance Trains and to develop a high-level estimate of the potential financial benefit to Amtrak if the trains ran more on-time. The evaluation quantified the changes in passenger revenue, time-related operating expenses and Host Railroad performance payments that would occur if the OTP of Long Distance trains improved from their FY 2005 levels. This evaluation was intended to highlight where management could focus its actions to get the most financial benefits from improved Long Distance Train OTP.

Overall, this evaluation found that improving the OTP of all Amtrak Long Distance Trains has the potential of providing around \$40 million in annual financial benefits to the collective performance of these trains. It was also found that approximately 50% of the potential financial benefits could be achieved by improving the OTP of only three (3) of the fourteen (14) Long Distance Train routes. Finally, we discovered that the incremental financial benefits to Amtrak peak around 75% OTP. This occurs mainly because of the current structure of Amtrak's Host Railroad operating agreements that provide incentive payments to Host Railroads when Amtrak's trains achieve a high OTP.

The evaluation produced three recommendations on where Amtrak should focus its Long Distance Train OTP improvement efforts to maximize the bottom-line financial benefits.

FACILITY MAINTENANCE

Facility Maintenance Program – Amtrak's program lacks many of the elements recognized as important to an effective facility maintenance program Report E-06-04 – issued 8/24/2006

- During this reporting period, the OIG completed its evaluation on the efficiency and effectiveness of Amtrak's facility (building) maintenance program. Our findings revealed that, overall, Amtrak does not give facility maintenance the same level of attention and effort that it devotes to maintenance of its Right of Way (track/bridge/tunnel) and its rolling stock. Because of this lack of attention, some of Amtrak's facilities are currently in poor condition, with leaking roofs, inadequate lighting, uncontrollable temperatures, and inoperable equipment. These conditions have an adverse effect on employee productivity, safety and morale.

Our recommendations in this report included developing comprehensive inventories of the systems and equipment in each facility; developing maintenance standards and measuring the condition of facilities against these standards; instituting a comprehensive facility maintenance strategy; implementing a

management information system to assist in planning, programming and monitoring maintenance activities; and implementing a process to periodically assess the effectiveness and efficiency of the facility maintenance program.

HARASSMENT AND INTIMIDATION COMPLAINTS

Harassment and Intimidation Complaint – Allegation substantiated

Amtrak's Statement of Policy Against Harassment and Intimidation states, in part, "Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness." This Statement of Policy conforms to Federal Railroad Administration Regulations 49 CFR Part 225.33

- During this reporting period, one formal investigation that was opened in the previous reporting period was concluded. The OIG substantiated an allegation that an Amtrak manager harassed and intimidated an employee with the intent to discourage and dissuade the employee from properly reporting a workplace injury. The manager was also found to have violated Amtrak policies concerning accident investigations and reporting injuries. A report was issued to the Senior Vice President for Operations for action.
- In addition, the OIG received three new employee complaints of Harassment and Intimidation. After conducting an inquiry into each of the complaints, it was determined that none of the allegations could be substantiated as acts of harassment or intimidation.

NON-REMITTANCE OF REVENUE

Conductor and LSA Non-Remittance – OIG continuing involvement

Amtrak employees handle approximately \$100 million annually in on-board ticket and food and beverage sales. The OIG previously issued two evaluation reports where we noted substantial evidence of employee theft and made recommendations to improve the oversight and control of cash generated from on-board sales.

The Inspections and Evaluations staff works closely with the OIG Revenue Protection Unit, whose work is highlighted earlier in this report. Also, the I&E staff continues to interact with Amtrak's Customer Services department to advise on remittance policy and procedures as well as process improvements for safeguarding OBS revenues.



California Zephyr | UT

Since October 2002, more than 200 conductors and 160 On-Board Service (OBS) employees have either resigned or been terminated from the company for misappropriation of revenues, in part as a result of OIG's efforts in this area. In addition, during this same period of time, the LSA percent of cash remittance (cash remittance divided by Food and Beverage gross revenue) has increased from 56% to 63%, at least part of which is due to management's increased focus on OBS accounting procedures.

Counter-Terrorism and Intelligence

The OIG Office of Counter Terrorism and Intelligence (CT&I) is responsible for oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with other entities within the Amtrak security program, this unit works to increase awareness about the possibilities of terrorist attack against passenger rail services, and the critical importance of security preparedness and risk mitigation. During this reporting period, we have undertaken various security oversight and outreach activities some of which are highlighted below.

Given the highly confidential nature of this unit, its activities and progress is generally not publicized. The OIG is willing to discuss projects and highlights with Congressional members and staff.

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

RAIL CORRIDOR INITIATIVE

The OIG has been facilitating a project to enhance the security in one of its rail tunnels under a project named the Rail Corridor Initiative (RCI). The OIG continues to provide support and facilitate communications between Amtrak offices and the Department of Homeland Security in the execution of the RCI. Both Amtrak and DHS and its contractors sought our assistance in responding to inquiries, setting up meetings, and undertaking fast turn-around resolution of key issues. Ensuring that all of the partners are fully aware of schedule and coordination issues is of critical importance to the achievement of an end-product on time and on-budget. The successful conclusion of the RCI will provide an important security upgrade.

HOMELAND DEFENSE OPERATIONAL SYSTEMS (HOPS)

The OIG arranged for an assessment to be conducted by the Lawrence Livermore National Laboratory (LLNL) HOPS program at a large metropolitan train station. The now completed assessment is both rigorous and timely, and provides an important decision support tool to managers charged with mitigating certain facility vulnerabilities. Based on the successful execution of this initial study, it is planned that HOPS evaluations will be conducted at other major Amtrak facilities across the nation.

VIRTUAL MAPPING PROJECT

During this reporting period, the OIG arranged for the virtual digital mapping of a major infrastructure. This mapping product provides first responders and security planners with a contingency planning tool, useful during both pre-incident drills and during and post-incident emergency preparedness operations.

EMERGENCY ACTION PLAN REVIEW

The CT&I unit conducted a detailed evaluation of the Emergency Action Plan for a major station. The review revealed weaknesses in the plan around evacuation procedures and emergency actions relating to police and security response. Our report made recommendations for Emergency Action Plan revisions to rectify the identified shortfalls.

TERRORISM CONTINUITY PROGRAM ASSISTANCE

During the reporting period, the OIG participated in strategy deliberations regarding contingency plans for baggage screening, and the deployment of chemical and biological sensor technologies in Amtrak facilities. The Terrorism Continuity Program – an effort undertaken by the Vice President for Security - was scheduled to report its recommendations by the end of calendar year 2006.

COUNTER-SURVEILLANCE TRAINING AND OPERATIONS

OIG officers and personnel from the Amtrak Police Department participated in a two-week counter-surveillance training session. One of Amtrak's partner railroads also participated in this training.

In the period leading up to the fifth anniversary of the 9/11 attacks, the OIG undertook counter-surveillance activities at a major metropolitan station. These efforts supported enhanced security activities already planned by the Amtrak Police Department.

OIG PARTICIPATION IN THE POLICE RIDE-A-LONG PROGRAM

The OIG facilitated the first OIG Police Ride-A-Long Program wherein OIG agents worked three full shifts with local police departments, riding with police officers on patrol. The program was instituted as a segment of ongoing training and was designed to provide agents with tangible and current police tactics and procedures that would enhance their own safety and effectiveness while conducting their normal duties. Although the primary role of the agents, while on patrol, was observation, many were able to take on a more active role and assist with citations and arrests. At the conclusion of this reporting period, approximately 75% of OIG Agents have completed their ride-a-long.

REGIONAL SECURITY EFFORTS

The OIG is involved in regional security and terrorism planning. Philadelphia OIG Agents and the Amtrak Police Department conducted a joint information session with the FBI's Joint Terrorism Task Force and area first responders, Philadelphia Police Bomb Squad and various other emergency response units regarding emergency preparedness.

Other OIG Activities

COORDINATION WITH INDEPENDENT PUBLIC ACCOUNTANTS

Section 805 of the Rail Passenger Service Act of 1970 requires Amtrak to have its financial statements audited annually in accordance with the generally accepted auditing standards, and to report the audit findings to Congress in Amtrak's annual report. Amtrak has been audited annually since 1971.

As part of the annual audit process, the OIG informs the external auditors on the scope of the ongoing audit activities being conducted by the OIG, and continues to coordinate significant audit issues with Amtrak management and the external auditors, as necessary.

LEASE AUDIT

Lease Audit Identified \$129,680 in Overpayments.

The OIG engaged Lease Audit and Advisory Services, Inc. to review Trammell Crow Company's books and records for the Amtrak lease at 10 G Street, NE, Washington DC. The audit identified overpayments stemming from inaccurate calculations of rent cap by the landlord. The OIG has notified Amtrak management to request a refund of \$129,680 from the Trammell Crow Company.

WORKPAPER AUTOMATION

Automation of Audit Work Papers and Management Process

As discussed in our previous reports, the Amtrak OIG selected TeamMate application to automate various audit processes such as risk assessment, planning and scheduling, electronic work paper documentation, time and expense tracking, and report writing. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls and virtual private network (VPN) was built to host the TeamMate application and related databases.

During this semi-annual period, we successfully completed the testing and implementation of the OIG Secure Subnet. We developed the TeamMate Protocol and Library which guides auditors on how to use the application and document their audit work. We conducted the end-to-end testing for all offices and started training our audit staff. By early FY2007, we plan to complete the training for all audit staff and start using TeamMate for all new projects

Appendices



Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

4/1/06 – 9/30/06

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	5	\$1,224,836	\$277,348
B. Reports issued during the reporting period.	5	\$311,197	\$12,928
Subtotals (A + B)	10	\$1,536,033	\$290,276
LESS			
C. For which a management decision was made during the reporting period.	8		
(i) dollar value of recommendations that were agreed to by management.		\$786,925	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$2,716	\$0
D. For which no management decision has been made by the end of the reporting period.	2	\$746,392	\$290,276

Appendix 2

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

4/1/06 – 9/30/06

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	1	\$27,068
B. Reports issued during the reporting period.	2	\$15,854,469
Subtotals (A+B)	3	\$15,881,537
LESS		
C. For which a management decision was made during the reporting period.	3	
(i) dollar value of recommendations that were agreed to by management.		\$14,534,247
(ii) dollar value of recommendations that were not agreed to by management.		\$1,347,290
D. For which no management decision has been made by the end of the reporting period.	0	\$0

Appendix 3

OFFICE OF THE INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

4/1/06 – 9/30/06

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
08/01/2006	107-2005	Fire and Life Safety – Fire Suppression Installation	\$0	\$0	\$0
07/27/2006	108-2005	Federal Equitable Sharing Program	\$0	\$0	\$0
09/08/2006	111-2005	Balance Sheet Account Reconciliations	\$0	\$0	\$0
08/15/2006	201-2006	Cleveland Track	\$ 2,716	\$0	\$0
06/19/2006	202-2005	eTrax Procurement – Pcards	\$0	\$0	\$0
09/25/2006	202-2006	Bombardier First Class Car Repair PO#S-065-09639	\$19,776	\$12,928	\$0
04/14/2006	203-2006	Hudson News Lease Audit	\$0	\$0	\$0
05/08/2006	206-2006	Washington, DC Station	\$0	\$0	\$0
04/17/2006	207-2006	Emergency Exchange Voucher Review - DC	\$0	\$0	\$0
07/12/2006	211-2006	Harrisburg Station	\$0	\$0	\$0
05/22/2006	213-2006	Fire and Life Safety Final Audit Working Capital Advance Fund	\$0	\$0	\$0
09/08/2006	214-2006	KWO Associates Lease Audit	\$1,389	\$0	\$0
09/29/2006	217-2005	Attleboro Agreement	\$0	\$0	\$13,943,657
05/16/2006	405-2005	CPR Railway OTP Audit – 1/02 - 5/04	\$ 33,056	\$0	\$0
08/28/2006	405-2006	Glenview, IL Ticket Office	\$0	\$0	\$0
06/02/2006	407-2005	Canadian Pacific Railway Non-OTP	\$0	\$0	\$1,910,812
07/11/2006	503-2005	Kiewit Pacific Company – Seattle Holgate	\$254,260	\$0	\$0
Total (17)			\$311,197	\$12,928	\$ 15,854,469

Appendix 4

OFFICE OF THE INSPECTOR GENERAL SUMMARY OF REPORTS TO PRESIDENT OF AMTRAK CONCERNING INFORMATION OR ASSISTANCE UNREASONABLY REFUSED OR NOT PROVIDED

4/1/06 – 9/30/06

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

4/1/06 – 9/30/06

Section 4(a) of the Inspector General Act of 1978, as amended, provides that the Inspector General shall ...review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports ... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

The Office of Inspector General has an agreement with Amtrak's Government and Public Affairs Department that allows the OIG to review and comment on the company's annual legislative program and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed as necessary, as a part of every audit and investigation.

The OIG has also submitted legislative recommendations to oversight and appropriating committees seeking line item funding and several other legislative changes that will strengthen OIG independence and effectiveness.

Appendix 6

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms we use in reporting audit statistics are defined below:

Questioned Cost	A cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak's corporate policy or procedure.
Unsupported Cost	A cost that is not supported by adequate documentation at the time of the audit.
Funds To Be Put To Better Use	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
Management Decision	Management's evaluation of our audit finding and its final decision concerning agreement or non-agreement with our recommendation.

Certain abbreviations used in the text are defined below:

APD	Amtrak Police Department	LLNL	Lawrence Livermore National Laboratory
ATAC	Anti Terrorism Advisory Council	MBTA	Massachusetts Bay Transportation Authority
CFR	Code of Federal Regulation	NEC	Northeast Corridor
CPR	Canadian Pacific Railway	NED	New England Division
CSXT	CSX Corporation	OBS	On Board Services
CT&I	Counter Terrorism & Intelligence	OIG	Office of Inspector General
CUSCO	Chicago Union Station Corporation	OTP	On time Performance
DHS	Department of Homeland Security	Pcard	Procurement Card
DOJ	Department of Justice	RCI	Rail Corridor Initiative
EEV	Emergency Exchange Voucher	RCM	Reliability Centered Management
eTrax	Electronic Transaction Express Software System	RPU	Revenue Protection Unit
FAR	Federal Acquisition Register	SRI	Strategic Reform Initiatives
FBI	Federal Bureau of Investigation	TGI	Thomas Group Inc
FMLA	Family Medical Leave Act	VPN	Virtual Private Network
GAAP	Generally Accepted Accounting Principles	WUS	Washington Union Station
HOPS	Homeland Defense Operational Systems		
LSA	Lead Service Attendant		

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National Railroad Passenger Corporation

Office of the Inspector General
10 G Street, NE, Suite 3W-300, NE, Washington, DC 20002-4285

EXHIBIT 4

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General



OCTOBER 1, 2006 – MARCH 31, 2007

Semiannual Report to Congress



NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

Semiannual Report to Congress

**REPORT NO. 35
OCTOBER 1, 2006 – MARCH 31, 2007**





April 30, 2007

Honorable David Laney
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

This Semiannual Report, submitted pursuant to the Inspector General Act, summarizes the more significant audits, evaluations, and investigations for the six-month period ending March 31, 2007.

The OIG issued 15 audit reports in the last two quarters, including performing oversight work for the company's audited financial statements, and performing a review of Amtrak's capital budgeting processes. We have recommended that Amtrak make some changes to its current business processes to document better its "state-of-good-repair" program for infrastructure and equipment. We are working closely and cooperatively with management to improve the financial bases and justifications for all capital budget requests. Our auditors are also working closely with Amtrak's Information Technology department to develop a comprehensive plan for a new 'enterprise architecture' that will better serve Amtrak's future business needs.

Our investigators and special agents opened 79 new cases in the past six months and closed 107 cases; 289 investigations remain active as of March 31. We have eight civil and criminal referrals pending with federal prosecutors. We concluded two joint investigations with the Federal Bureau of Investigation and the General Services Administration that involved bribery in a construction project and credit card fraud. We also were successful in recommending several administrative actions involving employee theft and embezzlement cases.

For the past eighteen months, the OIG has been heavily engaged in evaluating Amtrak's maintenance activities, with a desire to identify areas for new maintenance approaches, including examining the potential for implementing condition-based rather than time-based maintenance, rationalizing and making better use of facilities and personnel, and ultimately improving Amtrak's overall fleet availability and reliability. We continue to work with Amtrak's Chief Operating Officer (COO) to evaluate implementation of the Reliability-Centered Maintenance (RCM) program for Acela. The company's goal is to increase fleet availability by placing two additional train sets (#16 and #17) into revenue service by the end of the fiscal year. Additionally, the OIG is working closely with the COO to facilitate the introduction of RCM into the conventional fleet; a separate briefing on full RCM implementation will be provided to the Board, including a fully resource loaded schedule and timeline for implementation.



With regard to other OIG work involving Amtrak's mechanical maintenance operations, the OIG has been examining the potential for improving the 'cycle time' required for equipment to be serviced. Following a pilot program at the Washington, DC's Ivy City yards, the OIG authorized an expansion of the cycle time reviews to Chicago's maintenance operations. The OIG is also transferring this work to the COO as the pilot is expanding into more of the conventional fleet and will become programmatic.

On three occasions, I appeared before two House Committees to comment on the OIG's oversight of security operations at Amtrak. These appearances were intended to support Amtrak's inclusion into two House-sponsored bills calling for increased security spending for rail passenger operations. In the past three years, Amtrak has been authorized to receive only \$23 million in security funding through DHS grants. It is expected that as much as \$100+ million will now be made available to Amtrak through pending legislation. The OIG has been working with Amtrak management to facilitate a consolidated security bill by the end of the fiscal year.

We are continuing our evaluations of Amtrak's security needs at several major stations. Using non-Amtrak funding, the OIG obtained digital mapping of three California stations during the past six months. The digital mapping services are identical to those provided at Washington Union Station and are designed to provide Amtrak, law enforcement, and first responders with highly detailed, site specific data to better prepare for emergency response to security and special events at these locations. The digital mapping is being used to complement other vulnerability assessments being conducted by Lawrence Livermore National Laboratories (LLNL). LLNL has provided assessments of Washington Union Station and parts of New York Penn Station. Preliminary assessment work is planned for Chicago in the next quarter.

A major concern for the OIG (with regard to security evaluations and implementation of 'best practices') is the absence of rail and transit standards. At the request of the American Public Transit Association, OIG staff has joined the Security Standards Committee to help draft protocols that will lay the foundations for many of the transit security standards. We believe this approach will allow for a consistent approach to infrastructure protection for those shared Amtrak-transit properties.

I appreciate the Board's support of the OIG's oversight efforts. We look forward to finding ways through which the OIG can add value to Amtrak's bottom line.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General

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Inspector General Viewpoint

FY 2007 MID-YEAR FINANCIAL RESULTS & PERFORMANCE

Amtrak completed the first two quarters of the fiscal year with \$1.018 billion in total revenue, and total expenses were \$1.225 billion. Amtrak's financial results YTD are \$98.8 million favorable to budget, and \$48.3 million favorable to last year.

Amtrak's revenue performance is a positive sign, with ticket revenue up \$26.1 million, primarily due to the very strong performance of the Acela services, where ridership and revenue are up 14% and 16% respectively. Expenses were favorable mostly due to lower salary, wages, and benefit expenses favorable by \$62.1 million. Both Amtrak's Northeast Corridor services and long-distance services yielded results better than budget, with some lower than expected results from Amtrak's state corridor services.

Capital investments were \$279.1 million YTD, \$13.7 million below forecasted spending (reflecting a budget reset). Amtrak will be entering its main work season for capital work during the next two quarters.

The OIG has encouraged the use of more traditional transportation metrics for reporting financial and operating results; Amtrak posts Monthly Performance reports on its commercial web site. Among the more important metrics, ticket yield YTD rose from 26.13 cents to 27.82 cents, year over year. Amtrak's operating ratio improved from 1.60 to 1.46, year over year. And, Amtrak's overall cost recovery ratio also improved from .63 to .69. We generally view these positive results as important trend indicators, and we comment on these trends elsewhere in this Semiannual Report.

AMTRAK'S FY08 GRANT & LEGISLATIVE REQUEST

On February 15, 2007, Amtrak's CEO Alex Kummant submitted the corporation's FY08 Budget & Legislative Request, pursuant to Section 24315 (b), Title 49 USC. The full text of the correspondence may be found at www.amtrak.com at the "Inside Amtrak" section.

In its budget submission, Amtrak comments on the recent successes the company has enjoyed in achieving some modest expense reductions and in a better-than-expected performance in revenue and ridership results.

Amtrak indicates in its submission that it will focus its operational improvements in FY07 and into FY08 in seven critical areas: investing in security; ridership and revenue growth; deliv-



Coast Starlight | North of Santa Barbara, CA

ering more effective long-distance rail operations; positioning for corridor development; making improvements in mechanical operations; implementing a new information technology architecture; and completing labor negotiations. Within this report, we comment on several of these initiatives, and we agree with management that renewed focus and attention in these areas will yield real dividends.

In FY08, Amtrak is requesting \$485 million in operating support, \$760 million for capital support, and \$285 million for debt service. With respect to the operating support request, we are pleased to see Amtrak keep its operating subsidy levels trending downward. We would also comment that making this request Amtrak indicates it will offset \$92 million in increased healthcare expenses, and \$71 million in other inflation increases.

Amtrak will have to assume some business risks in requesting a reduced operating subsidy next year. In their second quarter assessment of Amtrak's FY07 operational reforms and YTD financial performance, the DOT Inspector General reports that Amtrak is likely to realize only \$39 million of the planned \$61 million in its proposed FY07 reform savings. The challenge for Amtrak will be to find other savings in its operating expense budget that will offset the reduced savings from earlier initiatives; we think this is possible if Amtrak takes on the task.

The Amtrak OIG recommends that Amtrak revise its strategic reform initiatives to reflect better, and more accurately, its recent experiences in attempting to implement last year's plan. This means that the base line for the planned savings be reset, and other initiatives, especially those associated with maintenance operations, should be updated. For example, we believe that Amtrak has understated the potential benefits arising from the reliability-centered maintenance project.



Adirondack | Lake Champlain, NY

Amtrak's \$760 million for capital funding is considerably more than its projected FY07 actual spend rate. We understand the need to invest in several 'mega-projects' where infrastructure repairs are critical, on projects like the Thames River bridge in Connecticut and the tunnel work included in New York's Fire & Life Safety Project. For much of the capital program, however, we want to see Amtrak better delineate the specific results from these investments and, where feasible, lay out a more rigorous analysis of return on capital invested. For example, Amtrak can prescribe a level of utility (class of track to permit high-speed operations) for all sections of the Northeast Corridor track infrastructure. Amtrak can categorize the incremental costs for maintaining track at Class 7 (MPH) or Class 8 (MPH), and can tie revenue projections to scheduled performance. Other efforts can be oriented to the 'mega-projects' of major bridge and tunnel work, e.g. - to keep the useful life of an asset within 90 percent of its expected useful life before replacement. As we recommended earlier, a more complete inventory of major programs and projects, by asset type, should be maintained and made available to Congress.

PENDING REAUTHORIZATION LEGISLATION

On January 16, 2007, Senators Lautenberg and Lott, and other co-sponsors, introduced S. 294, a bill to reauthorize Amtrak through FY 2012. This bill, in the last Congress, previously referred to as the "Lott-Lautenberg" bill (S. 1516), and was re-introduced as promised by a bi-partisan Senate Commerce Committee

The new bill, S. 294, is one of the more important bills affecting Amtrak in the last ten years. Not only does the bill provide Amtrak with a larger, multi-year source of authorizations, the bill prescribes several important new initiatives: allowing states greater access to federal matching monies for passenger rail

expansion; establishing financial management and accounting reforms; setting out new performance metrics for long-distance train services; authorizing unprecedented amounts for security funding; and continuing paying down of Amtrak's debt.

Section 302 of the draft bill allows that each state prepare and maintain a state rail plan that will establish the authority and criteria for submitting eligible plans to the Secretary of Transportation for consideration for a long range rail investment. The OIG believes that these state rail authorities, and subsequent plans, will be critical to the success of both intra-state, as well as interstate, rail passenger service growth, and we encourage Amtrak management to position itself to take full advantage of this legislative opportunity.

Within S. 294, Congress also is calling for changes with respect to how Amtrak plans to achieve a 'state of good repair' by FY 2012. Congress will require that a comprehensive capital spend plan be submitted to the Secretary of Transportation for review and approval. The OIG is working with the Board and management to re-work the current capital planning, budgeting, and spending processes to link capital projects to the company's strategic plans and to the goals, objectives, and outcomes anticipated in the company's strategic plans.

Section 210 of S. 294 calls for a re-appraisal of all long-distance routes, including possible route restructuring. One of the more discussed areas of Amtrak's operations is the operation of its long distance train services. There have been many studies conducted since Amtrak's inception that attempt to describe, rank order, and make recommendations to restructure the national route structure. The new provisions will require Amtrak to rank order its long distance services and make improvement to those services whose performance falls within the bottom third of the specified route performance metrics.

ONGOING SAFETY & SECURITY CONCERNS

SAFETY

Amtrak's recent performance in a major safety performance reporting area, "Employee Reportable Injury Ratio" (FRA-reportable incidents per 200,000 man-hours) improved greatly from 3.7 reportable incidents to 2.7 reportable incidents. Overall, this is a very significant achievement for the corporation.

The OIG believes that Amtrak can achieve even better results, especially if greater emphasis and investment are made in the System Safety program. In a recent industry report comparing Amtrak's safety performance with other large Class 1. railroads,

it is clear that some Amtrak departments have considerable room for improvement. This is particularly true for Amtrak’s Mechanical Department employees, whose injury ratios are almost three times higher than other similar railroads’ mechanical departments. The OIG will be reviewing Amtrak’s overall safety performance much more closely in the next few reporting quarters.

SECURITY

Several important events concerning passenger rail safety occurred over the past six months. Internally, Amtrak’s Board of Directors and senior management firmly committed in its FY 08 Grant and Legislative Request to make security a primary focus of Board oversight. As one of the seven critical goals identified by Amtrak CEO Alex Kummant and Amtrak’s Board, Amtrak is committed to “Coordinate and integrate security enhancements into capital investments and the protection of critical assets...[and] Develop a comprehensive passenger screening strategy.” The OIG fully supports the direction Amtrak is taking in making security a renewed area of investment and focus. From an OIG perspective, we will do our part in making recommendations for improvement in Amtrak’s security preparedness programs and operations, and we plan to increase our oversight in this area in the next two quarters and into the next fiscal year.

The OIG also testified before the Department of Homeland Security Committee on February 13, 2007, and one of our authorizing committees, the House Transportation & Infrastructure Committee, on March 7, 2007, to present the OIG’s assessment of passenger rail security and to comment on two draft bills sponsored by the Committees. In my testimony, I reiterated that I believed more federal funds should be available for passenger rail and transit security counter-measures and security personnel. I stressed that the time to take action to mitigate and recover from a passenger rail terrorist attack was passing, and that Congress needs to act quickly to pass legislation that would provide funds to ‘build-in’ security into rail passenger and transit wherever feasible. I also encouraged the development of security standards and best practices within the rail sector, and to ensure that security and safety initiatives in the rail sector become more closely linked. My complete testimony is available at the Amtrak OIG Web site.

CONCLUSIONS

The OIG fully supports the re-authorization of Amtrak and consideration of S.294, and any companion House bill. It is extremely important that Amtrak be able to plan its future from a strong, multi-year funding base, and it is equally important that Congress provide clear direction with respect to the levels of financial and operating performance expected from Amtrak.

We believe many of the bill’s provisions will result in positive changes for Amtrak and our nation’s passenger rail services.

Amtrak needs to find its place as part of a more integrated and rationalized national transportation plan.



Lake Shore Limited | Mohawk River, NY

Amtrak Profile

Amtrak is incorporated under the District of Columbia Business Corporation Act in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Amtrak is governed by a seven-member Board of Directors appointed under the Amtrak Reform and Accountability Act (December 2, 1997). The company operates as a for-profit corporation providing inter-city rail passenger service as its principal business.

Amtrak operates more than 260 daily inter-city trains over 23,000 route miles serving over 500 communities in every state but two in the contiguous United States. Of this route system, Amtrak owns the right-of-way of more than 2,600 track miles in the Northeast Corridor. This includes Washington, DC-New York City-Boston, Philadelphia-Harrisburg, New Haven-Springfield, CT and short segments in Michigan and New York. Amtrak also operates rail services in several areas around the country under contract with state and regional commuter authorities.

Amtrak owns many of its passenger stations and also leases other stations from the freight railroads. It owns most of the maintenance and repair facilities for its fleet of about 2,000 cars and locomotives. Amtrak employs 18,670 persons, of which about 15,800 are agreement-covered employees. These employees work in on-board services, maintenance of way, station and reservations services, and other support areas. Outside the Northeast Corridor (NEC), Amtrak contracts with freight railroads for the right to operate over their tracks. On their property, the host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.

OFFICE OF INSPECTOR GENERAL

Amtrak's OIG was formed under the provisions of the Inspector General Act Amendment of 1988. The OIG is an independent entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel and to promote economy and efficiency in Amtrak operations. The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG also audits and evaluates Amtrak operations and assists management in promoting integrity, economy, efficiency, and effectiveness. The OIG consists of the following units with specific responsibilities:

The **Office of Audits** is responsible for conducting independent reviews of Amtrak's internal controls; overseeing and assisting

audits of Amtrak's financial statements; reviewing information technology programs and information security; providing accounting counsel to, and oversight of, Finance Department operations; reviewing certain procurements and material acquisitions for appropriateness of cost and pricing and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

The **Office of Investigations** is responsible for investigating various types of fraud, abuse, and misconduct, particularly with regard to allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General. It is also charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Office of Inspections and Evaluations** is a hybrid unit within the OIG whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies. The evaluative process, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve program cost efficiency and effectiveness, and the overall quality of service delivery throughout Amtrak.

The **Office of Counter-Terrorism and Intelligence** is responsible for facilitating, and overseeing, projects and tasks pertaining to rail security, counter-terrorism and intelligence related to the country's war on terrorism. This group is involved in working with external agencies to provide focus on the importance of rail security and the need for an integrated approach for addressing the many challenges in securing an open-architecture rail passenger system.

OIG personnel are located in eight offices in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Office of Audits

SIGNIFICANT AUDITS

INTERNAL OPERATIONS REVIEW

Record keeping and follow-up over employee contributions were inadequate Report #103-2006 – Issued 01/12/2007

As a result of employee complaints regarding the distribution of employee contributions to United Way and designated recipients, the OIG initiated an audit of the program. Amtrak participates in an annual United Way Campaign through the United Way of the National Capital Area in Washington DC. This annual campaign is administered by Amtrak's Human Resources Department under the direction of a Project Manager. The United Way office in Washington DC is responsible for ensuring that Amtrak contributions are forwarded to the employee-designated recipients.

Our review indicated that both Amtrak and United Way records were either incomplete or unreliable; and, we concluded that record keeping and follow-up were inadequate to ensure for the proper accounting and transmittal of employee contributions to the designated agencies.

We recommended process changes to strengthen record keeping and follow-up. Amtrak Human Resources and the United Way of the National Capital Area concurred with the OIG recommendations and agreed to implement process changes to strengthen controls.

Time card adjustment process for reclassification of labor from operating to capital lacked adequate internal controls Report #109-2005 – Issued 12/19/2006

The OIG initiated this audit at the request of KPMG, Amtrak's external auditor, as part of the annual FY 04 financial statements audit. In FY 04, the Finance Department performed a review of a sample of labor charges associated with the Engineering capital projects and found instances of adjustments where timecards originally coded to operating expenses were later transferred to capital projects. Their review also indicated a potential risk that the adjustment process may enable unauthorized or unsupported transfers affecting reliability of the financial statements. Due to the risk identified in the Engineering labor timecard adjustments, KPMG requested that the OIG expand the audit scope to include the Mechanical Department labor charges.

While capital reclassification of labor charges was appropriate, the observed adjustments did not follow Amtrak's procedures which require that a corrected source document must be prepared with an explanation of why an adjustment is necessary. The



Union Station | Los Angeles, CA

unsupported adjustments pose the risk that employee hours and wages may be adjusted without authorization and inappropriate classifications of expenses may occur affecting the reliability of data and the financial statements.

We recommended that Mechanical Department management require adequate documentation and approval for all timecard adjustments. When operating expenses are transferred to capital projects, information about the specific capital project should be included in the supporting documents. The Mechanical Department provided a written response indicating corrective actions planned.

New England Flagmen – Over \$370,000 not billed for flagging protection Report #204-2006 – Issued 1/30/2007

Our review disclosed that Amtrak had not billed the State of Rhode Island for over \$370,000 for flagging protection labor, and that Amtrak was not performing a thorough review of documentation to ensure that flagmen billings were accurate and complete. Amtrak management agreed with the majority of the audit findings and will ensure that adequate supporting documentation is maintained for future billings.

Sale and Disposal of Material and Equipment Report #203-2007 – Issued 3/30/2007

Our review disclosed that the sale and disposal of material and equipment were being handled properly in accordance with existing policy. However, we reported that the existing policy

could be improved by providing more explicit and detailed instructions. We recommended and management agreed to revise the current policy to address specific procedures in the sale and disposal of material and equipment.

Internal Controls Over Regulatory and Amtrak Mandated Training

Report #300-2004 – Issued 11/21/2006

The OIG reviewed the internal controls over Amtrak employee training to determine whether the controls are adequate to ensure that Amtrak employees are receiving all regulatory and other Amtrak mandated training. Weaknesses in the system used by the Amtrak Human Resource (HR) Department to ensure that Amtrak employees complete mandatory training in a timely manner were noted. These weaknesses make it difficult to determine if employees received all regulatory and Amtrak required training for their positions. We found that there is no consistent or centralized way to identify and monitor required training or internal controls to notify employees and supervisors of the need of the training requirements. Some of the individual regulatory and other mandated training courses are sometimes part of a larger training initiative and specific training courses are not listed separately on the training transcript. Formal guidelines and procedures for recording completion of required training do not exist so there is no assurance that training documentation is adequate and consistent for all regulatory and other Amtrak mandated training. In addition, the Human Resource department maintained training profiles for some but not all job titles in the database. These profiles would provide a description of the training required for the position. The HR department had initiated the development of training profiles but did not complete the task.

To ensure that Amtrak interests are fully protected, we recommended that controls be strengthened in order to reasonably assure that employees are completing required training. We recommended that the Vice-President of HR implement a formal written policy to better control required training.

Management agreed to all of the findings and indicated that controls would be strengthened to assure that required training is accomplished and properly recorded.

INVENTORY

Physical Inventory of ACELA High-Speed Rail Parts

Questioned Costs \$222,186

Report #215-2006 – Issued 1/25/2007

Amtrak's Materials Management Department requested that the OIG assist in counting the Acela "Parts" inventory. The inventory was owned by the Bombardier/Alstom OEM consortium.

We were also asked to perform a pricing review. Subsequent to the pricing review, Amtrak's Procurement and Materials Management Department made the decision to purchase a limited number of spare parts. Based upon our audit of the consortium vendor invoices, we identified \$222,186 in questioned costs.

Observation of FY2006 Annual Maintenance of Way Inventory – Unreported Withdrawals of Stock and Continued Increase in Inventory Value

Report #218-2006 – Issued 2/16/2007

We observed the annual maintenance of-way physical inventory conducted by Amtrak's Materials Management and Engineering Departments. We found that the inventory was generally taken in accordance with instructions. We offered observations and recommendations about some inventory process weaknesses that resulted in changes to the counts after the auditor's visits. We also found that Amtrak could not ascertain the correct inventory count for concrete tie clips because the vendor with custody of this stock item had intermingled Amtrak and the vendor's stock, and was not maintaining inventory records indicating ownership of the intermingled stock. In addition, we uncovered a problem at three material stores that were not reporting withdrawals of large dollar value stock; therefore, we recommended that Engineering require its personnel to comply with policy and provide Materials Management with a properly authorized material charge out document at the time material is taken from the location.

We also noted that the trend of increasing maintenance of way valuation (13% in FY06) and decreasing inventory turnover (from 2.44 in FY04 to 1.46 in FY05 to 1.33 in FY06) continued. Based on our review, the trend has resulted from some overstocking of material used as spares and to meet normal maintenance and capital requirements as well as project delays. We recommended that the Materials Management and Engineering Departments establish and monitor a goal of not receiving ordered material more than a specified time period prior to the planned installation.

STATIONS

Emergency Exchange Voucher and Miscellaneous Station Expenses (302-2006)

Report #302-2006 – Issued 1/11/2007

We performed an audit of Emergency Exchange Voucher (EEV) and miscellaneous station expenses at five stations in the New England Division to determine if transactions were processed in compliance with guidelines and properly supported by valid



Acela Express | Northeast Corridor

receipts and other required documentation. The results of the audit indicated that there is a lack of consistency in the processing of EEV and the supporting documentation; some transactions were processed without passenger signatures. Stations using Miscellaneous Billing Forms to process miscellaneous expenses used an obsolete version of the form that lacked adequate signature requirements for the recipient and issuing agent.

We discussed the results of our audit with the Senior Director of On Board Services & Station Operations, who was in the process of reviewing and revising EEV and miscellaneous expense guidelines for the Amtrak Station Services Standards and Operations, and reviewed the proposed revisions, and recommended several changes and additions which were incorporated into the proposed revisions.

We recommended and management agreed that the revised sections of the Amtrak Station Services Standards and Operations Manual be issued to all stations with instructions that they be strictly followed, and those Amtrak managers responsible for station operations periodically review EEV and miscellaneous expense transactions to ensure that the new procedures are being followed.

RAILROAD AUDITS

Union Pacific Audit

\$144,659 Excess Billings Identified

Report #407-2004 – Issued 3/7/2007

Amtrak entered into an Agreement with the Union Pacific Railroad Company (UP), which consolidated the four previous contracts for the Southern Pacific, the Union Pacific, the Southern Pacific Central States Line, and the Denver and Rio Grande Western Railroads for intercity rail passenger operations on tracks and properties owned by UP. Under the agreement provisions, the UP bills Amtrak each month for specific services

and facilities for intercity rail passenger operations. The OIG review of charges billed to Amtrak and identified a net adjustment of \$144,659. We found erroneous billings in 10 of the 14 items selected for audit, \$230,282 overbilled and \$85,623 underbilled for a net total of \$144,659 due Amtrak. UP representatives agreed with our findings. We recommended and management agreed to initiate a final settlement letter and collect monies due to Amtrak.

UNRESOLVED AUDIT ISSUES

Appendices 1 and 2 show the status of management decisions on audit recommendations and dollar values of questioned costs, unsupported cost, and funds to be put to better use.

Section 5(a)(10) of the Inspector General Act of 1978 as amended requires “a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. . .” Such reports are shown in Appendix 1 and 2. Section 5(a)(11) requires “a description and explanation of the reasons for any significant revised management decision made during the reporting period.” There were none during this reporting period. Section 5(a)(12) requires “information concerning any significant management decision with which the Inspector General is in disagreement.” Again, no such decisions were made during this reporting period.”

MANAGEMENT RESPONSES OVER 180 DAYS OLD FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

The OIG continues to monitor and follow up with management on corrective action measures. The following items were reported in previous semiannual reports and additional information is being reported.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned Costs \$63,184

Report #219-2005 – Response 1/25/2006

The Procurement and Materials Management Department is still involved in ongoing settlement negotiations with the contractor and his suppliers and we will continue to monitor actions taken.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/1/06	44
Audit projects postponed or cancelled	7
Audit projects started	19
Audit reports issued	15
Audit projects in progress 3/31/07	41

Audit Findings

Questioned costs	\$1,106,993
Unsupported costs	\$0
Funds to be put to better use	\$0
Total	\$106,993

eTrax Trip Manager Review – Agreed to Actions in Progress.

Report # 215-2005 – Response 9/9/2005

We made several recommendations to improve the internal control over airfare procurements. Management's issuance of P/I 11.48 has resolved various procurement and authorization issues; however, we are still testing to determine whether controls relating to airfare procurements and related payments are adequate.

eTrax Payment Request Review

Report#202-2004 – Response 1/14/2005

We made several recommendations to address the weakness in internal controls, improve procedures to clarify roles and responsibilities and monitor compliance. Management agreed with our findings and has implemented improvements. We are currently reviewing these control improvements to determine if corrective actions have been adequately completed.

eTrax Expense Report Review

Report #201-2005 – Response 5/18/2005

We found a high degree of non-compliance with Amtrak's travel policy and eTrax instructions. Management has issued P/I 11.48 and an eTrax manual, addressing the majority of the findings. We are still testing the link between Travel Authorization and Expense Report to ensure compliance with Amtrak policy.

eTrax P-Card Review

Report #202-2005 – Response 7/7/2006

We found varying degrees of non-compliance with the P-Card reconciliation and approval process and recommended that additional resources be expended to monitor the reconciling, documenting and approval of credit card charges. Management agreed with our findings and implemented improvements. We are currently testing to determine whether a management exception report adequately monitors and ensures proper usage of P-Cards.

NEC Work Trains

Report #212-2003 – Response 10/28/2003

Our review disclosed that Amtrak could establish a more efficient system to fuel Mid-Atlantic work trains by fueling work trains at a closed fueling location. Management has stated that they believe the problem has been resolved. We will continue to monitor the actions taken.

Amtrak's Overtime Expenses – Internal Control Issues Not Yet Resolved

Report 03-205 – Response 4/20/2005

Management issued a response addressing our findings and indicated that management will ensure proper training and oversight of timekeepers regarding the completion of payroll operation field audits as required. Additionally, management informed us that they have submitted a new policy for staff summary approval. We will continue to monitor the actions taken.

CSXT – Non-On-Time Performance Items Audit

\$1,003,964 Erroneous Billings Identified

Report #01-105 – Response 8/20/2001

The Chicago office re-evaluated proposed audit adjustments, supporting documentation, correspondence, and audit workpapers in preparation for discussions with CSXT to resolve remaining outstanding issues.

The following items have been reported in previous semiannual reports. As of this reporting period, no new developments were reported:

CSX – New York High Speed Line Agreement

Report #207-2003 – Response 5/18/2006

Southern Pacific Central States Line – Questioned Costs Not Yet Resolved

	<i>Semiannual Period Ending</i>	<i>Response Date</i>
Report #01-506	09/30/2001	09/04/2001
Report #01-507	09/30/2001	09/04/2001
Report #01-508	09/30/2001	10/12/2001
Report #01-509	09/30/2001	10/12/2001

Office of Investigations

CASE STATUS OF INVESTIGATIONS

10/1/06 – 3/31/07

Total Open Cases as of 10/1/06	317
Closed Cases	(107)
Opened Cases	79
Total Ongoing Cases as of 3/31/07	289

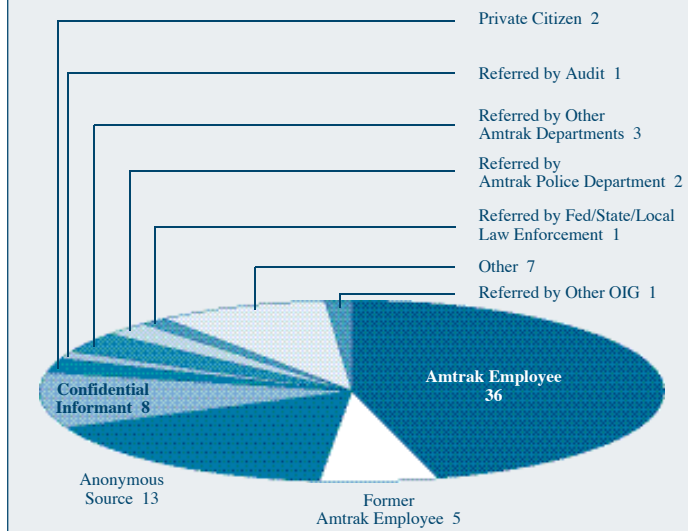
CASE HANDLING

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 289 investigations: in the last six months, we opened 79 cases and closed 107 cases.

As set forth in the chart below, entitled “Sources of Allegations”, employees and anonymous source referrals accounted for about 62 percent of the allegations during this reporting period, with employees being the source of 36 of the 79 allegations or 46 percent. All allegations are reviewed, screened and resources are allocated based upon, among other things, the seriousness of the allegations and potential harm to Amtrak or the public.

SOURCES OF ALLEGATIONS

10/1/06 – 3/31/07



HOTLINE STATISTICS

10/1/06 – 3/31/07

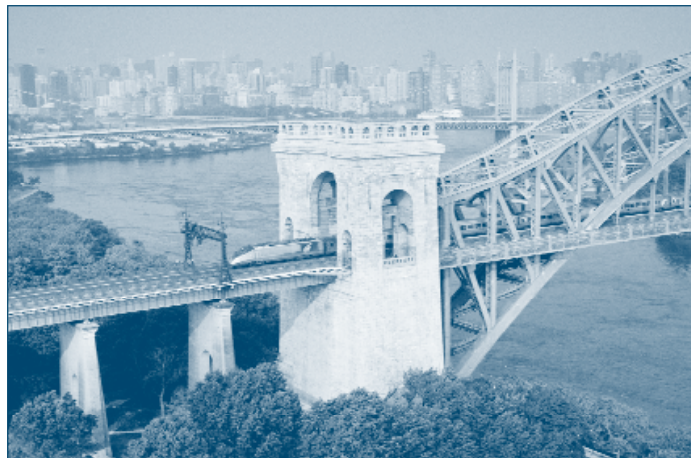
	Total
Hotline Complaints Received	5
Sources of Hotline Complaints	
Amtrak Employee	4
Anonymous Source	1
Classification of Complaints	
Non-criminal – Other	2
Criminal – Other	2
Mismanagement	1
Complaints Referred To:	
OI Field Offices	4
Human Resources	1

The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE twenty-four hours a day by calling Amtrak Telephone System number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., OIG staff answer the callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine. In addition, people can write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received five (5) telephonic HOTLINE complaints during this reporting period. The HOTLINE complaints received during this reporting period were from a private citizen and an Amtrak employee.

SIGNIFICANT INVESTIGATIONS

Theft and fraud is a problem for many organizations that handle large amounts of cash. Due to the nature of the passenger rail business, cash transactions on both our trains and in our stations are at risk for employee embezzlement and/or theft of company assets. The OIG spends considerable time and effort identifying and addressing these issues, with examples of such investigations listed below.

- In a previously reported case regarding our investigation of a former Amtrak Assistant Conductor based in Shelby, Montana, the employee pled guilty in the United States District Court for the District of Montana, Great Falls Division, to violation of 18 U.S.C. 666(a) (1) (A), Theft from An Organization Receiving Federal Funds. He was sentenced on December 15, 2006, to five (5) years probation and ordered to pay \$18,986 in restitution to Amtrak.
- In another case, which we previously reported upon, fifteen (15) Amtrak Lead Service Attendants (LSAs) based in Chicago, Illinois were indicted for Theft by a Grand Jury in the Circuit Court of Cook County on October 30, 2006. These 15 employees failed to remit monies to Amtrak totaling \$62,095.82. Under this scheme, generally the employees misreported their on board sales figures and as a result failed to remit all monies collected from passengers due to Amtrak.
- The OIG received information from a Maryland Area Rapid Commuter (MARC) Conductor that he had taken possession of a fraudulent MARC ticket from a passenger. The subsequent investigation revealed that the passenger, a former employee of the U.S. Department of Housing & Urban Development (HUD), was using HUD equipment to create fraudulent MARC monthly tickets from at least June 2006 through December 2006. As a result of the OIG investigation, a warrant was issued and on March 8, 2007, the suspect was arrested by the Jefferson County Sheriff's Department and charged with Uttering Fraudulent Schemes. On March 29, 2007, the suspect pled guilty and was ordered to pay restitution of \$731 to MARC, given one year probation and 40 hours of community service.



Acela Express | Hellgate Bridge, NY

- The OIG conducted an investigation of a Conductor assigned to Fort Worth, Texas for embezzling monies from on-board ticket sales. The Conductor, who had been terminated from Amtrak for insubordination, accepted a pre-trial agreement with the United States Attorney's Office. Under the agreement prosecution was deferred for eighteen (18) months on condition that the former employee not violate any laws, complete sixty (60) hours of community service and pay restitution to Amtrak in the amount of \$12,000.

MISUSE OF COMPANY ASSETS

The OIG conducted several investigations pertaining to the misuse of company assets.

- The OIG investigated the improper use of an Amtrak General Services Administration (GSA) leased vehicle by a Road Foreman for the MARC Service in Baltimore, Maryland. The Road Foreman, who did not have alternate garaging privileges under Amtrak's policies regarding vehicle use, was regularly using the vehicle to travel from Baltimore's Penn Station to his residence and to a non-work related location. In addition, the Road Foreman's supervisor, the Superintendent of Commuter Services, had knowledge of the unauthorized use of the vehicle and did not insure that Amtrak's vehicle policy was followed. As a result, the Road Foreman offered his resignation of his management position, which was accepted. The Superintendent was counseled.

EFFICIENCY AND EFFECTIVENESS

In addition to detecting and deterring fraud, waste, abuse and wrong doing in Amtrak's programs and operations, OIG investigations also provide information and recommendations to company employees and officials towards improving efficiency, effectiveness and adaptability. During this reporting period, OIG investigations have led to recommendations concerning quality improvement to which management generally responded positively and implemented, for the most part, those recommendations as detailed below.

- The OIG conducted a review that showed that an Amtrak department routinely spent excessive funds for hotel stays, meal hosting at expensive restaurants, out-sourced catering, and on-board services for recurring inspection tours. These findings were reported to the Department head who issued a new protocol for these inspection trips, which was designed to significantly reduce their expense to Amtrak.
- The OIG found during an investigation that Amtrak employees who were furloughed and suspended were

retaining their Amtrak identifications. One incident involved furloughed and suspended employees who were using their Amtrak identifications to assist other Amtrak employees during their theft of copper wire. OIG referred this information to Human Resources, the Chief Operations Officer and the Amtrak Police. Management responded to our referral and advised that a new Amtrak employee identification card policy was in the process of being issued. Management further advised that a section of that policy would require supervisors to obtain employee identification cards from suspended and out of service employees.

- The OIG investigated the Amtrak Police Department (APD) Internal Affairs (IA) Office release to another law enforcement entity an Officer's service records of arguably privileged information. OIG recommended and APD agreed to implement procedures and controls regarding the interviewing of APD personnel by outside parties and consider developing written policies and procedures on the release of investigative files.

CONFLICT OF INTEREST

Amtrak policy states, in relevant part, "Amtrak requires all employees to observe the highest standards of business ethics. They must conduct the business and operation of Amtrak and their affairs in a manner that complies with applicable law and high moral and ethical standards and avoids any possible conflict of interest or appearance of a conflict of interest. They shall not realize personal gain, or help others to gain, from their positions with Amtrak or from knowledge or information not released to the public." Although this policy is in place to help avoid and address conflict of interest situations, during this reporting period, the OIG investigated the following allegations pertaining to transgressions of this policy.

- OIG found that certain management employees provided free travel on Amtrak trains to individuals having no legitimate claim to complimentary travel. The OIG determined that Amtrak travel tickets, valued in excess of \$180,000, were provided to persons on a complimentary basis under the guise of legitimate Amtrak programs. Travel included numerous complimentary trips on Acela Express, Regional Service, Auto Train, and long distance service including first class accommodations. The OIG also learned during the inquiry referenced herein that the same Washington based management employees provided complimentary hotel rooms courtesy of Amtrak to individuals having no legitimate claim to said hotel rooms. Other management employees also used Amtrak supplied hotel rooms for personal business.



California Zephyr

As a result of the OIGs' inquiry, Amtrak is implementing new guidelines for complimentary travel, as well as creating policies and procedures for auditing departments and programs that participate in providing complimentary travel for legitimate business related travel.

- The OIG discovered that an Amtrak executive and senior manager had accepted meals and other entertainment from a major Amtrak service vendor in violation of Amtrak's conflict of interest policy. The personnel involved were disciplined.

TIME AND ATTENDANCE REVIEWS

Amtrak's success depends on using available resources in an efficient and productive manner, including their most valuable resource, Amtrak employees. Therefore, it is important for employees to report to work on time and perform their duties during their assigned hours, including those designated for overtime. The OIG receives and investigates allegations regarding time and attendance issues. The following are illustrative of OIG Time and Attendance investigations conducted during this reporting period.

- The OIG received information that a New England Division clerk submitted overtime hours for work performed during his normal workday. During the investigation, OIG determined the clerk submitted more than \$30,000 in questionable overtime over a five year period. The clerk often performed clerical work outside his regular duties without using a time clock. Because the overtime was forwarded from a different department, the clerk's supervisors only checked that the hours would be charged to the other department, and simply accepted the overtime without any verification of the hours

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

10/1/06 – 3/31/07

Type	Number
Fraud	21
Theft/Embezzlement	8
Kickbacks	2
False Statements	2
False T&A Issues	8
Other Criminal	4
Waste	4
Abuse of Position	4
Mismanagement	5
Conflict of Interest	1
Administrative Inquiries	10
Other Non-Criminal	10
TOTAL	79

worked or direct supervision of the performance.

Additionally, Amtrak management made an arrangement to pay the clerk two and one-half overtime hours to clean a remote station platform once a week. OIG determined through observation and interviews that the clerk usually spent one hour or less at the remote station. Amtrak management simply paid the overtime without verifying the hours worked and only infrequently checked that the work was even performed.

In response to the OIG inquiry and findings, Amtrak management implemented policies to prevent such lapses in supervision. Subsequently, Amtrak disciplined the clerk's direct supervisor and reaffirmed with passenger services managers the existing policies requiring the use of available time clocks and active time monitoring.

- At the request of a former Amtrak Police Chief, the OIG conducted a review of overtime and miscellaneous expense reimbursement within the Amtrak Police Department. The review uncovered two situations of arbitrary overtime being incurred without prior management approval; and identified specific job classifications that are subject to overtime abuse potential due to difficulty in obtaining prior management approval. In addition, several instances of miscoding of over-

time were discovered. As a result of the review, APD Management instituted a policy that requires prior approval for arbitrary overtime.

The OIG recommended and APD management agreed that oversight and review of incurred overtime take place to prevent or identify incidents of abuse; controls should be in place to ensure that proper payroll coding is utilized, and that attention be given to any officer who works a special duty assignment and can receive overtime based on the needs of that assignment. The OIG further recommended that the APD review the special duty positions and determine if there is a more efficient way to assign them. At the close of this reporting period, the APD have included the recommendations as agenda items to be adopted.

JOINT INVESTIGATIONS

- The OIG recently investigated an allegation regarding an employee receiving a bribe in connection with contract work. Through a joint investigation between Amtrak's OIG and the Oakland, California Office of the Federal Bureau of Investigation (FBI), it was determined that an Amtrak Project Manager had solicited an Amtrak contractor to increase his prices fraudulently while performing an Amtrak project to cover the costs of a construction project in the Project Manager's home. As a result of the investigation, the Project Manager was terminated as an Amtrak employee, and indicted by a Grand Jury. Subsequently the employee entered a plea of guilty in federal district court on December 3, 2006. A federal judge sentenced the former employee to six (6) months confinement at a halfway house, six (6) months house arrest, and three (3) years supervised probation.
- The OIG received an allegation that an Amtrak employee was using an Amtrak-issued credit card for personal gain, which was reported lost/stolen. A joint investigation by Amtrak's OIG and the Government Services Administration OIG substantiated the allegation. The employee was terminated as a result of another company violation. In March 2007, as a result of the joint investigation, the former employee was arrested and indicted for violation of Access Device Fraud under Title 18 USC 1029, these charges are currently pending in federal district court.

REVENUE PROTECTION UNIT

Amtrak provides food and beverage service on board trains to millions of passengers each year. The revenue generated by these sales as well as the food stock and supplies used to supplement these sales, afford a dishonest employee the means for

revenue abuse or theft. The Revenue Protection Unit (RPU) provides critical guidance and support in the strengthening of management accountabilities and responsibilities as well as internal controls.

RPU Initiated Train Service Reviews

- During this reporting period, RPU analyzed the applicable support documents for on board food and beverage sales on over two hundred, ninety (290) trains for seventy-eight (78) various Lead Service Attendants (LSA). The completed reviews resulted in administrative referrals, regarding more than 51% of the LSAs reviewed, ranging from theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed for over twenty (20) LSAs.
- RPU also conducts preliminary reviews of conductor cash fares to identify, analyze and document, then refer for continued handling, conductor reviews that indicate possible theft or misappropriation situations. During the second half of this reporting period, RPU completed and forwarded to the appropriate management personnel, nine (9) conductor referrals indicating possible discrepancies or inconsistencies in remittance procedures.

PROSECUTIVE REFERRALS			
<i>10/1/06 – 3/31/07</i>			
Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	0	0	0
Convictions/Pleas	1	0	1
Pending*	6	0	6
Declinations	0	0	0
Resolved	0	0	0
TOTAL	7		7
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	1	1
TOTAL			1
Total Civil and Criminal			8
*Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney’s office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution, or other resolutions.			

Office of Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

AMTRAK MECHANICAL OPERATIONS – OIG CONTINUING TO HELP WITH IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

In September 2005, we issued report E-05-04, which resulted from a yearlong system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, we recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications.

Our report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past eighteen months we have been working with the Mechanical Department to help them implement our recommendations.

Implementation of Reliability-Centered Maintenance

Although day to day administration of this initiative is now under the Chief Operating Officer, the OIG remains engaged in an oversight role to help facilitate progress. We anticipate greater than a 10% improvement in availability of the Acela Fleet in FY08 based on this initiative. We also expect maintenance costs per Acela train mile to noticeably decrease under RCM. Efforts are already underway to expand RCM beyond Acela to Amtrak's conventional fleets of equipment, with similar results expected.

Mechanical Maintenance Process Improvement

The OIG-initiated efforts to improve the cycle times of key maintenance processes have continued, and this initiative is now also under the control of the Chief Operating Officer. The OIG has remained engaged in an oversight role to help facilitate progress. During this period, additional improvements have been made in several key processes. For example, the preventive maintenance cycle time for Amfleet Cars, previously reduced from 4 days to 3 days, has continued to be reduced to now under 2 days. The preventive maintenance and repair cycle time for Superliner Cars in Chicago have been reduced from over 9 days per car to approximately 6 days per car. These, along with other process improvements, have resulted in significant improvements in equipment availability (in some fleets greater than 5%) and over \$2 million in reductions in annual maintenance costs.

Diesel Locomotive Maintenance Consolidation

One of the recommendations in our report on Amtrak's Mechanical Maintenance Operations was for Amtrak management to examine the costs and benefits of outsourcing part of the maintenance operation to an experienced maintenance provider. To assist Amtrak management in this regard, we engaged a consultant who had helped in the negotiations of several large locomotive maintenance contracts. With his assistance, Amtrak management is in discussions with one of the largest locomotive maintenance providers in North America. In preparation for possible outsourcing, Amtrak has consolidated its diesel locomotive maintenance operations and made significant facility improvements. Even if an agreement does not come to fruition, these actions will lead to improved efficiencies and overall reduced maintenance costs – potentially as much as was envisioned through outsourcing.

Equipment Reliability Improvements

The OIG continues to facilitate and support the establishment of teams dedicated to conducting Root Cause Analyses into recurring equipment failures. The teams that have been established have made significant contributions to the improvements in reliability of both the Acela trainsets and the High Horsepower (HHP) Locomotives. Acela delays due to mechanical failures have decreased by 33% over the past six months and HHP Locomotive availability has increased by 42% during the first half of FY07 versus FY06.

PROCUREMENT AND MATERIAL SUPPLY CHAIN MANAGEMENT – OIG FACILITATING IMPROVEMENT EFFORTS

Alstom Parts Contract

Amtrak entered into a contract with Alstom TLS to supply and manage the parts inventory for the Acela trainsets, effective October 1, 2006. This contract has an estimated value of close to \$200 million over the five-year term. Based on the value of the contract and the importance of the contract to the success of Amtrak's premium Acela service, the OIG conducted an evaluation to determine if the terms and conditions of the contract were being fully complied with and if processes have been put in place by Amtrak to adequately measure and monitor the contractor's performance. We have issued preliminary findings and are working with the Mechanical and Procurement Departments in resolving identified shortfalls. We plan on issuing a "lessons learned" report as a guide for Amtrak to use in managing similar contracts in the future.

Mechanical Supply Chain Effectiveness

At the request of the Vice President of Procurement, the OIG is sponsoring and helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Dallas-based Thomas Group, the assessment teams are reviewing current processes and revising them to more align with industry best practices. Although still early, the initial results from these assessments have been promising with significant results expected during the next reporting period.

HARASSMENT AND INTIMIDATION COMPLAINTS – ALLEGATIONS NOT SUBSTANTIATED

Amtrak’s Statement of Policy Against Harassment and Intimidation states, in part, “Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness.” This Statement of Policy conforms to Federal Railroad Administration Regulations 49 CFR Part 225.33. The OIG investigates allegations of violation of this policy.

During this reporting period, three formal complaints that were received in the previous reporting period were investigated and concluded. The OIG determined that none of the allegations were acts of harassment or intimidation by management in their handling of employee’s injuries. It was determined, however, that several Amtrak policies and procedures surrounding the accurate reporting and handling of injuries and illnesses were not properly followed in one of the alleged complaints. These results were documented and discussed with management for follow-up training.

In addition, the OIG received one new employee complaint of Harassment and Intimidation. After conducting an inquiry into the complaint, it was determined that the allegations could not be substantiated as acts of harassment or intimidation as defined by FRA 49 CFR 225.33. The OIG, however, is continuing a review of the work environment as it relates to local management’s handling of employee discipline.



Crescent | VA

CONDUCTOR AND LSA NON-REMITTANCE – OIG CONTINUING INVOLVEMENT

Amtrak employees handle approximately \$100 million annually in on-board ticket and food and beverage sales. The OIG previously issued two evaluation reports where we noted substantial evidence of employee theft, and we made recommendations to improve the oversight and control of cash generated from these on-board sales.

The OIG Inspections and Evaluations staff works closely with the OIG Revenue Protection Unit (RPU), whose work is highlighted earlier in this report. Also, the I&E staff continues to interact with both Amtrak’s Transportation and Product Management departments to advise on conductor and On-Board Service (OBS) employee remittance policy and procedures as well as process improvements for safeguarding both on-board ticket sales and food and beverage revenues as well as an increased focus on OBS accounting procedures.

Since October 2002, more than 220 conductors and 180 OBS employees have either resigned or been terminated from the company, in part as a result of OIG’s efforts in this area, for misappropriation of revenues and/or violation of Service Standards related to on-board sales. Additional OIG reviews of food and beverage operations are planned in the next reporting period.

Office of Counter-Terrorism and Intelligence



Union Station | Washington, DC

The OIG Counter-Terrorism and Intelligence (CT&I) unit is responsible for the oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with other entities within the Amtrak security program, this unit works to increase awareness about the possibilities of terrorist attack against passenger rail services, and the critical importance of security preparedness and risk mitigation. During this reporting period, we have undertaken various security oversight and outreach activities some of which are highlighted below.

Given the highly confidential nature of this unit, its activities and progress is generally not publicized. OIG is willing to discuss projects and highlights with Congressional members and staff.

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

TEN STATION STRATEGY (10SS) – ASSESSING SECURITY AT MAJOR URBAN STATIONS

The OIG has developed a security assessment program whereby the ten major stations in Amtrak's national system are to be eval-

uated for vulnerabilities and detailed recommendations are to be formulated to improve the security preparedness of the stations. During this reporting period, the OIG continued to facilitate implementation of the Ten Station Security Strategy. The OIG procured funding and coordinated the development of security support product packages at these sites. The OIG provided technical reviews and facilitated stakeholder outreach initiatives described here.

■ **Station Action Team (SAT)**

The CT&I continued to assist the Washington Union Station (WUS) Station Action Team. The SAT is intended to provide an informal organization where stakeholders can discuss crisis and risk management, incident response, emergency preparedness, and risk mitigation. The SAT model being used in Washington, DC, will be used as a base model for the other designated stations in the Ten Station Strategy (10SS).

■ **Homeland Defense Operational Systems (HOPS)**

The OIG arranged for the services of the Lawrence Livermore National Laboratory (LLNL) HOPS program to undertake a scientific assessment of critical vulnerabilities at two major stations. These assessments will provide important decision support tools to managers charged with mitigating vulnerabilities at these important shared facilities. Based on the successful execution of previous studies, CT&I will facilitate HOPS assessments other major Amtrak facilities across the nation.

■ **Virtual Digital Mapping Project for Critical Infrastructure**

The OIG continued to provide administrative and tactical support to obtain virtual, digital mapping of major Amtrak stations. This product provides first responders and security planners with a contingency planning tool, useful during both pre-incident drills and during and post-incident emergency preparedness operations.

■ **Other Security Reviews**

During this reporting period, the OIG sponsored the vulnerability assessment of a major metropolitan station using a nationally recognized team of crisis management experts. The Full Spectrum Infrastructure Vulnerability Assessment (FSIVA) team from the California National Guard undertook a comprehensive review of security and evacuation plans.

Other OIG Activities

COORDINATION WITH INDEPENDENT PUBLIC ACCOUNTANTS

Section 805 of the Rail Passenger Service Act of 1970 requires Amtrak to have its financial statements audited annually in accordance with the generally accepted auditing standards, and to report the audit findings to Congress in Amtrak's annual report. Amtrak has been audited annually since 1971.

At the request of the Finance Department and KPMG, the OIG conducted a review of fiscal year 2006 labor charges for both the Engineering and Mechanical departments. The review consisted of analyzing the entire population of labor charges for both departments in order to determine the amounts adjusted and assess the risk that the labor cost adjustments may be inappropriate. The results of our review indicated a normal trend of a small number of adjustments and a relatively low dollar value for each date of adjustment. We concluded that the risk of inappropriate changes was very low and informed KPMG on the results of our review.

As part of the annual audit process, the OIG informs the external auditors on the scope of the ongoing audit activities being conducted by the OIG, and continues to coordinate significant audit issues with Amtrak management and the external auditors, as necessary.

TEAMMATE IMPLEMENTATION

OIG SECURE SUBNET AND TEAMMATE IMPLEMENTATION

As previously reported, the Amtrak OIG selected the TeamMate application for electronic workpapers and automation of various audit processes. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls was built to host the TeamMate application and related databases.

During this semiannual period, we fully implemented the technical infrastructure, finalized the TeamMate protocol and library, revised paper-based audit procedures for the electronic

work environment, trained all audit staff, and rolled out the TeamMate application to all audit offices across the country. All new audits will use the TeamMate.

Currently, the OIG is planning to implement PricewaterhouseCoopers Global Best Practices (GBP) in our TeamMate environment. GBP provides continuously updated best practices and benchmarking information for standardized business processes. This enhancement will assist us in performing audits and making value-added recommendations to management. In addition, we plan to implement additional TeamMate modules, initiate development of the OIG intranet, and extend the secure subnet access and capabilities to all OIG groups.

AMTRAK IT CHALLENGES AND GROUPS ANALYSIS

To assist the new CIO the OIG prepared a high-level overview of the Amtrak IT environment and identified key challenges, such as organization and reporting structure; IT strategic planning; outsourcing and vendor management; speed and quality of management information; ERP and legacy application portfolio management; system development methodology; e-ticketing; disaster recovery and business continuity; information security; network management; and e-commerce.

Amtrak spends about \$275 million per year on IT with a total manpower of about 760 consisting of about 440 employees and 320 contractors. The analysis showed that over \$100 million of the \$275 million in IT spend is controlled by departments other than the Amtrak IT department. This organizational misalignment results in disjointed development efforts, inefficient use of funds and difficulty in implementing enterprise applications and data integration. The OIG work to date is helping the CIO, and other senior managers, in forming a basis for company-wide IT restructuring and Enterprise Systems Strategy development. We will report on the work of the CIO in our next Semiannual Report.

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

Appendices



Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

10/1/06 – 3/31/07

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	\$746,392	\$290,276
B. Reports issued during the reporting period.	3	\$1,106,993	\$0
Subtotals (A + B)	5	\$1,853,385	\$290,276
LESS			
C. For which a management decision was made during the reporting period.	3		
(i) dollar value of recommendations that were agreed to by management.		\$982,110	\$3,817
(ii) dollar value of recommendations that were not agreed to by management.			\$9,111
D. For which no management decision has been made by the end of the reporting period.	2	\$871,275	\$277,348

Appendix 2

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

10/1/06 – 3/31/07

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period.	0	\$0
Subtotals (A+B)	0	\$0
LESS		
C. For which a management decision was made during the reporting period.	0	\$0
(i) dollar value of recommendations that were agreed to by management.		\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$0
D. For which no management decision has been made by the end of the reporting period.	0	\$0

Appendix 3

OFFICE OF THE INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

10/1/06 – 3/31/07

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
01/12/2007	103-2006	United Way Campaign Process Review	\$0	\$0	\$0
12/19/2006	109-2005	Mechanical Capital Projects Labor Charge	\$0	\$0	\$0
12/22/2006	201-2007	Cycle Inventory Review	\$0	\$0	\$0
03/26/2007	202-2007	Tri Rail Maintenance & Operation Insourcing Bids	\$0	\$0	\$0
03/30/2007	203-2007	Sale and Disposal of Equipment	\$0	\$0	\$0
01/30/2007	204-2006	New England Division Conductor/Flagman	\$740,148	\$0	\$0
01/30/2007	205-2006	Amtrak/FRA Grant Compliance Reporting	\$0	\$0	\$0
03/30/2007	209-2006	LSA Remittances	\$0	\$0	\$0
01/24/2007	215-2006	NECMSC Inventory	\$222,186	\$0	\$0
02/28/2007	216-2006	Gent's Enterprise, Inc. Lease Audit	\$0	\$0	\$0
02/16/2007	218-2006	Observation of FY06 Annual M/W Inventory	\$0	\$0	\$0
12/22/2006	220-2006	Pittsburgh Station Review	\$0	\$0	\$0
11/21/2006	300-2004	Compliance with Training Requirements	\$0	\$0	\$0
01/09/2007	302-2006	Emergency Exchange Vouchers South Station	\$0	\$0	\$0
03/07/2007	407-2004	Union Pacific Railroad	\$144,659	\$0	\$0
Total (15)			\$1,106,993	\$0	\$0

Appendix 4

**OFFICE OF THE INSPECTOR GENERAL
SUMMARY OF REPORTS TO PRESIDENT OF AMTRAK
CONCERNING INFORMATION OR ASSISTANCE
UNREASONABLY REFUSED OR NOT PROVIDED**

10/1/06 – 3/31/07

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

10/1/06 – 3/31/07

Section 4(a) of the Inspector General Act of 1978, as amended, provides that the Inspector General shall ...review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports ... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

The Office of Inspector General has an agreement with Amtrak's Government and Public Affairs Department that allows the OIG to review and comment on the company's annual legislative program and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed as necessary, as a part of every audit and investigation.

The OIG has also submitted legislative recommendations to oversight and appropriating committees seeking line item funding and several other legislative changes that will strengthen OIG independence and effectiveness.

The Inspector General testified before the Department of Homeland Security with regard to pending security legislation on February 13, 2007. Additional testimony was provided before the House Transportation and Infrastructure Committee, on March 7, 2007, with regard to security legislation being advanced by that Committee.

Appendix 6

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms we use in reporting audit statistics are defined below:

Questioned Cost	A cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak’s corporate policy or procedure.
Unsupported Cost	A cost that is not supported by adequate documentation at the time of the audit.
Funds To Be Put To Better Use	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
Management Decision	Management’s evaluation of our audit finding and its final decision concerning agreement or non-agreement with our recommendation.

Certain abbreviations used in the text are defined below:

10SS	10 Station Strategy	IA	Internal Affairs (Amtrak Police)
APD	Amtrak Police Department	IT	Information Technology
CFR	Code of Federal Regulation	LLNL	Lawrence Livermore National Laboratory
CIO	Chief Information Officer	LSA	Lead Service Attendant
CSXT	CSX Corporation	MARC	Maryland Area Rapid Commuter
CT&I	Counter Terrorism and Intelligence	NEC	Northeast Corridor
EEV	Emergency Exchange Voucher	OBS	On-Board Services
eTrax	Electronic Transaction Express Software System	OIG	Office of Inspector General
T&A	Time and Attendance	Pcard	Procurement card
FBI	Federal Bureau of Investigation	RCM	Reliability Centered Management
FRA	Federal Railroad Administration	RPU	Revenue Protection Unit
FSIVA	Full Spectrum Vulnerability Assessment	SAT	Station Action Team
GBP	PricewaterhouseCoopers Global Best Practices	UP	Union Pacific Railroad
HHP	High Horse Power locomotives	WUS	Washington Union Station
HOPS	Homeland Defense Operational System		
HR	Human Resources		
HUD	Housing and Urban Development		

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P.O. Box 76654
Washington, DC 20013-6654



National Railroad Passenger Corporation

Office of the Inspector General
10 G Street, NE, Suite 3W-300, NE, Washington, DC 20002-4285

EXHIBIT 5

NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General



APRIL 1, 2007 – SEPTEMBER 30, 2007

Semiannual Report to Congress



NATIONAL RAILROAD PASSENGER CORPORATION

Office of the Inspector General

Semiannual Report to Congress

REPORT NO. 36

APRIL 1, 2007 – SEPTEMBER 30, 2007





October 31, 2007

Honorable Donna McLean
Chairperson
Amtrak Board of Directors

Dear Ms. Chairperson:

On behalf of the Amtrak Office of Inspector General, I am pleased to present this Semiannual Report to Congress. Our Report highlights significant audits, evaluations, and investigations for the six-month period ending September 30, 2007. During the reporting period, we issued 12 audit reports with questioned costs of \$207,435.

We performed audits of Amtrak's compliance with the Payment Card Industry (PCI) Data Security Standards (DSS), and of Locomotive Fuel Charges Processed Through eTrax, identifying \$105,000 in duplicate or erroneous fuel charges. We also reviewed Amtrak's FY 2006 Capital Project Budgeting, Submissions, and Approval Processes.

Our investigators and special agents opened 58 new cases in the past six months and closed 71 cases; 276 investigations remain active as of September 30. We made 10 criminal referrals to federal prosecutors, obtained three criminal convictions/pleas, two declinations, and we have four cases pending prosecutorial review. Our more significant casework included revenue protection and referring embezzlement cases to Amtrak management for disciplinary action.

The OIG Inspections and Evaluations has sponsored and is helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams are reviewing current processes and revising them to more align with industry best practices. The OIG anticipates continuing in this facilitation role for another year and then producing a report that documents the overall results. In addition, Inspections and Evaluations has been evaluating the efficiency and effectiveness of Amtrak's Right-of-Way maintenance programs. As part of this effort, the OIG engaged a European consultant that has extensive experience evaluating the infrastructure maintenance programs of European Railroads.



During this period, Amtrak abolished its Risk Management Department and reorganized its security assets. As part of the restructuring, the Amtrak Police department became aligned with the Operating Department and the OIG Counter-Terrorism and Intelligence Unit transitioned from an oversight entity and assumed expanded responsibilities as the Office of Security Strategy and Special Operations (OSSSO). The OSSSO, working closely with Amtrak Police, has developed and resourced protocols for emergency response, passenger screening, visible deterrence, intelligence, policy and resourcing, and public awareness initiatives, among others. These initiatives are currently being implemented in stages.

While part of the OIG, the Counter-Terrorism and Intelligence Unit successfully pioneered new security paradigms for Amtrak, and placed increased emphasis on protecting passengers, employees and infrastructure through partnerships with Federal, State, regional and local governments, as well as with other public and private partners. Many of the efforts initiated by the OIG will transfer to the OSSSO. The OIG will, however, continue to provide security oversight and review of the OSSSO progress, in keeping with its statutory mission.

We realize that FY 2008 will be a pivotal year for Amtrak as Congress considers Amtrak's reauthorization, and we support the Board and management's efforts to have constructive dialogs with the Administration and Congress in charting Amtrak's future direction. I also want to express my appreciation for the cooperation and support we regularly receive from Congress. Finally, I want to recognize the extraordinary dedication and professionalism of the OIG's staff.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General

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Inspector General Viewpoint

FY 2007 YEAR-END RESULTS

Amtrak completed the fiscal year with \$2.153 billion in total revenue (\$1.730 billion in passenger related revenues); total revenue was 5.4 percent greater than FY 2006, with passenger revenues up 10.5 percent. Total expenses were \$3.109 billion. Amtrak's adjusted losses, before depreciation, were \$1.051 billion, \$16.5 million better than last fiscal year.

Total ridership for the year was 25.86 million, with Acela being a major driver of performance. Acela's overall performance, and the challenges to maintaining and improving upon FY 2007's results, is discussed below. Amtrak's other Northeast Corridor services, the Regionals, posted a seven percent increase in revenues, with a one percent increase in ridership.

At the national, non-NEC level, ridership and revenue performance was mixed. For Amtrak's sixteen long distance services, Amtrak ended the year slightly favorable to the prior year in both revenue (+5.0%) and ridership (+2.4%). Shorter distance state and regional corridors performance was also up, ridership was up 7.6% over FY 06, and revenues were up 9.0%. There was some noteworthy growth in the State of Illinois services (Chicago-St. Louis posting a 55.8 percent ridership growth) reflecting the addition of two new frequencies; the Capitol Corridor Service (San Jose-Sacramento) posting a 14.8 percent increase in ridership; and the Keystones (Philadelphia-Harrisburg) posting a 20.1 percent gain, also due to the addition of new frequencies and an improved schedule.



Keystone Service | near Lancaster, PA

Amtrak was the beneficiary of a number of external economic factors, including rising fuel prices and a significant deterioration in airline on-time performance and worsening customer service in that sector. To its credit, Amtrak took advantage of these economic and market conditions. Amtrak improved on-time performance on the Northeast Corridor, with Acela on-time performance almost reaching its 90 percent on-time goal. More importantly, Amtrak's revenue yield per passenger mile increased to \$.27, continuing an improvement trend for the past three years. Amtrak also reduced its total net loss year over year.

AMTRAK'S CHALLENGES AND OPPORTUNITIES

Amtrak is well-positioned to continue to make incremental improvements in its overall performance for the next several years, but there are risks to this upward trend depending upon how well some key risk areas are managed.

REVENUE OPPORTUNITIES

With the year-end results in, it is clear there is a window of opportunity for Amtrak to continue to garner additional passenger revenue growth in FY 2008. Gasoline prices are continuing to rise, with little likelihood of abatement for some time, and congestion and delays at major airports are taking their toll on the patience of air travelers. Amtrak's Acela revenues exceeded \$400 million in FY 2007, and Amtrak has yet to deploy a 17th trainset into scheduled revenue service (out of the 20 available trainsets); the customer demand for rail services in the Northeast Corridor is there. Increased availability of Acela frequencies, and continued consistent and reliable on-time performance, will make Acela a preferred travel choice.

The challenge for Amtrak is to protect and indeed increase its market share, ensure the continued reliability and availability of Acela in the Northeast Corridor, exploit opportunities on the New York to Boston market, and improve load factors for the off-peak frequencies. Amtrak is working toward greater differentiation of the Acela product, replacing seating and interior appointments, exploring continuous Wi-Fi connectivity, and rewarding frequent travelers. These actions may help attract and hold some customers. The OIG believes that Amtrak needs to redouble its efforts to keep Acela reliability and availability as high as possible. This means the company should achieve greater than a 90 percent on-time performance, and should successfully deploy its 17th trainset in early FY 2008. The



Acela Express | Northeast Corridor

company must also re-examine its placement of the new “Express” service as it does not appear the current schedule is achieving the desired results. The larger economic risks to sustained growth include the possibility of an economic downturn (recession) and any actual or perceived security threat to the transportation systems.

With respect to the long-distance services, the OIG had issued a report on the importance of on-time performance last year. Additionally, there is a report due from the DOT OIG regarding off-corridor on-time performance in early FY 2008. We recommend that Amtrak concentrate its improvement of on-time performance toward four of the sixteen long distance routes, specifically the Autotrain service, the Coast Starlight, the San Francisco Zephyr, and the New York-Florida Silver Services. We also have recommended previously that Amtrak closely examine its long-distance ‘business model’ for some routes. Amtrak needs to move away from a ‘speed’ model for certain routes and consider a ‘service’ or ‘rail experience’ model. Amtrak needs to better exploit the entirety of the rail experience along the route by marketing the intermediate route destinations, partner with state and local entities and businesses along the route, promote more stopovers, and position its product differently (akin to the Canada’s VIA model I reported upon in prior Semiannual Reports, or the cruise ship experience).

Short-distance rail services also represent real growth opportunities for Amtrak — as an operator and maintainer of those services, and as a supplier of other passenger rail services. The challenge for Amtrak is to continue to offer rail-related services that current, and prospective, state partners perceive as ‘value added’ and worthwhile. Most states are willing to pay more for Amtrak in their state, but

as their payments increase, they will want to see higher quality and more reliable service. During the past year, as noted earlier, several states added frequencies to their routes and experienced significant incremental gains in ridership. Amtrak is appropriately repositioning its management resources to support these new services and plans for smart growth with these state partners. In the short term, Amtrak must establish an equipment acquisition strategy and find sufficient passenger equipment to satisfy the states’ growing needs.

EXPENSE CONTAINMENT

Approximately fifty percent of Amtrak’s operating expenses relate to employee wages, salaries, and benefits. It follows that even small improvements in productivity, when applied across the entire system, can generate significant savings. As Amtrak ends the fiscal year, Amtrak and most of its major labor unions are operating without having settled major labor-management agreements. Amtrak must continue to be very attentive to the need for the successful settlement of these negotiations, as the final trade-off between wage and benefit increases and work rules must be accommodated within the reauthorization funding levels.

With respect to capital spending, much of Amtrak’s capital budget in recent years has been invested in restoring the ‘state of good repair’ to the Northeast Corridor. The OIG is in strong support of this initiative, but we believe more work is required to bound the effort and lay out a more rigorous analysis of return on capital invested. Amtrak needs to delineate specifically the results of these large investment programs and the resulting impacts on revenue and expense reduction. For example, Amtrak can prescribe a level of utility (class of track to permit high-speed operations) for all sections of the Northeast Corridor track infrastructure. Amtrak can categorize the incremental costs for maintaining track at Class 7 (MPH) or Class 8 (MPH), and can tie revenue projections to scheduled performance. Amtrak has approximately 950 miles of high speed mainline tracks (high speed as defined by the FRA are class 6, 7 and 8 tracks - 110 to 150 mph); with 1600 total mainline track miles. Other efforts can be oriented to major bridge and tunnel work, e.g. - to keep the useful life of an asset within 90 percent of its expected useful life before replacement. Additionally, a more complete inventory of major programs and projects, by asset type, should be maintained and shared with Congress and rail partners.

SAFETY & SECURITY

SAFETY

While Amtrak's overall safety performance has been slowly improving, establishing a well-embedded safety culture in the railroad is a difficult and long-term task. The OIG would like to see Amtrak work more aggressively to looking beyond the injury statistics alone, which are still less than optimal among major Class I railroads. Amtrak has reinstated its System Safety program, and the program needs to be fully integrated and as robust as possible.

SECURITY

During the reporting period, the OIG transferred its Counter-Terrorism and Intelligence assessment unit to the newly formed Office of Security Strategy and Special Operations (OSSSO). The OIG will continue to perform critical assessments of Amtrak's overall security preparedness and the newly formed OSSSO. We will also monitor the new program and project initiatives that will be funded under the recently passed Homeland Security authorization.



Capitol Limited

Amtrak Profile

BACKGROUND

The National Railroad Passenger Corporation (NRPC; “Amtrak”) is incorporated under the District of Columbia Business Corporation Act (D.C. Code § 29-301 et seq.) in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Amtrak is currently governed by a seven-member Reform Board established under the Amtrak Reform and Accountability Act of 1997 (P.L. 105-134; 49 U.S.C. § 24302).

Amtrak was created by Congress in 1970 to take over the rail passenger services previously required to be operated by private freight railroad companies in the United States. Those companies reported they had operated their rail passenger services without profit for a decade or more. More than half of the rail passenger routes operated by the freight railroad companies were eliminated when Amtrak began service on May 1, 1971. The company is operated and managed as a for-profit corporation providing intercity rail passenger transportation as its principal business. The United States Government through the U.S. Department of Transportation (DOT) owns all 109.4 million shares of issued and outstanding preferred stock. An additional 9.4 million shares of common stock are held by the successors of four railroads whose intercity rail passenger services were assumed by Amtrak in 1971.

During Fiscal Year (FY) 2007 Amtrak carried about 26 million passengers on up to 315 daily intercity passenger trains over 21,000 route miles serving 513 communities in forty-six states, the District of Columbia, and three Canadian provinces. If Amtrak were an airline, it would rank as the nation’s eighth largest domestic carrier in terms of passengers carried and employment, and eleventh in terms of operating revenue (\$2.1 billion). In terms of market-share, Amtrak serves 56 percent of the combined airline-intercity rail passenger market between Washington, D.C., and New York City. In addition, more than 800,000 people commute every weekday on Amtrak infrastructure or on Amtrak-operated commuter trains around the country under contracts with state and regional commuter authorities.

Amtrak currently employs about 18,600 persons, of whom about 16,000 are agreement-covered employees. These employees work in on-board services, maintenance of way, police, station and reservations services, and other support areas.

Of its route system, Amtrak owns the right-of-way of more than 529 route miles (totaling 2,162 track miles) in the



Lake Shore Limited | Bannerman’s Castle, Hudson River, NY

Northeast Corridor (NEC; including Washington, DC-New York City-Boston, Philadelphia-Harrisburg, and New Haven, CT-Springfield, MA) and 97 miles in Michigan. Amtrak owns 105 station facilities, and is also responsible for the upkeep and maintenance of an additional 181 station facilities and 411 platforms. Amtrak also owns 17 tunnels and 1,186 bridges. It owns most of the maintenance and repair facilities for its fleet of about 2,600 cars and locomotives. Outside the NEC, Amtrak contracts with freight railroads for the right to operate over their tracks. On their property, the host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.

OIG PROFILE

Amtrak’s Office of the Inspector General (OIG) was established as a statutory entity in April 1989, in accordance with the 1988 amendments (P.L. 100-504) to the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. APP.3 Inspector General Act of 1978). The OIG is an independent and objective entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak’s programs and personnel, and to promote economy and efficiency in Amtrak operations. The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG also audits and evaluates

Amtrak operations and assists management in promoting integrity, economy, efficiency, and effectiveness.

To accomplish these objectives, the OIG establishes policy for audits and investigations relating to all Amtrak programs and operations, and conducts, supervises and coordinates these audits and investigations. Further, the OIG reviews existing and proposed statutes, regulations and policies to evaluate their effect on economy and efficiency in the agency and on the prevention of fraud and abuse and recommends changes as appropriate.

The OIG consists of the following offices with specific responsibilities:

The **Office of Audits** is responsible for conducting independent reviews of Amtrak's internal controls; overseeing and assisting audits of Amtrak's financial statements; reviewing information technology programs and information security; providing accounting counsel to, and oversight of, Finance Department operations; reviewing certain procurements and material acquisitions for appropriateness of cost, pricing and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

The **Office of Investigations** is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. It is also charged with reviewing and safeguarding

Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

The **Office of Inspections and Evaluations** is a hybrid unit whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies. The evaluative process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve program cost efficiency and effectiveness, management, and the overall quality of service delivery throughout Amtrak.

The **Office of Counter-Terrorism and Intelligence** is responsible for facilitating, and overseeing projects and tasks pertaining to rail security, counter-terrorism and intelligence related to the country's war on terrorism. This group is involved in working with external agencies to provide focus on the importance of rail security and the need for an integrated approach for addressing the many challenges in securing an open-architecture rail passenger system.

There are eight OIG offices located in Washington, DC (Headquarters), Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Office of Audits

SIGNIFICANT AUDITS

INTERNAL OPERATIONS REVIEW

Review of GSA Fleet Leased Vehicle Utilization

Reporting processes could be improved

Audit Report Number 210-2006 – Issued 04/19/07

The OIG conducted an audit of Amtrak's leased vehicle program to evaluate Amtrak's vehicle utilization, and to determine compliance with corporate automotive policies and procedures related to vehicles leased from the General Services Administration (GSA) Fleet. For the period reviewed, January 2005-March 2006, Amtrak leased a total of 1,451 vehicles from GSA Fleet at a total cost of \$11,725,781. The OIG review of billing statements found many GSA Fleet leased vehicles had incorrectly reported mileage and that Daily Vehicle Logs were not being properly maintained. Based on the review, the OIG recommended and management agreed that the Operations Department improve the recording of odometer readings to ensure accurate mileage reporting for billing purposes, and maintain accurate Daily Vehicle Logs in accordance with existing policy. In addition, the Procurement Department will take appropriate action to improve their reporting of mileage exceptions to the Operations Department.

Review of Locomotive Fuel Charges

Processed Through eTrax

\$105,000 in duplicate or erroneous fuel charges

Audit Report Number 203-2005 – Issued 05/8/07

Amtrak uses the Electronic Transaction Express (eTrax) software system to document the receipt, approval and payment of locomotive fuel transactions. An audit of locomotive fuel purchases processed through eTrax was performed by the OIG to determine the level of compliance with Amtrak's policies and procedures. The audit disclosed varying degrees of noncompliance with locomotive fuel deliveries, approvals and the payment process resulting in over \$105,000 in duplicate or erroneous payments to fuel vendors in the first half of FY 2006.

In addition, under agreements with railroads where Amtrak rents locomotives from those railroads, the rental rate paid by Amtrak includes locomotive fuel. During the course of the OIG review, the OIG identified 26 instances in our sample period where Amtrak paid local fuel vendor charges for the locomotives and did not seek reimbursement from the railroad. Management agreed with the OIG findings and recommendation that an approved fuel policy be

posted and communicated, and the unbilled fuel charges will be rebilled to the appropriate railroads.

Review of Amtrak's FY 2006 Capital Project Budgeting, Submissions, and Approval Processes

Inadequate policy compliance in key areas of capital expenditure processes

Audit Report Number 106-2005 – Issued 06/22/07

Amtrak's external auditors previously reported a material weakness in Amtrak's capital expenditure processes in connection with their financial statements audit. Subsequently, Amtrak management developed a corrective action plan to address control deficiencies. The objective of this audit was to review FY 2006 capital project budgeting, submissions, and approval processes to determine if Amtrak has developed and successfully implemented new policies and procedures to remedy control weaknesses.

The OIG concluded that compliance to policies designed in response to the material weakness finding was inadequate in key areas of the capital processes four years after implementation. The main findings of the report are summarized below:

- Capital budget submissions did not consistently include a performance measurement strategy that indicates how the end result of the project can be measured to determine if the investment met its intended purpose. The lack of project performance measurements has contributed to Amtrak's inability to perform post-completion reviews.
- More than 90 percent of the \$742 million in capital spending approved in FY 2006 was not based on any formal operational or financial criteria other than the assumption that all such projects were a high priority.
- Project justification, impacts of deferral, and alternatives were not adequately presented for a significant portion of the \$552 million sampled.
- Capital budget submissions were not reviewed for compliance with generally accepted accounting principles (GAAP), a common set of accounting principles, standards and procedures that the U.S. government and private companies use to compile their financial statements. The Federal Accounting Standards Advisory Board (FASAB) promulgates the generally accepted accounting principles for federal reporting entities, including Amtrak (as defined by FASAB Concepts Statement 2, Entity and Display, June 5, 1995).



Empire Builder | Glacier National Park, MT

The OIG recommended that the Finance Department along with user departments comply with existing policies and develop financial and operational metrics to ensure that capital budget submissions are aligned with corporate goals. The Finance Department responded with a plan to address the OIG's recommendations and revised business process policies and procedures were issued in February 2007. Future reviews of the capital budget processes are planned for the next fiscal year.

Limited Scope Review of Milwaukee Station Ticket Office Accounting Procedures and Operations

Assets were adequately safeguarded and records were organized

Audit Report Number 403-2007 – Issued 09/17/07

The OIG performed a limited scope review of the Milwaukee, Wisconsin, station ticket office to; determine compliance with station accounting procedures, verify assigned working funds, ticket stock and other assets, evaluate safeguards over these assets, and appraise the efficiency of station operations. The OIG found that employees generally are in compliance with daily station accounting and reporting procedures. We found assets were adequately safeguarded and records were organized. The OIG identified several minor deviations from Amtrak's operational procedures, including: the Over and Short Ledger was not being used; station personnel issued Emergency Exchange Vouchers without approval signatures; and several employees had substandard attendance as defined by Amtrak's National Attendance Policy. Management agreed with and promptly implemented all OIG recommendations.

Review of Use of NRPC Form 75 Emergency Exchange Vouchers at Chicago Union Station

Procedures and guidelines not fully complied with

Audit Report Number 404-2007 – Issued 09/28/07

The OIG performed an audit of NRPC Form 75 Emergency Exchange Vouchers (EEVs) issued at Chicago Union Station (CUS) for the months of March, April, and May 2007. The EEV is designed to provide an accounting methodology for expenditures to accommodate and assist passengers who have been inconvenienced. In instances where it is necessary to take cash from station funds for addressing the needs of the inconvenienced passenger, an approved EEV is required. The objectives of this audit were to determine whether EEVs were processed in accordance with established company procedures and whether EEV expenditures were appropriate and properly supported with valid receipts or other documentation.

The OIG review disclosed that, generally, adequate controls exist for EEV processing at CUS. However, the OIG found that EEV procedures and guidelines were not always followed, a total of 336 EEVs could not be accounted for, and the mini-audit dated June 14, 2007, was not complete. Management agreed with the OIG findings. The OIG recommended communication and a reemphasis of the importance of following EEV guidelines, and that counseling or disciplinary action be taken with employees routinely not in compliance with the guidelines. The OIG recommended and management agreed to account for the 336 EEVs, and to issue EEVs sequentially and reconcile them monthly. The OIG recommended and management agreed to complete all mini-audits in compliance with procedures.

INFORMATION TECHNOLOGY

Review of Payment Card Industry (PCI) Data Security Standards

PCI Data Security Standards not fully complied with

Interim Report for Project Number 103-2005

In response to a request from Amtrak's Chief Information Officer (CIO), the OIG completed a desktop review of Amtrak's compliance with the Payment Card Industry (PCI) Data Security Standards (DSS) and issued an interim report as part of the Credit Card and Cash Management Systems Audit (Project Number 103-2005). Amtrak is currently a Level 2 merchant for compliance with the PCI standards, but it will most likely become a higher volume Level 1 merchant in the near future when its credit card

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 4/1/07	41
Audit projects postponed or cancelled	(2)
Audit projects started	16
Audit reports issued	(12)
Audit projects in progress 9/30/07	43

Audit Findings

Questioned costs	\$207,435
Unsupported costs	\$0
Funds to be put to better use	\$0
Total	\$207,435

transactions exceed 6 million per year. Once Amtrak is determined to be a Level 1 merchant, an onsite assessment by an independent evaluator must be completed every year. PCI security standards consist of twelve basic requirements that must be complied with to avoid fines and penalties. If non-compliant and there is a security breach, it can cost Amtrak between \$90 and \$305 per lost record.

The objectives and scope of the OIG review were to evaluate the Level 2 self-assessment questionnaire completed by management, and to identify gaps to achieve full Level 1 compliance so that a security plan can be developed. The OIG found that Amtrak currently does not fully comply with the PCI DSS requirements and an aggressive action plan would be required to achieve Level 1 compliance. The scope of the remediation effort could be reduced if Amtrak can eliminate or encrypt the credit card information; and segment its network to isolate applications that process and store such data. The OIG found that the ownership, roles and responsibilities were not clearly defined to achieve PCI compliance. Also, many policies, procedures and standards required by PCI standards either did not exist or were not sufficiently enforced. As a result of our review, Amtrak management has launched an aggressive effort to develop a comprehensive security plan and strategy to achieve full PCI compliance in the near future.

PROCUREMENT

Review of Low Foam Cleaner Contract B 098 13443

Inconsistent costing methodologies, unallowable costs, and excessive profit margin

Audit Report Number 205-2007 – Issued 04/29/07

The OIG completed a limited review of a contract with the Chemical Corporation of America, Inc. (Chemcoa), of Chester, New York, a supplier of industrial cleaning compounds for the railroad industry, for the purchase of low foam cleaner for air brake cleaning machinery in order to verify the accuracy and acceptability of the cost and pricing data shown on the contractor's estimated cost breakdown. This was a non-competitive, blanket two-year firm fixed-price agreement, and it is estimated that approximately \$250,000 of the \$300,000 agreement would be used to purchase the low foam cleaner. As a result of the post-award audit, the OIG questioned 17 percent of the \$7.61 per gallon sales price because of inconsistent costing methodologies, costs unallowable under the Federal Acquisition Regulation System (FAR 31.404-4), and incorrect account coding. Chemcoa also failed to provide supporting documentation covering 64 percent of various cost components and the proposal included a profit margin of 49 percent, which the OIG considers excessive. Negotiations are continuing with Chemcoa, and the OIG recommends that Amtrak management utilize FAR guidelines in negotiating a reasonable profit margin.

Limited Scope Review of the Proposed Costs to Manufacture and Install Escalators at New York Penn Station

Unsupported labor burden contingency cost identified

Audit Report Number 222-2006 – Issued 07/27/07

The OIG completed a limited scope review of the proposed cost of \$418,000 to manufacture and install the initial escalator at New York Penn Station. This was part of a purchase order for two escalators totaling \$878,000. The contractor, ThyssenKrupp Elevator Corporation (a wholly-owned subsidiary of ThyssenKrupp Elevator AG of Dusseldorf, Germany), agreed to an actual cost audit on the first escalator to determine the reasonable cost of future work at New York Penn Station, which needs 14 escalators replaced. The accuracy and acceptability of the proposed costs and pricing data was reasonable, however, the proposal included an unsupported labor burden contingency cost that is generally unallowable under the Federal Acquisition Regulation System (FAR 31.205-7). As a result of the review, the OIG recommended the labor burden contingency cost be disallowed unless it can be supported by the contractor's actual cost records.

Follow-Up Review on Non-Traction Utility Management

Improved oversight of non-traction utilities has saved over \$3 million

Audit Report Number 302-2007 – Issued 08/3/07

In September 2004 the OIG issued Audit Report Number 302-2004 which assessed the adequacy of controls used to manage non-traction utility costs in terms of assuring that Amtrak is receiving the best prices possible and reducing energy usage. The audit concluded that adequate controls were not in place to provide reasonable assurance that Amtrak was efficiently procuring and managing non-traction utilities, which cost over \$30,000,000 annually. The OIG recommended that Amtrak management develop and implement a comprehensive master plan for procuring and controlling non-traction utility expenses.

This year the OIG completed a follow-up review to determine whether internal controls are now in place to provide reasonable assurance that non-traction utilities are being properly managed. The OIG found that management is placing greater emphasis on monitoring and controlling non-traction utility costs. A new organization (Utility Management) was established in January 2006 to provide formal and defined oversight of non-traction utilities. Utility Management has undertaken several initiatives to address the internal control weaknesses reported in the previous audit, and has already saved over \$3,000,000. As a result, the OIG concluded that current controls, and those that are being implemented, provide reasonable assurance that Amtrak is adequately managing non-traction utility costs.

RAILROAD AUDITS

Limited Scope Review of CSX Corporation, Inc. (CSX)- New York High Speed Line Agreement

Recovery of \$237,265 in questioned costs

Audit Report Number 212-2006 – Issued 06/7/07

The OIG evaluated the accuracy and reasonableness of billings pertaining to the use of Track 2 of the NEC by CSX Corporation, Inc. (CSX), freight trains. The OIG identified \$64,037 that is owed to Amtrak as a result of CSX freight trains using portions of dedicated Amtrak tracks without notifying Amtrak or paying for such usage. CSX officials agreed with the finding. In addition, the OIG also resolved all prior audit findings related to such freight train usage, resulting in a refund to Amtrak of \$237,265.

UNRESOLVED AUDIT ISSUES

Appendices 1 and 2 show the status of management decisions on audit recommendations and dollar values of questioned costs, unsupported cost, and funds to be put to better use.

Section 5(a)(10) of the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. APPENDIX Inspector General Act of 1978), requires “a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. . .” Such reports are shown in Appendices 1 and 2. In addition, 5 U.S.C. APP. § 5(a)(11) requires “a description and explanation of the reasons for any significant revised management decision made during the reporting period.” There were none during this reporting period. Finally, 5 U.S.C. APP. § 5(a)(12) requires “information concerning any significant management decision with which the Inspector General is in disagreement.” No such decisions were made during this reporting period.

MANAGEMENT RESPONSES OVER 180 DAYS OLD FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

The OIG continues to monitor and follow up with management on corrective action measures. The following items were reported in previous semiannual reports and additional information is being reported.

CSX Transportation, Inc. (CSXT) – Audit of Non-On-Time Performance Items

\$478,000 in erroneous billings identified

Audit Report Number 01-105 – Response 08/20/2001

The Chicago OIG office has met and discussed proposed audit adjustments, supporting documentation, correspondence, and audit work papers with representatives of CSX Transportation, Inc. (CSXT). CSXT is a wholly-owned subsidiary of CSX Corporation, Inc., of Jacksonville, Florida. CSXT operates the largest freight railroad in the eastern United States with a 21,000-mile rail network in 23 states, the District of Columbia, and two Canadian provinces. A tentative agreement has been reached to settle all issues identified in Audit Report Number 01-105. The final settlement letter has been reviewed and approved by both entities, and CSXT will credit or reimburse Amtrak a total of \$478,000 during the next reporting period.

Review of Union Pacific Corporation (UP) Billing Processes

\$144,659 in excess billings identified

Audit Report Number 407-2004 – Issued 03/7/2007

Effective January 1, 2000, Amtrak entered into an agreement with the Union Pacific Corporation (UP) of Omaha, Nebraska (the largest freight railroad in the United States with a 32,000-mile rail network in 23 western states), which consolidated four previous contracts with the Denver and Rio Grande Western Railroad, the Southern Pacific Railroad, the Southern Pacific Central States Line, and the Union Pacific Railroad for intercity rail passenger operations on tracks and properties now wholly-owned by UP. Under the agreement provisions, UP bills Amtrak each month for specific services and facilities for intercity rail passenger operations. The audit purpose was to determine the accuracy, reasonableness, and validity of the charges UP billed Amtrak for selected items and to develop an audit adjustment claim if appropriate.

The scope of our audit encompassed the period from January 1, 2002, through December 31, 2003, and consisted of analyzing UP's monthly billing costs, records, payments, technical opinions, vendor invoices, Amtrak delay reports, internal/external letters and memoranda, historical documentation of similar railroad billings, where available, and other information, as deemed necessary.

We did not audit 100 percent of the billing costs due to resource limitations, dollar materiality, and other constraints. We audited 14 of 23 items accounting for over 98 percent of the total billing. We found erroneous billings in 10 of the 14 items selected for audit, \$230,282 over-billed and \$85,623 under-billed for a net total of \$144,659 due Amtrak. UP representatives agreed with our findings. We recommended that management initiate a final settlement letter and that monies due Amtrak be collected. Management verbally agreed, but has not provided a written response to this audit.

Review of NEC Work Trains

Audit Report Number 212-2003 – Response 10/28/2003

Our review disclosed that Amtrak could establish a more efficient system to fuel Mid-Atlantic work trains by fueling work trains at a closed fueling location. The OIG has requested additional information to determine if management has taken appropriate action.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned costs of \$63,184

Audit Report Number 219-2005 – Response 01/25/2006

The Procurement and Materials Management Department is involved in ongoing settlement negotiations with Mass Transit Products, Inc., of Montgomery Village, Maryland, and its' suppliers. The OIG continues to monitor actions taken.

Physical Inventory of Acela High-Speed Rail Parts

Questioned costs of \$222,186

Response 02/23/2007

The OIG assisted in counting the Acela Parts inventory that was owned by the Bombardier/Alstom OEM consortium. The OIG also performed and are currently assisting in a pricing review. The OIG originally identified \$222,186 in questioned costs. However, there are still under-priced items and items that have not been entered into Amtrak's Accounting, Material and Purchasing System (AAMPS). The OIG will continue to monitor.

Reviews of Southern Pacific Central States Line

Questioned costs not yet resolved

Audit Report Number: 01-506 – Response 09/04/2001

Audit Report Number: 01-507 – Response 09/04/2001

Audit Report Number: 01-508 – Response 10/12/2001

Audit Report Number: 01-509 – Response 10/12/2001

The audit reports listed above have been reported on in previous Semi-Annual Reports. As of this reporting period, there are no significant developments to report. The OIG will continue to monitor.

Office of Investigations

CASE STATUS OF INVESTIGATIONS

4/1/07 – 9/30/07

Total Open Cases as of 3/31/07	289
Closed Cases	(71)
Opened Cases	58
Total Ongoing Cases as of 9/30/07	276

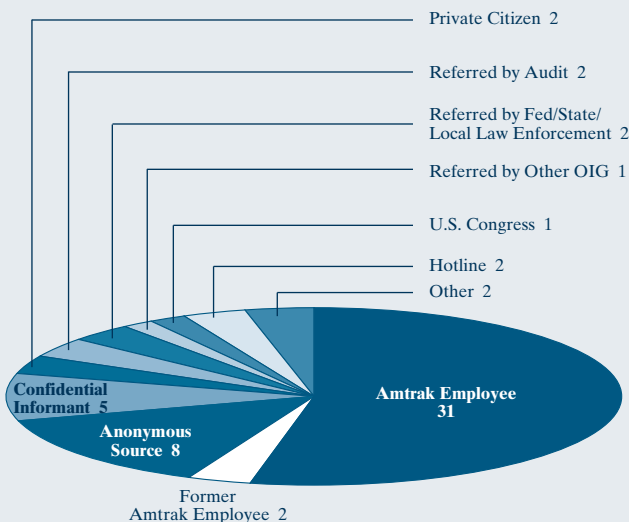
CASE HANDLING

The OIG receives allegations from many sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 276 investigations; in the last six months, we opened 58 cases and closed 71 cases.

As set forth in the chart below, entitled “Sources of Allegations,” employees and anonymous referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 31 of the 58 allegations, or 53 percent. All allegations are reviewed, screened and resources are allocated based upon, among other things, the seriousness of the allegations and potential harm to Amtrak or the public.

SOURCES OF ALLEGATIONS

4/1/07 – 9/30/07



HOTLINE STATISTICS

4/1/07 – 9/30/07

Total

Hotline Complaints Received	9
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Sources of Hotline Complaints

Amtrak Employee	1
Anonymous Source	3
Private Citizen	3
Referred by Other Amtrak Department	1
Referred by Federal/State/Local Law Enforcement Agency	1

Classification of Complaints

Time and Attendance	2
Waste	1
Mismanagement	1
False Statements	1
False Claims	1
Theft	1
Abuse of Position	1
Criminal – Other	1

Complaints Referred To:

Mechanical Department Management	4
OI Field Offices	2
Customer Services	2
Safety	1

The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE twenty-four hours a day by calling Amtrak Telephone System (ATS) number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m. the OIG answers callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine. In addition, people can write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received nine telephonic HOTLINE complaints during this reporting period, which is an increase from the previous reporting period. The majority of HOTLINE complaints received during this reporting period were made by anonymous sources and private citizens.

SIGNIFICANT INVESTIGATIONS

THEFT AND FRAUD

Theft and fraud is a problem which affects many organizations that handle large amounts of cash. Due to the nature of the passenger rail business, cash transactions on our trains and in our stations are at risk for employee embezzlement and/or theft of company assets. The OIG spends considerable time and effort identifying and addressing these issues, with examples of such investigations listed below.

- The OIG conducted an investigation of a Chicago-based Lead Service Attendant (LSA), for failing to remit monies from on-board sales in the amount of \$2,612.50. The LSA was terminated and subsequently indicted for theft and charged with a Class 3 felony in violation of 720 Illinois Comp. Stat. 5/Art. 16-1 (Theft) and ILCS 5/Art. 16A-2.8 in the Circuit Court of Cook County. The former LSA pled guilty to a charge of theft on May 18, 2007, and was sentenced to one year of court supervision and ordered to pay restitution to Amtrak.
- The OIG investigated an allegation that Amtrak employees and their non-Amtrak associates were submitting claims, accumulating, and redeeming frequent flyer mileage on Alaska Airlines utilizing the Amtrak/Alaska Airlines Mileage Plan (AAMP) travel partnership and not remitting the required funds associated with those claims. We began an extensive investigation into fraud by Amtrak employees in connec-



Vermont | Passing through farmland, VT

CLASSIFICATION OF CASES OPENED DURING THIS PERIOD

4/1/07 – 9/30/07

Type	Number
Fraud	17
Theft/Embezzlement	5
False Claims	5
False Statements	1
False Time & Attendance Issues	4
Other Criminal	6
Waste	2
Abuse of Position	6
Mismanagement	3
Conflict of Interest	1
Administrative Inquiries	2
Other Non-Criminal	6
TOTAL	58

tion with AAMP. As a result of the investigation and the OIG’s subsequent Administrative Report to Management, fourteen employees were removed from service after being charged, and terminated after their hearing. Effective July 15, 2007, Alaska Airlines discontinued its AAMP travel partnership with Amtrak. They also cancelled and revoked the Frequent Flyer Mileage accounts of those Amtrak employees and non-Amtrak individuals associated with this investigation.

In conjunction with the Alaska Airlines case, the OIG conducted a separate investigation into an allegation of misconduct on the part of an Assistant Superintendent and Secretary tasked with preparing and ensuring that six of the employees involved with the abuse were served with charge letters within the proper time limits and prior to the hearing date. As a result of the investigation, we recommended that Amtrak management consider discipline for both employees. This recommendation was agreed to by management and resulted in ninety days probation for the Assistant Superintendent and counseling for the Secretary.

- As the result of an OIG investigation, an Engineering Clerk was charged with unauthorized or inappropriate use of an Amtrak Procurement Card (P Card). The

employee admitted that a P Card was used to purchase at least thirty items valued at more than \$2,000 for personal. The items were subsequently recovered. The employee resigned during the administrative hearing.

- During this reporting period, a Chicago Ticket Agent, previously charged with manipulating over fifty passenger ticket exchanges for personal gain in the amount of \$4,449, resigned from Amtrak.
- As a result an OIG investigation, a federal arrest warrant was issued for an individual who frequented an Amtrak train station victimizing prospective Amtrak employees. The perpetrator promised employment to prospective employees, but conditioned that upon them paying him for supplies and uniforms. The perpetrator, however, disappeared without providing either jobs or refunds.

FORGED MEDICAL DOCUMENTS

Amtrak Health Services (AHS) requires all Amtrak employees to complete an Amtrak Medical Form Treating Physician Medical Status Report when on a medical leave of absence. AHS found fraudulent discrepancies in Medical Status reports submitted by an Amtrak employee. The OIG's investigation of an allegation that the employee's forms were invalid, found that the employee had committed fraud. The employee forged the doctor's signature and other parts of the form before submitting it to AHS in order to extend medical benefits. As a consequence of the OIG's report to management, the employee elected to resign from the company prior to a scheduled disciplinary hearing.

ABUSE OF MEDICAL LEAVE OF ABSENCE (MLOA) STATUS

Various labor agreements provide that employees who are absent from work because of personal sickness or physical disability will forfeit their seniority if they engage in other employment, unless special arrangements have been made between the designated Corporate Officer and the Division Chairman. In addition, Amtrak's Standards of Excellence contains a Trust and Honesty clause. Despite these requirements, allegations of violations regarding MLOA are reported to and investigated by the OIG, such as those illustrated below.

- While out of work on a MLOA, an Amtrak employee was working for New Jersey Transit. As a result of an OIG investigation and report to management, the employee was terminated from her position at Amtrak for abusing her MLOA status.



California Zephyr

- The OIG found that an Amtrak Reservation Clerk worked another job while out of work on a MLOA. The OIG investigation confirmed the allegation and resulted in the employee being counseled about her leave abuse.

MISUSE OF COMPANY ASSETS

The OIG conducted several investigations pertaining to the misuse of company assets.

- The OIG received an allegation that a Conductor was providing free rail travel to friends and family members to which they were not entitled. The employee confirmed the allegation during the investigation and consequently was dismissed from Amtrak.
- The OIG found that an employee abused his vehicle use privileges and continued to commute in his assigned Amtrak vehicle, despite management's decision not to renew his take-home privileges. The employee admitted to knowingly commuting in the Amtrak vehicle for several months without authorization. In response to the OIG findings, management suspended the employee for thirty days without pay and ordered him to reimburse Amtrak for the commuting expenses.
- The OIG determined that an employee engaged in billing improprieties in connection with the purchase of equipment. The OIG investigation determined an Amtrak management employee initially requested funds to purchase shelving material for an Amtrak store house, making use of funds that had been earmarked for the purchase of emergency equipment by Amtrak. Upon receipt of approval to spend the funds for shelving, the

employee then stated that a sufficient amount of shelving was already in place. The employee then purchased two laptop computers and two iPods to be used by herself and a direct report. The support documentation which she submitted with the bill was falsified to make it appear the approved shelving was purchased instead of the laptops and iPods. As a result of the OIG investigation, the employee was disciplined and reimbursed Amtrak for the cost of the laptops and iPods.

- An OIG investigation revealed that an Amtrak-issued cell phone was used while the employee was off from work. During the resulting interview, the employee admitted to the OIG that the employee's relative used the cell phone for personal business. The employee was disciplined and required to reimburse Amtrak for the use of the cell phone.

EFFICIENCY AND EFFECTIVENESS

In addition to detecting and deterring fraud, waste, abuse and misconduct in Amtrak's programs and operations, OIG investigations also provide information and recommendations to management and employees to improve the company's efficiency and effectiveness. During this reporting period, these investigations have led to recommendations concerning quality improvement to which management generally responded positively and implemented, for the most part, as detailed below.

- The OIG received an allegation that a taxi service was over-billing Amtrak at the Albany Train Station. Although the subsequent investigation did not substantiate over-billing of Amtrak, the OIG did find failure of internal controls in the manner in which Amtrak reconciled corporate billing records. As a result, the OIG recommended some controls to Amtrak's Albany Train Station staff which were implemented.
- During this reporting period the OIG conducted an investigation, based on an allegation that a Division Engineer's Office ordered about \$20,000 worth of usable roadway exhaust equipment parts, which were eventually scrapped during a clean up, even though they had not been utilized. The allegation was substantiated and an Administrative Referral was distributed to the Chief Operating Officer (COO). The report recommended that Amtrak management inform employees of the company's applicable policies regarding clean up, control and disposition of inventory and scrap material, including documentation

for salvaged items. The COO agreed with the report and implemented the recommendations.

- Amtrak's Private Car Department made two policy changes as the result of an OIG investigation and management report. The Private Car Department implemented a late fee of two percent to be applied to past-due charges for private car movements and also implemented a policy requiring that any special requests for waiver of fees or charges related to private car movements be approved by a member of the Amtrak Executive Committee.
- The OIG received an allegation that, during a twelve month period, there was a significant variance in the delivery of parts delivered to three of Amtrak's mechanical facilities in Miami, New Orleans, and Sanford. While the investigation was unable to substantiate the allegation, the OIG observed that Amtrak had no controls in place to ensure that Amtrak was receiving the parts it had ordered. As a result, the Mechanical and Procurement Departments have instituted procedures which require an enhanced validation and documentation of parts received by outside vendors.
- The OIG received information that Amtrak had purchased computer network servers, related equipment and the applicable maintenance contracts for what was specified to be new equipment valued at more than \$89,000. Upon installation of this equipment it was determined that five of the servers were used and only two were new as specified. The OIG investigation confirmed that the servers did not meet specifications; moreover, the OIG determined that the Procurement Department did not have procedures in place for the maintenance of its files and for sufficiently monitoring equipment which it ordered. The OIG made recommendation for procedural improvements of which many have been implemented by the Procurement Department

CONFLICT OF INTEREST

Amtrak policy states, in relevant part, "Amtrak requires all employees to observe the highest standards of business ethics. They must conduct the business and operation of Amtrak and their affairs in a manner that complies with applicable law and high moral and ethical standards and avoids any possible conflict of interest or appearance of a conflict of interest. They shall not realize personal gain, or help others to gain, from their positions with Amtrak or from knowledge or information not released to the public."



Regional | Northeast Corridor

During this reporting period, the OIG investigated the following allegations pertaining to transgressions of this policy.

- The OIG conducted a Conflict of Interest investigation involving the relationship between a former Vice President and several vendors seeking to do business with Amtrak. The Vice President's initial Certificate of Compliance filing did not list any entity in which he had a financial interest. We learned that the Vice President wanted to use a firm in which he was a member of the Board of Advisors and had a financial interest. Due to being alerted to a possible conflict, the Vice President sought a ruling from Amtrak's Law Department, who determined that the use of the firm would be a conflict and disallowed the contract. The Vice President then resubmitted a Certificate of Compliance that listed three firms in which he had a financial interest. It was later learned that the firm, despite the Law Department's admonition regarding the Vice President advocating doing business with these entities as long as he had a financial interest, was being listed as a subcontractor on two contract proposal submissions. Amtrak terminated all contracts that the Vice President initiated during his term of employment.
- In a previously reported investigation and referral, the OIG found that certain Washington-based management employees provided free travel aboard Amtrak trains to individuals having no legitimate claim or right to complimentary travel. OIG determined that Amtrak travel tickets, valued in excess of \$180,000, were provided to persons on a complimentary basis under the guise of legitimate Amtrak programs. Travel included numerous

complimentary trips on Acela Express, Regional Service, Auto Train, and long distance service, including first class accommodations. The OIG also learned during the inquiry that the same Washington-based management employees provided complimentary hotel rooms courtesy of Amtrak to individuals having no legitimate claim to said hotel rooms. During the OIG investigation a Vice President and a Senior Director resigned their positions with the company. As a result of the OIG's investigation and report, Amtrak is implementing new guidelines for complimentary travel, as well as creating policies and procedures for auditing departments and programs that participate in providing complimentary travel for legitimate business related travel.

Subsequently, the OIG expanded its inquiry to include Amtrak's Marketing Department, and found deficiencies similar to the deficiencies discovered in the initial probe. As a result of both inquiries, management has realigned the Diversity Department, and implemented new company policies which result in administrative structure and accountability to departmental operations.

The OIG received an allegation and performed an investigation regarding a manager who used her position to inappropriately access a fellow employee's personal information to establish a cell phone account and violate the employee's privacy. Once that cell phone account was established, the employee was able to forward the fellow employee's daily call detail data to their email for review of the fellow employee's personal phone activity. As a result of the investigation, the employee admitted her role and was ultimately terminated from her management position.

TIME AND ATTENDANCE REVIEWS

The OIG receives and investigates allegations regarding time and attendance issues in an effort to assist in addressing and preventing time and attendance fraud. The OIG refers most time and attendance issues to management for their analysis and action, with OIG monitoring management's actions. The following are illustrative of these types of investigations which we conducted during this reporting period.

- The OIG received information that a Secretary routinely reported to work late and left work early every day for a period of approximately six months. The Secretary would complete a "Time Adjustment Form" with an explanation written on the form that she was conducting Amtrak business at the United States Post Office. The

OIG substantiated that the Secretary had not been conducting company business but covering her tardiness by claiming that she conducted company business. The OIG further substantiated that Managers were made aware of the Secretary's tardy arrivals and early departures from work by her co-workers, yet failed to take any corrective action and signed the Time Adjustment Forms. As a result of this investigation, the Secretary was charged and terminated for theft, the Assistant Superintendent was placed on probation for six months, and two Station Managers were reprimanded and letters placed in their personnel files.

- The OIG received an allegation that Amtrak station cleaners, working a night shift, were committing payroll fraud and consuming alcoholic beverages on company time. The subsequent surveillance by the OIG substantiated the allegation. As a result of the completed investigation one employee was terminated and the Assistant Foreman received a thirty-day suspension.

JOINT INVESTIGATIONS

FUEL CREDIT CARD EMBEZZLEMENT

Employees in possession of fuel credit cards are responsible for ensuring each credit card is safeguarded against theft and utilized properly. Although the company has established corporate procedures for the management and control of fuel credit cards, the abuse of fuel credit cards continues to be reported. The OIG substantiated certain of these allegations as indicated below.

- The OIG received an allegation from the General Services Administration (GSA) Office of Inspector General regarding suspicious credit card activity pertaining to GSA leased vehicles at Amtrak. A joint investigation by Amtrak OIG and GSA OIG revealed that an Amtrak employee used GSA Voyager Fleet credit cards to purchase fuel for his personal vehicle as well as friends' vehicles. The employee made more than three hundred fraudulent fuel purchases totaling \$16,976.37 using nine separate Voyager Fleet credit cards. By his own admission when utilizing the cards to fuel friends' vehicles he charged them fifty percent of the retail cost of the fuel purchases. The employee resigned from Amtrak in May 2007. The OIG subsequently referred this matter to the United States Attorney's Office for the District of Maryland for criminal prosecution.

As a result, a criminal complaint was filed in the United States District Court, District of Maryland, for criminal violation of 18 U.S.C. § 641 (Embezzlement and Theft of Public Money). The former employee pled guilty to the charges and was sentenced to six months in prison, probation, and full restitution.

EMBEZZLEMENT FROM PREVIOUS EMPLOYER

The OIG assisted the United States Attorney's Office regarding a manager working for Amtrak who was under investigation for embezzling more than a million dollars from his former employer. Our investigation confirmed that a search warrant had been duly executed by federal authorities at the employee's residence. The employee was terminated from his position at Amtrak and the OIG seized his computer for further analysis. The former employee subsequently pled guilty and agreed to pay restitution to his former employer.

REVENUE PROTECTION UNIT

The Revenue Protection Unit (RPU) initiates and provides support in detecting and deterring theft, fraud, waste, abuse and misconduct in Amtrak's programs and operations that impact train service and ticket office employees. The RPU provides critical guidance and support in the strengthening of management accountability and responsibilities, as well as internal controls.

RPU-INITIATED TRAIN SERVICE REVIEWS

- Amtrak provides food and beverage service on board trains to millions of passengers each year. The revenue generated by these sales as well as the food stock and supplies used to supplement these sales, afford a dishonest employee the means for revenue abuse or theft. During this reporting period, the RPU analyzed the applicable support documents for on board food and beverage sales on 197 trains by 67 Lead Service Attendants (LSAs). The completed review resulted in forty administrative referrals consisting of various findings covering theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed, based on the RPU referrals, for thirty-three LSAs consisting of counseling, remedial training, suspensions, and terminations.

- A referral response was received during this reporting period in conjunction with a previously conducted RPU investigation and subsequent Administrative Referral regarding management accountability and responsibilities for a Pacific Division crew base. The response outlined a plan to better address several of the findings and acknowledged management failures in some areas, as well as commitment to hold management accountable for future failures.
- The RPU also conducts preliminary reviews of conductor cash fares to identify, analyze and document, then refer for continued handling, conductor reviews that indicate possible theft or misappropriation situations. During this reporting period, the RPU completed and forwarded to the appropriate management personnel twenty-one conductor referrals. At the close of this reporting period, responses for nineteen of these referrals had been received, with three of those resulting in discipline. The other sixteen indicated possible discrepancies or inconsistencies in remittance procedures, which have been reported to Revenue Operations for further handling and correction.

PROSECUTIVE REFERRALS

4/1/07 – 9/30/07

Referrals	U.S. Attorney	Local/State	Total
Criminal Cases			
Indictments	1	15	16
Convictions/Pleas	3	0	3
Pending*	4	15	19
Declinations	2	0	2
Resolved	0	0	0
TOTAL	10	30	40
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0
TOTAL			0
Total Civil and Criminal			40

*Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution, or other resolutions.

Office of Inspections and Evaluations

SIGNIFICANT INSPECTIONS & EVALUATIONS

AMTRAK MECHANICAL OPERATIONS – OIG CONTINUING TO HELP WITH IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

In September 2005, the OIG issued report E-05-04, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, the OIG recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications. The OIG's report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past two years the OIG has been working with the Mechanical Department to help them implement the OIG recommendations.

Implementation of Reliability-Centered Maintenance

Although day to day administration of this initiative is now under the Chief Operating Officer (COO), the OIG remains engaged in an oversight role to help facilitate progress. The OIG has performed additional analysis and made additional recommendations to help Amtrak overcome implementation challenges and help insure that benefits are achieved.

Mechanical Maintenance Facility Rationalization and Process Improvement

Some of the recommendations in our report on Mechanical Maintenance Operations addressed rationalizing Amtrak's maintenance facilities and streamlining Amtrak's maintenance processes. These recommendations are in various stages of implementation. To assist the COO in coordinating these efforts, the OIG engaged the Thomas Group, Inc., of Irving, Texas, to develop a plan to facilitate and accelerate the implementation of these recommendations. The COO has endorsed the plan and is engaging the Thomas Group to help execute the plan. The OIG will continue to assist and provide oversight to this effort.

Diesel Locomotive Maintenance Consolidation

Another of the recommendations in the OIG report on Amtrak's Mechanical Maintenance Operations was for Amtrak management to examine the costs and benefits of

outsourcing part of the maintenance operation to an experienced maintenance provider. To assist Amtrak management in this regard, the OIG engaged a consultant who had helped in the negotiations of several large locomotive maintenance contracts. With his assistance, Amtrak management is in discussions with one of the largest locomotive maintenance providers in North America. In preparation for possible outsourcing, Amtrak has consolidated its diesel locomotive maintenance operations and made significant facility improvements. Even if an agreement does not come to fruition, these actions will lead to improved efficiencies and overall reduced maintenance costs – potentially as much as was envisioned through outsourcing.

Equipment Reliability Improvements

The OIG continues to facilitate and support the establishment of teams dedicated to conducting Root Cause Analyses into recurring equipment failures. The teams that have been established have made significant contributions to the improvements in reliability of both the Acela trainsets and the High Horsepower (HHP) Locomotives. Acela delays due to mechanical failures have decreased by 26 percent over the past 6 months compared to the previous 6 months and HHP Locomotive availability continues to run 42 percent higher than in FY 2006.

PROCUREMENT AND MATERIAL SUPPLY CHAIN MANAGEMENT – OIG FACILITATING IMPROVEMENT EFFORTS

Alstom Parts Contract

The OIG continues its efforts in facilitating improvements and resolving shortfalls identified in our initial evaluation of the Acela Parts Contract. As indicated previously, Amtrak entered into a contract with Alstom TLS to supply and manage the parts inventory for the Acela trainsets, effective October 1, 2006. This contract has an estimated value of close to \$200 million over the five-year term. Based on the value of the contract and the importance of the contract to the success of Amtrak's premium Acela service, the OIG continues to work with Amtrak's Mechanical, Procurement and IT departments to ensure that Amtrak puts processes in place to adequately measure and monitor the contractor's performance. Amtrak has just completed the first year of the Acela Parts Contract and during that year many changes, some unforeseen, to the contract have occurred. While, some progress has been made there is still work to be completed to fully integrate this contract. The OIG plans

on issuing a lessons learned report as a guide for Amtrak to use in managing similar contracts in the future.

Mechanical Supply Chain Effectiveness

At the request of the Vice President of Procurement, the OIG is sponsoring and helping to facilitate an initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams have been established to evaluate current practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams are reviewing current processes and revising them to more align with industry best practices. The OIG anticipates continuing in this facilitation role for another year and then producing a report that documents the overall results.

AMTRAK’S RIGHT-OF-WAY MAINTENANCE – PERFORMANCE AND COSTS BENCHMARKED AGAINST EUROPEAN RAILROADS

For the last year, the OIG has been evaluating the efficiency and effectiveness of Amtrak’s Right-of-Way maintenance programs. As part of this effort, the OIG engaged a European consultant that has extensive experience evaluating the infrastructure maintenance programs of European Railroads. The results show that Amtrak’s infrastructure performance is in line with comparable European Railroads, but Amtrak’s costs are somewhat higher. This is partially attributable to the fact that the average age of Amtrak’s infrastructure is significantly older than the average age of the railroad infrastructure in Europe and confirms that a backlog of maintenance exists in Amtrak’s Northeast Corridor to be able achieve a State-of-Good-Repair. The bench marking exercise has also identified European best practices that may have applicability for Amtrak. The OIG is continuing to work with Amtrak’s Engineering Department to identify the opportunities for efficiency improvements offered by adopting European practices. The OIG plans on issuing a formal report on this ongoing evaluation during the next reporting period.



Empire Builder

HARASSMENT AND INTIMIDATION COMPLAINT ALLEGATION UNSUBSTANTIATED – ADMINISTRATIVE POLICIES NOT FOLLOWED

Amtrak’s Statement of Policy Against Harassment and Intimidation states, in part, “Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness.” This Statement of Policy conforms to Federal Railroad Administration (FRA) Regulations 49 CFR Part 225.33.

During this reporting period, one formal investigation that was opened in the previous reporting period was concluded. The OIG concluded that management did not harass and intimidate an employee who sustained a workplace injury as defined by FRA 49 CFR 225.33. It was determined, however, that administrative policies and procedures were compromised and a letter was issued to the General Superintendent that outlined our concerns. Management immediately addressed these concerns with refresher training for the management staff.

Office of Counter-Terrorism and Intelligence



Union Station | Washington, DC

SIGNIFICANT COUNTER-TERRORISM AND INTELLIGENCE EFFORTS

The OIG Counter-Terrorism and Intelligence (CT&I) unit is responsible for the oversight of Amtrak's rail security, emergency preparedness, and related counter-terrorism and intelligence efforts. Working with other entities within the Amtrak security program, this unit works to increase awareness about the possibilities of terrorist attack against passenger rail services, and the critical importance of security preparedness and risk mitigation. During this reporting period, we have undertaken various security oversight and outreach activities some of which are highlighted below.

Given the highly confidential nature of this unit, detailed activities and progress of the unit are generally not publicized. The OIG is willing to discuss projects and highlights with Congressional members and staff.

TEN STATION STRATEGY (10SS) – ASSESSING SECURITY AT MAJOR STATIONS

The OIG has developed a security assessment program whereby the ten major stations in Amtrak's national system are to be evaluated for vulnerabilities and detailed recommendations are to be formulated to improve the security preparedness of the stations. During this reporting period, the OIG continued to facilitate implementation of the Ten Station Security Strategy (10SS). The OIG procured funding and coordinated the development of security support product packages at these sites. The OIG provided technical reviews and facilitated stakeholder outreach initiatives described here.

Station Action Team (SAT)

The CT&I continued to assist the Station Action Team at Washington Union Station. The SAT is intended to provide an informal organization where stakeholders can discuss crisis and risk management, incident response, emergency preparedness, and risk mitigation. The SAT model being used in Washington, DC, will be used as the base model for the other 10SS-designated stations.

Homeland Defense Operational Systems (HOPS)

The OIG arranged for the services of the Lawrence Livermore National Laboratory (LLNL) HOPS program to undertake a scientific assessment of critical vulnerabilities at additional 10SS-designated stations. These assessments will provide important decision support tools to managers charged with mitigating vulnerabilities at these important shared facilities.

COUNTER-TERRORISM AND INTELLIGENCE UNIT – ORGANIZATIONAL TRANSITION

In August 2007, Amtrak abolished its Risk Management Department and reorganized its security assets. As part of the restructuring, the Amtrak Police department became aligned with the Operating Department and the OIG Counter-Terrorism and Intelligence Unit transitioned from an oversight entity and assumed expanded responsibilities as the Office of Security Strategy and Special Operations (OSSSO), under the direct supervision of Mr. Alex Kummant, CEO and President.

The OSSSO is responsible for formulating and implementing Amtrak's security strategy. In that regard, OSSSO, working closely with Amtrak Police, has developed and resourced protocols for emergency response, passenger screening, visible deterrence, intelligence, policy and resourcing, and public awareness initiatives, among others. These initiatives are currently being implemented in stages.

While part of the OIG, the Counter-Terrorism and Intelligence Unit successfully pioneered new security paradigms for Amtrak, and placed increased emphasis on protecting passengers, employees and infrastructure through partnerships with Federal, State, regional and local governments, as well as with other public and private partners. Many of the efforts initiated by the OIG will transfer to the OSSSO.

The OIG will continue to provide security oversight and review of the OSSSO progress, in keeping with its statutory mission.

Other OIG Activities

COORDINATION WITH INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Section 805(1) of the Rail Passenger Service Act of 1970 (Public Law 91-518; 49 U.S.C. § 24315(d)) requires Amtrak to have its financial statements audited annually by an independent certified public accountant in accordance with generally accepted accounting principles (GAAP), a common set of accounting principles, standards and procedures that the U.S. government and private companies use to compile their financial statements, and to report the audit findings to Congress in Amtrak's annual report. The Federal Accounting Standards Advisory Board (FASAB) promulgates the GAAP for federal reporting entities, including Amtrak (as defined by FASAB Concepts Statement 2, Entity and Display, June 5, 1995). In March 2007, Amtrak's external auditors, KPMG LLP of McLean, Virginia (a member of KPMG International, a Swiss association), reported that Amtrak's Consolidated Financial Statements for FY 2005 and FY 2006 presented fairly, in all material respects, Amtrak's financial position and conformed with GAAP.

As part of the annual audit process, the OIG informs the external auditors on the scope of ongoing audit activities being conducted by the OIG, and continues to coordinate significant audit issues with Amtrak management and the external auditors, as necessary.

Review of Indianapolis Distribution Center Maintenance of Equipment Cycle Inventory

Controls are effective in preventing fraud, waste, and abuse
Audit Report Number 210-2007 – Issued 07/24/07

At the request of Amtrak's external auditors, KPMG, the OIG has performed several limited reviews of Maintenance of Equipment cycle inventories. This audit review of the Indianapolis Distribution Center Cycle Inventory was performed to ensure that the internal controls over Amtrak's inventory were adequate; to determine whether Amtrak's inventory levels were being properly recorded; to determine if controls were effective in preventing fraud, waste, and abuse in the requisitioning of materials for Maintenance of Equipment; and to review compliance with Amtrak's policies and procedures related to Maintenance of Equipment Inventory. The OIG review found that the net inventory variance was less than .04 percent, and that the inventory was kept in an orderly manner in a secure area. The OIG determined that controls were effective in preventing fraud, waste, and abuse in the requisitioning of materials.

TEAM MATE IMPLEMENTATION

OIG SECURE SUBNET AND TEAMMATE IMPLEMENTATION (PHASE II)

As previously reported, the OIG has implemented the TeamMate application for electronic work papers and automation of various audit processes. All new audits are now created in TeamMate. In order to protect the confidentiality and chain of custody of OIG information, a secure subnet with internal firewalls was built to host the TeamMate application and related databases.

During this semi-annual period, the OIG completed Phase II by implementing PricewaterhouseCoopers Global Best Practices (GBP) in the OIG TeamMate environment. GBP provides continuously updated best practices and benchmarking information for standardized business processes, which would be helpful in performing audits and making value-added recommendations to management. The OIG also installed security cameras and video server in the secure subnet enclosures, which allow the administrators to remotely monitor and record any activity near the OIG racks in the data center. The OIG resolved the slow response time issue in our LA and Chicago offices by modifying the system configuration.

In our next phase, the OIG plans to upgrade the TeamMate software to the latest release, update the TeamMate protocol and library, implement 360o reporting, test/install new software capability, and configuration management tools. The OIG also plans to extend the secure subnet access and capabilities to other OIG groups.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY OUTSOURCING (ITO) SCOPE OF WORK AND LEGAL TERMS REVIEW

Amtrak Information Technology (AIT) department is currently undertaking a major initiative to split the current monolithic information technology outsourcing contract with IBM into four (4) outsourcing agreements, each for a different "Tower of Service" (i.e., Data Center, Seat Management, Data Network Services and Voice Services). The goal is to award the contracts to the best-of-breed vendors.

The OIG assisted management in reviewing the scopes of work (SOWs) for all Towers of Service as well as legal terms. The OIG identified issues such as water-based fire

suppression system, tower demarcation points, coordination and hand-offs between service providers for incident management, lack of contract guide map, incomplete appendices, lack of standard for backup tape storage, and non-inclusion of cell phones and blackberries. Due to the tight deadlines, the OIG provided our feedback to information technology management as soon as possible. Management took appropriate action to address OIG concerns and made appropriate changes to the SOWs. AIT will be working with the Procurement Department to evaluate and rank the vendor responses so that final selections can be made in time to transition to new agreements by March 2009.

The OIG will be providing necessary oversight by reviewing the terms and conditions of the winning proposals, particularly important provisions such as audit clause before the contracts are finalized.

Appendices



Appendix 1

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

4/1/07 – 9/30/07

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	2	\$871,275	\$277,348
B. Reports issued during the reporting period.	3	\$207,435	\$0
Subtotals (A + B)	5	\$1,078,710	\$277,348
LESS			
C. For which a management decision was made during the reporting period.	3		
(i) dollar value of recommendations that were agreed to by management.		\$202,203	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$5,232	\$0
D. For which no management decision has been made by the end of the reporting period.	2	\$871,275	\$277,348

Appendix 2

INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

4/1/07 – 9/30/07

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period.	0	\$0
Subtotals (A+B)	0	\$0
LESS		
C. For which a management decision was made during the reporting period.	0	\$0
(i) dollar value of recommendations that were agreed to by management.		\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$0
D. For which no management decision has been made by the end of the reporting period.	0	\$0

Appendix 3

OFFICE OF THE INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

4/1/07 – 9/30/07

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
4/19/07	210-2006	GSA Leased Vehicles	\$0	\$0	\$0
5/8/07	203-2005	eTrax Procurements – Fuel	\$127,202	\$0	\$0
6/7/07	212-2006	CSX – High Speed Agreement	\$64,037	\$0	\$0
6/7/07	214-2005	Brandywine Realty	\$0	\$0	\$0
6/22/07	106-2005	Capital Budgeting, Submissions And Approvals	\$0	\$0	\$0
7/24/07	210-2007	Cycle Inventory Review – Beechgrove/Indianapolis	\$0	\$0	\$0
7/26/07	222-2006	ThyssenKrupp Elevator Corporation – Manufacture of Elevators	\$0	\$0	\$0
7/25/07	304-2007	Thames River Project Modification Review	\$16,196	\$0	\$0
8/3/07	302-2007	Non-Traction Utilities Follow-up Audit	\$0	\$0	\$0
8/29/07	205-2007	Chemcoa Low Foam Cleaner	\$0	\$0	\$0
9/17/07	403-2007	Station Audit – Milwaukee	\$0	\$0	\$0
9/28/07	404-2007	Chicago EEV Review	\$0	\$0	\$0
TOTAL			\$207,435	\$0	\$0

Appendix 4

**OFFICE OF THE INSPECTOR GENERAL
SUMMARY OF REPORTS TO PRESIDENT OF AMTRAK
CONCERNING INFORMATION OR ASSISTANCE
UNREASONABLY REFUSED OR NOT PROVIDED**

4/1/07 – 9/30/07

NONE

Appendix 5

OFFICE OF THE INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

4/1/07 – 9/30/07

Section 4(a) of the Inspector General Act of 1978 (P.L. 95-452), as amended, provides that the Inspector General shall ...review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

The Office of Inspector General has an agreement with Amtrak's Government and Public Affairs Department that allows the OIG to review and comment on the company's annual legislative program and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed as necessary, as a part of every audit and investigation.

Appendix 6

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms we use in reporting audit statistics are defined below:

Questioned Cost	A cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak’s corporate policy or procedure.
Unsupported Cost	A cost that is not supported by adequate documentation at the time of the audit.
Funds To Be Put To Better Use	Funds identified in an audit that could be used more effectively by taking greater efficiency measures.
Management Decision	Management’s evaluation of our audit finding and its final decision concerning agreement or non-agreement with our recommendation.

Certain abbreviations used in the text are defined below:

10SS	10 Station Strategy	GBP	Global Best Practices (Pricewaterhouse Coopers)
AAMP	Amtrak/Alaskan Airlines Mileage Plan	GSA	Government Services Administration
AAMPS	Amtrak’s Accounting, Material and Purchasing System	HHP	High Horse Power Locomotives
AHS	Amtrak Health Services	HOPS	Homeland Defense Operational System
AIT	Amtrak Information Technology	ITO	Information Technology Outsourcing
Amtrak	National Railroad Passenger Corporation	LSA	Lead Service Attendant
ATS	Amtrak Telephone System	MLOA	Medical Leave of Absense
CEO	Chief Executive Officer	NEC	Northeast Corridor
Chemcoa	Chemical Company of America	NRPC	National Railroad Passenger Corporation (“Amtrak”)
CIO	Chief Information Officer	OIG	Office of Inspector General
COO	Chief Operating Officer	OSSSO	Office of Security, Strategy and Special Operations
CSX	CSX Corporation	Pcard	Procurement Card
CTI	Counter-terrorism and Intelligence Unit	PCI	Payment Card Industry
CUS	Chicago Union Station	P.L.	Public Law
DSS	Data Security Standards	RCM	Reliability Centered Management
EEV	Emergency Exchange Voucher	RPU	Revenue Protection Unit
eTrax	Electronic Transaction Express Software System	SAT	Station Action Plan
FARS	Federal Acquisition Regulation System	SOW	Statement of Work
FY	Fiscal Year	UP	Union Pacific Railroad
GAAP	Generally Accepted Accounting Principles		
GAAS	Generally Accepted Auditing Standards		

Reporting Requirements Index

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Who pays? You pay. Act like it's your money... it is!

Tell Us About It

Maybe you are aware of fraud, waste, mismanagement, or some other type of abuse at Amtrak.

Amtrak's Office of Inspector General has a toll free hotline number for you to call. You can also write to us.

We will keep your identity confidential. If you prefer, you can remain anonymous. You are protected by law from reprisal by your employer.

Call the hotline:

Nationwide (800) 468-5469

Philadelphia (215) 349-3065
ATS 728-3065

Write to us:

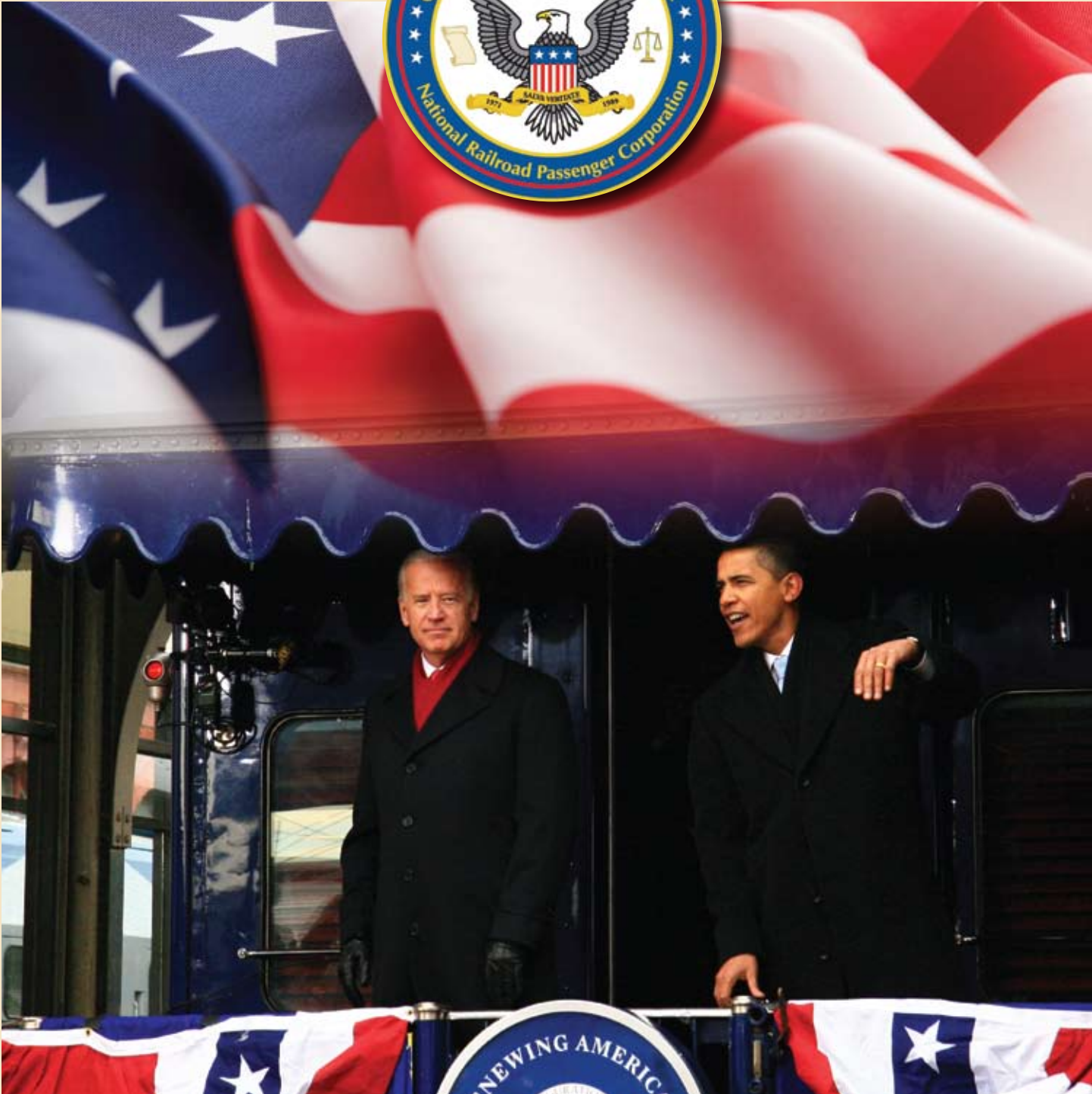
Inspector General
P.O. Box 76654
Washington, DC 20013-6654



National Railroad Passenger Corporation

Office of the Inspector General
10 G Street, NE, Suite 3W-300, NE, Washington, DC 20002-4285

EXHIBIT 6



Semiannual Report to Congress

10/01/08 - 3/31/09



ON THE COVER

President-elect Barack Obama with
Vice President-elect Joe Biden
on the Inaugural Train.

Photographed by
Bob Johnston, *Trains Magazine*



The OIG Vision

The Office of Inspector General (OIG) strives to provide Amtrak's employees, its customers, the public, and the Congress with the highest quality service and programs through vigilance, timely action, accuracy, and an overall commitment to excellence across the broad range of OIG responsibilities.

The OIG Mission

The OIG will conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations; promote economy, effectiveness and efficiency within the agency; prevent and detect fraud, waste, and abuse in agency programs and operations; review security and safety policies and programs, and, review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.

The Inspector General's Guiding Principles

Amtrak's Office of Inspector General (OIG) will:

- ★ *Work with Amtrak's chairman, the board of directors, and the Congress to improve program management.*
- ★ *Maximize the positive impact and ensure the independence and objectivity of the OIG audits, investigations, inspections, and evaluations, and other reviews.*
- ★ *Use OIG audits, investigations, inspections, and evaluation, and other reviews to improve integrity and recommend changes to prevent fraud, waste and abuse.*
- ★ *Be innovative and question existing procedures and suggest improvements.*
- ★ *Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.*
- ★ *Strive to improve the quality and efficacy of reports and recommendations.*



March 31, 2009

Honorable Thomas Carper
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

On behalf of the Amtrak Office of Inspector General (OIG), I am pleased to present this Semiannual Report to Congress. The OIG Report highlights significant audits, evaluations, and investigations for the six-month period ending March 31, 2009.

It is the OIG's responsibility to assist the Board and management in making improvements in Amtrak's core business operations which will improve the safety, reliability, and effectiveness of Amtrak services to the travelling public. The current semiannual report identifies some of the recent recommendations that the OIG has made which have resulted in cost savings, improved management policies and procedures, improved revenues, less cost, and more efficient and effective business processes.

In executing its FY 2009 audit plans, the OIG continued its reviews of Amtrak's procurement operations, payments and billings to vendors providing services to Amtrak, and the associated internal controls for physical inventory. We also reviewed numerous payroll activities, with special emphasis for the disbursement of overtime wages. OIG investigators and special agents opened 78 new cases and closed 63 cases during the reporting period; 330 investigations remain active as of March 31.

The OIG obtained nine criminal indictments, five criminal convictions/pleas, and one declination to prosecute; 15 other cases are pending prosecutorial review. As you will see in our detailed reports, our casework continues to reflect the need for Amtrak to protect better its passenger revenues, and the OIG is working with management to improve controls over the \$1.4 billion revenue stream.

The OIG Inspections and Evaluations group is continuing to facilitate numerous initiatives to improve the reliability and availability of Amtrak's rolling stock (passenger cars and locomotives). We have been concentrating our work in overseeing the introduction of reliability-centered maintenance practices and we are working very closely with management to oversee and better monitor the operations of the Acela product line. During this reporting period, we made recommendations to management regarding Acela equipment assignments which, when fully implemented, could result in up to \$9 million in additional revenue annually.

While continuing to conduct our normal oversight of Amtrak's programs and operations for this Fiscal Year, the OIG, like Amtrak, has had to rapidly make new plans to accommodate Amtrak's inclusion in the American Recovery and Investment Act of 2009 ("Recovery Act"). Under the wide ranging "stimulus" bill, Amtrak will be receiving almost \$1.3 billion over the next two years to initiate and accelerate work on the railroad, which will create jobs and further the statutory goals and objectives of intercity passenger

Honorable Thomas Carper
March 31, 2009
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rail services. The OIG has been provided \$5 million to oversee the stimulus spending and to report independently on compliance with the goals of the Recovery Act.

As we have discussed, the Recovery Act represents a significant opportunity for Amtrak to accelerate capital work in a number of key areas, including badly needed investments in track, bridges, facilities, and passenger cars and locomotives. Amtrak's current plans are to spend about 66 percent of stimulus dollars on infrastructure and engineering projects, 15 percent on security and life-safety projects, 11 percent on Amtrak's fleet, and the balance on information technology, finance, and other support functions. The OIG will work to ensure that Amtrak uses stimulus funds in a way which complies fully with the transparency and accountability requirements of the Recovery Act and which furthers the Board's policy directives to improve Amtrak's programs and operations.

In addition to the direct appropriations made available to Amtrak through the Recovery Act, Amtrak is also eligible to participate in, both independently and in conjunction and collaboration with States, a new and unprecedented high speed rail program. The Recovery Act sets aside \$8 billion for a number of high speed rail initiatives, which President Obama's Administration has stated will revolutionize and reinvigorate passenger rail services in the United States. Perhaps more so than the funds directly appropriated for Amtrak, this new investment opportunity for higher speed rail and corridor development is a sea change in the country's national transportation policy.

The OIG encourages Amtrak to act quickly to take advantage of the unique opportunities to position and leverage Amtrak's resources, its people and other assets, and to participate as much as possible in high speed rail services. We will be assisting Amtrak and the Board, where appropriate, by independently assessing the risks and opportunities, and the associated costs and benefits, of Amtrak's investments in these initiatives.

Given the considerable challenges and opportunities that have been presented to Amtrak over the past several months, it is important that the OIG have a productive and effective working relationship with the Board of Directors. We will work closely with you and the Board to ensure that the Office can accomplish its statutory mission consistent with the best practices prevalent in the OIG community and in a way which contributes to safer, more reliable, and more cost effective services for the traveling public.

Respectfully,

Fred E. Weiderhold, Jr.

Fred E. Weiderhold, Jr.
Inspector General



An aerial photograph of a forested hillside. In the upper left, a small house with a brown roof is visible. A train, consisting of a blue and white locomotive and several passenger cars, is traveling along a track that curves through the lower part of the image. The surrounding area is densely populated with green trees.

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Amtrak Profile

The National Railroad Passenger Corporation, "Amtrak," is incorporated under the District of Columbia Business Corporation Act (D.C. Code § 29-301 et seq.) in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Under the provisions of the Passenger Rail Investment and Improvement Act of 2008 (Public Law 110-432; 49 U.S.C. § 24302), Amtrak's Board of Directors will be reorganized and expanded to nine members.

The company is operated and managed as a for-profit corporation providing intercity rail passenger transportation as its principal business. Congress created Amtrak in 1970 to take over, and independently operate, the nation's intercity rail passenger services. Prior to this America's private freight companies ran passenger rail as required by Federal law. Those companies reported they had operated their passenger rail services without profit for a decade or more. With this in mind, when Amtrak began service on May 1, 1971, more than half of the rail

passenger routes then operated by the freight railroad companies were eliminated.

During fiscal year (FY) 2008 Amtrak carried approximately 28.7 million passengers on up to 315 daily intercity trains on more than 21,100 route miles serving 513 communities in 46 states, the District of Columbia, and three Canadian provinces. During fiscal year 2008, Amtrak ridership was up by more than 11 percent and ticket revenues were up by more than 14.2 percent over the fiscal year 2007.

In terms of market-share, Amtrak serves 63 percent of the combined airline-intercity rail market between Washington, D.C., and New York City. More than 800,000 people commute every weekday on Amtrak infrastructure or on Amtrak-operated commuter trains around the country under contracts with state and regional commuter authorities. Amtrak employs about 18,400 persons, of whom about 16,000 are agreement covered employees. These employees work in on-board services, maintenance of way, police, station and reservations services, and other support areas.

Amtrak owns the right-of-way of more than 363 route miles in the Northeast Corridor (NEC; including Washington, DC-New York City-Boston, Philadelphia-Harrisburg, and New Haven, CT-Springfield, MA) and 97 miles in Michigan. Amtrak owns 105 station facilities, and is responsible for the upkeep and maintenance of an additional 181 station facilities and 411 platforms. Amtrak owns 17 tunnels and 1,186 bridges.

Amtrak owns most of the maintenance and repair facilities for its fleet of about 2,600 cars and locomotives. Outside the NEC, Amtrak contracts with freight railroads for the right to operate over their tracks. The host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.



Amtrak's Office of Inspector General (OIG) was established as a statutory entity on April 1, 1989, in accordance with the 1988 amendments (P.L. 100-504) to the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. Appendix 3). The OIG is an independent and objective entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel; to promote economy and efficiency in Amtrak operations; and, to keep Congress and the Amtrak Board of Directors fully informed about problems and deficiencies, and the necessity for, and progress of, corrective action.

The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG audits, investigates, inspects, and evaluates Amtrak operations, policies, and procedures, and assists management in promoting integrity, economy, efficiency, and effectiveness.

Amtrak's Office of Inspector General is led by Fred E. Weiderhold, Jr. The OIG consists of four groups: Audits; Investigations; Inspections and Evaluations; and, Management and Policy. Audits is headed by Gary E. Glowacki; Inspections and Evaluations is headed by Calvin Evans; Investigations, and legal counsel, is headed by Colin Carriere; and, Management and Policy is headed by Bret Coulson. The OIG has offices in Washington, DC, Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Audits:

Audits is responsible for conducting independent reviews of Amtrak's internal controls and recommending improvements to better safeguard its assets; testing the reliability of financial reporting and providing accounting counsel over company operations; reviewing information technology programs and information security; reviewing procurements and material acquisitions for appropriateness of cost, pricing, and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

Investigations and Legal Counsel:

Investigations is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls

to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. The group is charged with reviewing and safeguarding Amtrak's cash and credit card purchases for transportation and food services on board Amtrak trains.

Legal Counsel is responsible for providing legal assistance and advice to the Inspector General, Audits, Inspections and Evaluations, and Investigations. Counsel provides legal and investigatory directions to Investigations, coordinates with outside attorneys including local and federal agencies and law enforcement attorneys, and appears in court on behalf of the OIG and its employees.

Inspections and Evaluations:

Inspections and Evaluations is a hybrid unit whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections and evaluations of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies.

The inspection and evaluations process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve cost efficiency and effectiveness, and the overall quality of service delivery throughout Amtrak.

Management and Policy:

Management and Policy provides mission and administrative support services to the OIG by managing: budget formulation and execution; policy development; training, personnel security; dissemination of OIG information; human resources; and OIG equipment and facilities. Management and Policy ensures performance quality and compliance with current and emerging government regulations, directives, and mandates. The office is the primary liaison with the U.S. Congress, the Government Accountability Office, the General Services Administration, the Office of Management and Budget, and other government departments and agencies. Management and Policy has primary responsibility for Amtrak's security oversight; and, provides oversight on the policy, programs, and procedures for Amtrak's Office of Security Strategy and Special Operations, and the Amtrak Police Department.



Legislation and Regulations Reviewed

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to Amtrak's programs and operations and to make recommendations concerning their impact. The OIG uses results from its audits, inspections and evaluations, investigations, and legislative experiences as the basis for its recommendations to Congress. During the reporting period, the OIG reviewed legislation, regulations, policy, and procedures that could affect Amtrak and provided comments both internally within, and to, the relevant Congressional committees and staff.

During the semiannual period, the OIG performed reviews of several pieces of pending legislation and met with Congressional staff from House and Senate Appropriations and Authorization committees to discuss potential impacts that pending legislation would have on both Amtrak's operations as well as impact on the OIG mission. The current six month period saw significant congressional activity relevant to Amtrak. These activities included the consideration of the Omnibus Appropriations which funded both OIG and Amtrak for the remainder of the fiscal year, and the passage of American Recovery and Reinvestment Act of 2009 which included \$5 million

for IG Oversight of \$1.3 billion in Amtrak Recovery Act funding.

The OIG recommended to Congress that Amtrak be granted greater access to the General Services Administration programs and services. This recommendation was enacted into law on October 14, 2008 as part of the Passenger Rail Investment and Improvement Act of 2008.

The specific legislation reviewed is found in Appendix 5.



Bob Johnston, *Trains Magazine*

Procurement and Material Management Issues

Excessive Car Hire/Demurrage Expenses

Questioned Costs of \$753,830

Report #216-2007 – Issued 11/14/2008

On August 8, 2007, while observing the annual inventory, OIG noticed switch material on 11 CSX Transportation flat cars at the Maintenance of Way Yard at Odenton, MD. Further research revealed that the flatcars had been at Odenton since February 13, 2007 and Amtrak had incurred between \$36,200 and \$86,880 in car hire/demurrage expense for that one delivery. The OIG determined that the issue was material enough for further review.

The OIG found that foreign freight railcars had excessive retention times that resulted in unnecessary car hire/demurrage costs to Amtrak of \$753,830 over a four year period between FY 2004 and FY 2007. The audit found a lack of segregation of duties, which resulted in car hire/demurrage expenses not being accounted for according to generally accepted accounting principles and recorded in the incorrect accounts and avoidable interest charges of \$19,215 were incurred for late payment of material related delivery charges.

M/E Inventory Observations – Astoria & Sunnyside Yard, NY

Report #219-2007 – Issued 2/23/09

A wall-to-wall inventory was observed for the Astoria warehouse and Sunnyside Yard, NY Maintenance of Equipment locations on September 17, 2008. The OIG found that the inventories were generally taken in accordance with instructions. Corrective actions suggested by OIG were accepted and addressed by the Astoria, NY, Supervisor; Material Control. The OIG observed that Sunnyside Yard, NY had issues with timely receipt of documentation from other mechanical areas with the Sunnyside Yard location and the variances were cleared subsequent to the OIG visit.

Observation of FY2008 Annual Maintenance of Way Inventory

Report #217-2008 – Issued 12/23/08

The OIG observed the annual maintenance of way physical inventory conducted by Amtrak's Materials Management and Engineering Departments. The audit found that the inventory was generally taken in accordance with instructions. However, the OIG found that at the material stores withdrawals of large dollar value stock were not being reported in a timely manner. Therefore, the OIG again recommended that Engineering

require its personnel to comply with policy and provide Material Management with properly authorized charge out documents at the time material is taken from the location with no exceptions to policy permitted.

The OIG noted that the trend of increasing maintenance of way valuation which was 9.79 percent in FY08 and decreasing inventory turnover from 1.33 percent in FY06 to 0.95 percent in FY07 to 0.83 percent in FY08 continued. This trend is caused by stock levels remaining consistently too high from one year to the next. Audit recommended that Materials Management take steps to reduce stock levels for items with an overstock condition.

CMI-Promex, Inc.

Questioned Costs of \$16,504, Projected Savings of \$100,000

Report #201-2009 – Issued 03/31/2009

At the request of Amtrak's Procurement and Materials Management Department, the OIG performed a post award audit of the costs associated with the installation of the Ridex ® miter rail system by CMI-Promex, Inc. The purpose of the OIG review was to verify the accuracy and acceptability of the costs associated with the installation of the Ridex ® miter rail system on the Connecticut and Niantic River Bridges. The total purposed cost was \$656,000.

Based on the results of the OIG review, the OIG established questioned costs of \$16,504, a 2.52 percent error rate. Most of the questioned costs pertained to direct labor, manufacturing overhead, and general and administrative expense. Procurement agreed with the OIG questioned costs, along with the audited rates established for overhead and G&A.

Procurement agreed to apply the audited rates against future projects with Promex, which, according to Procurement, will amount to approximately \$4 million over the next four years. Therefore, Amtrak should save approximately \$100,000 over the course of this project and future projects utilizing the audited rates.

Review of Southern Pacific Transportation Company (SP) Diesel Fuel and Fuel Handling Accounts

UP offers \$305,000 as settlement for diesel fuel questioned costs

Audit Report Number 505-2009 – Issued 03/18/2009

The OIG completed an audit of costs billed by the SP for diesel fuel and fuel handling for the period January 1, 1997 through December 31, 1999. The purpose of the audit was to determine whether monthly billings submitted by the SP for the subject accounts were

Significant Audit Activities

accurate, valid, reasonable, and in compliance with the operating agreement and contract amendments between Amtrak and the SP. As information, after the merger of the SP into the Union Pacific Railroad (UP), the UP became the designated railroad for handling all SP-related findings.

The OIG analysis revealed that for San Antonio, there were unexplained increases in the gallons billed for the current audit period when compared to a comparable prior audit period. Based on the exceptions noted, the OIG identified and presented a total of \$455,314 in questioned costs to the UP. After various discussions, the UP offered \$305,000 as settlement for the questioned costs identified.

The OIG is currently working with the UP to finalize the settlement letter language. The OIG recommended that management use the finalized settlement letter language to be sent to the UP to initiate the recovery of the proposed settlement amount of \$305,000 from the railroad.

Accounting and Reporting Procedure Issues

Food and Beverage Incentive Payment Review

Possible Lost Revenue of \$3,193,307

Report #208-2007 – Issued 1/15/09

The objectives of the OIG audit were to determine whether the quarterly incentive payments to Amtrak's Food Service Provider were correct and to ascertain if Amtrak was receiving its share of credits due. The OIG reviewed the period January 1, 2007 through June 30, 2008. OIG auditors visited five commissaries in Boston, New York, Washington, Chicago, and Los Angeles on April 30, 2008 to observe their physical inventory counting process. The OIG visits determined that each commissary had high gross variances with the main count swings in linens, support non-reusable, and support reusable.

The OIG audit disclosed that Food and Beverage (F&B) suppliers were not processing stock rebate credit requests in a timely manner. When discussed with Amtrak F&B Management, stock rebate credit requests were prepared and credit requests were submitted resulting in additional payments of \$161,780 as of November 30, 2008.

The OIG calculated Amtrak condemnation costs of \$6,941,970 for the 24 month period January 1, 2006 through December 31, 2007, and discussed with F&B Management the potential reported loss of revenue mark-up of 46 percent amounting to \$3,193,307 if the items had been sold on Amtrak trains. The lack of condemnation oversight was the primary cause of reduced savings to Amtrak.

Internal Use Computer Software Costs

\$1.66 million of \$115 million or 2.9 percent of costs improperly capitalized

Audit Report Number 101-2008 – Issued 12/3/08

The OIG performed an audit of the accounting for internal use computer software. The objectives of this audit were to determine if costs incurred from January 2005 through September 2007 for new or upgraded computer software developed or obtained for internal use were properly classified by project managers as capital expenditures or period expenses in accordance with Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants Standard Operational Procedures (SOP) 98-1.

To determine if actual software expenditures were being reviewed by management other than project managers for compliance with SOP 98-1 and if project managers were timely preparing and submitting project completion forms to Capital Accounting when the project was completed or the asset was ready for its intended purpose.

The OIG found that project managers are miscoding software expenditures. Software expenditures are being capitalized when they should be expensed. The OIG audit revealed that Capital Accounting's review process identified and corrected more than \$1.66 million in miscoded software costs or 2.9 percent of the population for the 22 projects the OIG tested. Miscoding occurred because project managers have not been diligent in correctly coding costs relating to computer software and the reviews by the project managers' respective departments failed to catch coding errors.

The OIG recommended that departmental management should monitor the financial activity of the respective departments' project managers by reviewing the monthly detailed project cost transaction reports. Capital Accounting should continue to communicate the results of their monthly reviews of the department's capital project costs, so departmental managers can address areas where reclassifications are required.

The closeout process as currently documented on the Amtrak Intranet, the Capital Project Manager Financial Management Requirements Manual and Amtrak Policy and Instruction Manual Policy Instruction 8.3.1, are not reflective of current practices and needs to be updated.

Amtrak Uniform Inventory

Improved vendor contract enforcement is needed

Audit Report 106-2008 – Issued 1/30/09

The OIG performed an audit of Amtrak's Uniform Inventory. The objectives of this audit were to determine the existence and accuracy of Amtrak uniform inventory on hand at Fechheimer Brothers; review the process for managing the Amtrak uniforms inventory by Amtrak management and Fechheimer Brothers; and, determine that proper controls exist. Amtrak contracted Fechheimer Brothers to manufacture and supply uniforms to certain on-board and station employees.

The OIG conducted a physical count and reconciliation of Amtrak uniforms with the perpetual inventory reports of Amtrak uniforms at the Fechheimer Brothers' warehouse on August 26-27, 2008. The inventory sampled for verification by the auditors was 10,635 or 83 percent of the 12,853 total number of items reported on the perpetual inventory records with a value of \$468,974. The result of the inventory, comparing the physical count to the perpetual inventory records was a difference of 20 units or approximately .19 percent of the total inventory. OIG concluded that the inventory at Fechheimer Brothers was highly accurate.

In addition to the physical count, OIG reviewed the Amtrak Uniforms processes and related internal controls. OIG found that inventory management of uniforms for Amtrak employees needed to be improved. The levels of the inventory items were not in line with the usage and resulted in overstock of items that were not in demand and stock outs of items in demand.

The over and under-stock positions occurred because Operations Management did not enforce the provisions of the contract and receive the needed reports from the vendor in order to make accurate stock level decisions. As a result, Amtrak employees may not have the required uniforms. Amtrak may incur avoidable costs when the contract is terminated and Amtrak has to take possession of the residual inventory.

The OIG recommended Operations Management establish procedures and controls for establishing and maintaining stock levels; monitoring stock levels, safety stock and reorder points; and enforcing contractual compliance by Amtrak and Fechheimer Brothers. Management needs to identify the cost of the uniform inventory which would have to be reported as a contingent liability in the event the contract is terminated.

Transportation Certificate Database

Customer Relations database was incomplete and contained discrepancies

Audit Report Number 502-2008 – Issued 2/26/09

The OIG performed a review of transportation certificates (TCs) to determine whether Customer Relations issued the TCs honored system-wide during the audit period April 23, 2007 through April 30, 2007. TCs are a customer service recovery tool issued by Customer Relations to inconvenienced passengers on a case-by case basis as a result of customer service-related issues.

The OIG review results indicated that Customer Relations database was incomplete and contained discrepancies. The OIG recommended that written policies, procedures and/or guidelines be established to adequately document changes to TC amounts, customer names, and reasons for extending TCs. The OIG further recommended that Customer Relations supervisors sample and review TCs generated to ensure compliance with established policies, procedures, and/or guidelines.

Providence Station, Rhode Island Audit

Report #301-2009 – Issued 12/ 22/08

In accordance with the Office of Inspector General-Audits annual audit plan, the OIG performed a station audit of the Providence, Rhode Island ticket office. The purpose of the OIG review was to: test for compliance with station accounting and reporting procedures; verify assigned working funds, ticket stock and other assets; evaluate the safeguarding these assets; and, appraise the efficiency of station operations.

The OIG review indicated that the Providence Station ticket office and the baggage room were in general compliance with station accounting and reporting procedures. However, the OIG observed the following:

- ★ Manually issued tickets were not always issued in sequential order;
- ★ Copies of manually issued tickets were not always maintained;
- ★ Manually issued tickets were not being recorded in the Control Log, Form NRPC 277; and,
- ★ Invoices for the receipt of manually issued ticket stock were not available for the OIG review.

Management agreed with the findings and has taken appropriate corrective action.

Significant Audit Activities

Contract Issues

New Jersey Transit - Maintenance of Equipment Services Interim

\$777,394 in Under Billed Expenses

Report #204-2008 – Issued 11/5/08

A primary objective of the OIG audit was to determine whether Amtrak billed New Jersey Transit (NJT) in accordance with the Maintenance of Equipment Services Agreement. Billable charges include direct labor costs, labor additives, shop overhead, direct material costs and material additives. NJT assumes a percentage of the costs of the operation of the Sunnyside Yard car wash system.

A secondary objective of this audit was to compare actual overhead costs that Amtrak incurs to support the maintenance services versus the fixed overhead rate contained in the Agreement. Due to the significance of the under billing to NJT, the OIG is issuing this interim report. The OIG will complete its secondary objective of reviewing actual overhead costs at a later date.

The OIG established that, as it related to the maintenance of equipment services, Amtrak under billed NJT \$777,394 during fiscal periods 2006, 2007 and through June 2008. The OIG attributed the discrepancy to clerical errors, as well as to a misunderstanding of the agreement terms.

Review of Fuel Supply to Los Angeles by General Petroleum

Non compliance with fuel related procedures and a potential duplicate payment of \$15,913 identified

Audit Report Number 503-2008 – Issued 2/06/09

The OIG completed a review of fuel supply to Los Angeles by General Petroleum (GP) and the associated control environment for the period September 1, 2007 through March 31, 2008. The OIG primary objectives were to determine whether GP's fuel deliveries were in accordance with the purchase order (PO) agreement; whether Amtrak's payments to the vendor were accurate and in compliance with the PO provisions; and, whether management controls over fuel receipts, invoicing, payments and dispersal of fuel were adequate and effective.

Overall, the OIG identified various areas of non compliance with fuel-related procedures. Such areas included the handling of a fuel sample result that did not meet all fuel specifications; the resolution of delivery variances; and the reconciliation of fuel receipts, issues, and inventory.

Additionally, the OIG identified a potential duplicate payment in the amount of \$15,913. The OIG recommended that management review and update the respective diesel fuel related procedures to ensure compliance with approved procedures. The OIG recommended that follow-up actions be taken to address the potential duplicate payment.

Management Responses Over 180 Days Old for Which Corrective Action Has Not Been Completed

Union Pacific Audit

\$144,659 Excess Billings Identified

Audit Report 407-2004 – Issued 3/07/07

The OIG has held several meetings with the railroad to discuss resolution of outstanding unresolved audit issues. The OIG hopes to conclude its work in the next reporting period.

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned Costs \$63,184

Report 219-2005 – Response 1/25/06

The Procurement and Materials Management Department is still involved in ongoing settlement negotiations with the contractor and his suppliers and the OIG continue to monitor actions taken.

Reviews of Southern Pacific Central States Line

Questioned costs not yet resolved

Audit Report Number: 01-506 – Response 9/04/01

Audit Report Number: 01-507 – Response 9/04/01

Audit Report Number: 01-508 – Response 10/12/01

Audit Report Number: 01-509 – Response 10/12/01

There are no significant developments to report since the last semi-annual report. The OIG will continue to monitor.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 10/01/08	47
Audit projects postponed or cancelled	1
Audit projects started	31
Audit reports issued	13
Audit projects in progress 3/31/09	64

Audit Findings

Questioned costs	\$1,477,025
Unsupported costs	\$0
Funds to be put to better use	\$4,049,848

Total **\$5,526,873**

Case Handling and Sources of Allegations

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 330 investigations; in the last six months, the OIG opened 78 cases and closed 63 cases.

As set forth in the chart below, entitled "Sources of Allegations," employees and anonymous source referrals accounted for about 67 percent of the allegations during this reporting period, with employees being the source of 31 of the 78 allegations, or 40 percent.

The OIG received 21 telephone HOTLINE complaints during this reporting period. The majority of HOTLINE complaints received during this reporting period were from anonymous sources.

OIG Hotline

The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE 24 hours a day by calling Amtrak Telephone System (ATS) number 728-3065 in Philadelphia and the toll free number (800)

HOTLINE STATISTICS

10/01/08 – 3/31/09	TOTAL
Hotline Complaints Received:	21
Sources of Hotline Complaints:	
Anonymous Source	10
Private Citizen	9
Amtrak Employee	1
Confidential	1
Classification of Complaints:	
Non-criminal/Other	6
Fraud	6
Abuse of Position	2
Criminal – Other	2
Waste	2
False Claims	1
Theft	1
Drug Violations	1
Complaints Referred To:	
OI Field Offices	12
Management	7
APD	2

468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., the OIG answer callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine.

People may write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received nine telephonic HOTLINE complaints during this reporting period, which is an increase from the previous reporting period. The majority of HOTLINE complaints received during this reporting period were made by anonymous sources and private citizens.

PROSECUTIVE REFERRALS

10/01/08 – 3/31/09

Referrals	U.S. Attorney	Local/ State	TOTAL
Criminal Cases			
Indictments	2	0	2
Convictions/Pleas	5	0	5
Pending*	25	0	25
Declinations	1	0	1

TOTAL 33

Civil Cases

Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0

TOTAL 0

TOTAL CIVIL AND CRIMINAL 33

**Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's Office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution or other resolutions.*

SOURCES OF ALLEGATIONS

10/01/08 – 3/31/09

Amtrak Employee	31
Former Amtrak Employee	2
Anonymous Source	21
Confidential Informant	5
Private Citizen	4
Referred by other Amtrak Department	2
Referred by other OIG	10
Hotline	2
Other	1
TOTAL	78

Significant Activities: Investigations

TYPES OF ALLEGATIONS

10/01/08 – 3/31/09

Fraud	25
Theft/Embezzlement	4
Kickbacks	2
False Claims	3
False T&A Records	5
Other Criminal	1
Waste	8
Abuse of Position	6
Mismanagement	5
Conflict of Interest	3
Administrative Inquiry	3
Other Non Criminal	8
Referral to Other Agency	5
TOTAL	78

CASE STATUS OF INVESTIGATIONS

10/01/08 – 3/31/09

Total Open Cases as of 10/01/08	315
Closed Cases	-63
Opened Cases	78
Total Ongoing Cases as of 3/31/09	330

Theft and Fraud

Previously Reported Investigation Further Reviewed

Fraud of \$175,486

During the last reporting period the OIG detailed an investigation of a former Amtrak Finance Manager responsible for the Manual Credit Card System (MCCS). The investigation found the Manager had refunded more than \$74,000 to his personal credit card accounts for transactions for which he had not made any corresponding purchases. After further review, the OIG determined that the employee had refunded \$103,486 to his personal credit card accounts not identified earlier. The former finance manager admitted that an IBM contractor was involved with the scheme.

The IBM contractor was indicted on 18 U. S. C. § 371 (conspiracy), 18 U. S. C. § 1343 (wire fraud), 18 U. S. C. § 666 (theft of federal programs funds), and 18 U. S. C. § 2 (aiding and abetting). A notice of forfeiture was held on March 17, 2009. The OIG is seeking \$72,486 in restitution from the former contractor.

Theft Scheme Involving Train Provisioning Management System Clerk and 42 Lead Service Attendants.

Loss \$124,686; Restitution Sought

On January 12, 2009, a former Train Provisioning Management System (TPMS) Clerk pled guilty in the United States District Court for the Northern District of Illinois Eastern Division to the violation of Title 18 U. S. C., § 666 (a) (1) (A) Theft or Bribery Concerning Programs Receiving Federal Funds. The former employee, along with another former TPMS Clerk, currently under indictment, orchestrated a theft scheme involving 42 Lead Service

Attendants. All of whom were terminated or resigned. The scheme resulted in a loss to Amtrak of \$124,686. Sentencing is scheduled for April 17, 2009.

Wire Fraud Involving Voucher Refunds

Loss of \$31,928, restitution ordered.

An OIG investigation found that a Providence, Rhode Island Travel Agency had an exceptionally large number of Amtrak refunds. A review of the issued tickets revealed that many of the refunds involved ticket exchanges and issuance of vouchers. An in depth review revealed the vouchers were not valid resulting in a total loss to Amtrak of \$31,928.

As a result of the OIG investigation, the owner of the agency pled guilty to one count of wire fraud, 18 U. S. C. § 1343. He was sentenced to 27 months incarceration; 15 of which will be served in a Federal Correctional Facility, followed by 12 months of community confinement. He was ordered to make full restitution of \$571,000 to eight airlines and Amtrak.

Waste, Abuse, and Mismanagement

Over Billing for Superliner Remanufacture

\$34,000 in questioned costs

The OIG identified \$34,000 in over billings by a vendor contracted to provide modules for the Superliner Remanufacture project at Amtrak's Beech Grove Facility. The over billings consisted of unauthorized charges for General and Administrative costs on a change order and erroneous charges related to scrap material.

Questionable Actions Leading to Purchase of Deluxe Dividing Door Partitions

\$10,669 in questioned costs

The OIG identified questionable actions by the Senior Contracting Agent which allowed the purchase of two unused Deluxe Dividing Door Partitions totaling \$10,669, as well as two possible underpayments of \$12,210 to the contractor. Currently, OI is awaiting management's response to the administrative report.

Uncollected Private Railroad Car Fees

\$7,000 in fees to be recovered

During September 2008, OIG agents regularly observed two private railroad cars sided on Amtrak property in the Northeast Corridor. A subsequent analysis of the Private Car Tariff account for the cars in question revealed that Amtrak was not collecting fees for the cars as outlined in company policy entitled *Conditions for Movement – Private Railroad Cars on Amtrak*. Agents found systemic problems in the manner the billing functions of the process were administered.

An analysis of the account in question revealed that nearly \$7,000 in fees went uncollected. All deficiencies uncovered by OI Agents regarding private cars were referred to management. Management reported that the nearly \$7,000 in fees not collected would be collected immediately, as well as taking other steps to remedy the deficiencies outlines in the OIG referral.

Former Employee Overpaid

Loss of \$3,964.40

The Bakersfield California Station Manager allowed a Station Agent, who was attending a Corrections Academy after accepting employment with the California State Department of Corrections, to be placed on a Leave of Absence in order to use his sick leave, accrued overtime, and accrued vacation time. Ultimately, the Station Agent was overpaid \$3,964.40 for sick time which should have been cashed out at a 50 percent rate and collected a uniform allowance that he was not entitled to receive.

The Station Manager was placed on suspension for 30 days without pay and OIG sent a copy of the investigative report to the Department of Corrections, Internal Affairs Division to address the fraud perpetrated by its employee. The discipline of a California Peace Officer is considered privileged and confidential under Section 1043 of the California Evidence Code and the result of that investigation is not available.

Amtrak's Arrive Magazine Distribution

Approximately 180,000 magazines never distributed

In February 2008, the OIG received an allegation that there was an on-going pattern of significant waste involving the distribution of Amtrak's *Arrive* Magazine. The OIG learned through investigation that approximately 200,000 copies of *Arrive* are distributed bi-monthly by the magazine's publisher to various Amtrak facilities throughout the Northeast Corridor. Of the 200,000 copies distributed, agents found that nearly 90 percent of the magazines were never distributed, but actually discarded and not recycled. The investigation identified flaws in the magazine distribution system.

The OIG reported the situation to management. Management has taken steps to lower the number of magazines distributed by the publisher, as well as exploring recycling options for the magazines that are discarded, and improving the flaws in the distribution system.

Misuse of Fuel Credit Cards

Theft of Fuel

\$5,760.39 in restitution sought

The OIG worked jointly with the Mercer County Prosecutor's office on an investigation regarding the theft of fuel while utilizing an Amtrak fleet credit card. It was discovered that an employee, had used a fleet credit card without authorization to purchase \$5,760.39 worth of fuel, while not on Amtrak property. The employee was terminated and charged with a felony. Amtrak is seeking the total amount in restitution.

Theft of Fleet Credit Cards

Loss of \$83,711.16

In the last Semiannual Report, the OIG reported on a joint investigation with the Government Services Administration (GSA) Office of Inspector General regarding the theft of fleet credit cards used to purchase \$83,711.16 in diesel fuel and gasoline. OIG's investigation revealed that Amtrak vehicles were being left unsecured with vehicle fleet credit cards inside. As a result, Engineering implemented steps to address this failure including disciplinary action steps.

Conflict of Interest and Abuse

Falsification of Training Rosters

The OIG received an allegation that senior members of Amtrak's Engineering Department were being placed on attendance rosters for training classes that they did not attend. The subsequent OIG investigation proved that senior members of Amtrak's Engineering Department were in fact placed on rosters for classes that they did not attend.

The OIG found that the class instructors were not involved in the false entries but a senior member of the Amtrak Employee Development Department did place two senior members of Amtrak's Engineering Department on training rosters in an attempt to give the appearance that their training qualifications were up to date.

As a result of OIG's investigation, the former Development employee received a letter of reprimand and both senior members of the Engineering Department received verbal warnings about their behavior. Amtrak's Chief Operating Officer reaffirmed that Amtrak's Employee Development

Significant Activities: Investigations

Department will act independent of outside influences from other Amtrak Departments.

Moynihan Station Project Manager Irregularities

The OIG conducted an investigation into the circumstances surrounding the Moynihan Station Redevelopment Project including the memorandum of understanding (MOU) between Amtrak and the Moynihan Station Project developer, the employment of a project manager for the Moynihan Station, expenses incurred by the project manager, an apartment lease in New York associated with the project manager employment, and the use of lobbying firms or consultants associated with the project.

In the OIG referral to The Amtrak Board of Directors, OIG questioned the Executive Summary and Request submitted to the Board to hire the project manager exclusively for the Moynihan Project at a salary of \$200,000, when the individual was already employed as a contractor, being paid a contracting fee equivalent to \$200,000 per year.

The OIG questioned the creation of the senior E-Band position solely for this project, which has a history of stalling, as it has at the time of the investigation. Due to the project being located in New York, but the project manager being located in Washington, unnecessary expenses were incurred. For the two months that the project manager was acting as a private contractor, Amtrak's expense policy regarding hotel rates was continuously violated.

The investigation revealed that an apartment was leased at Amtrak's expense for the project manager's use in lieu of hotel stays in New York. The apartment owner is a family friend of the Amtrak vice president who supervised the project manager. Both the project manager and the vice president used the apartment for personal use on several occasions at no cost, a benefit not afforded to other employees.

As a result of the investigation, the project position was eliminated and the individual was terminated from employment.

Recommendations to Enhance Efficiency and Effectiveness

Lax Procedures Led to Probable Theft of Receipts

\$13,337 recovered

An OIG investigation revealed numerous instances wherein deposits to the Salinas Station either had not been made or lesser amounts than indicated were deposited. The OIG focused on two instances where

deposits were recorded but were never received by the bank. The result of the investigation was the termination of the Station Agent. However, the OIG was unable to gain an indictment on the Station Agent due to the lax controls which were in place at the time. The OIG met with management to advise management of the findings. As a result, management changed and improved procedures on station deposits throughout the Bay area.

In conjunction with the case outlined above, the OIG made inquiries into the overages/shortages reported to management spanning five years and totaling over \$13,337 which went uncollected. As a result of the OIG's involvement and inquiry into these uncollected funds, management informed OIG that all outstanding funds had either been collected or the employee responsible was charged and disqualified.

Unsecured Cartons Led to Secure Shipments of Conductor Ticket Stock

The OIG became involved in a case where a shipping carton of conductor tickets sent in June 2007 was discovered. The tickets were unsecured and left unnoticed in the baggage area of Union Station, Washington, D.C. and only discovered in August 2008. Eventually all identified tickets were recovered and accounted for. In conjunction with this issue, the OIG made recommendations to management to better secure and ship conductor ticket stock. Those recommendations are currently being implemented.

Violation of Amtrak's Standards of Excellence

False Statements

During this reporting period, the OIG conducted an investigation into false statements and misrepresentations made to the OIG by a Beech Grove employee found to have provided false information to the OIG during an investigation into the unauthorized sale of scrap material. The employee waived formal investigation proceedings and was assessed ten days suspension without pay.

The OIG issued a referral to the Dispute Resolution Office and Amtrak Police Department regarding an Auto Train Food Specialist who made a false statement alleging that another employee had assaulted them. Due to the unsubstantiated statement, the former Food Specialist was terminated.

Weapons Violation

The OIG received and investigated an allegation that train and engine employees assigned to Reno were bringing firearms onto Amtrak property as well as transporting the weapons concealed on the person, and/or in carry-on bags. The OIG and Amtrak Police detectives jointly investigated the allegation and substantiated that

several employees had carried firearms on the train and others had brought and stored firearms at the Reno Station with the knowledge of management. The result of the investigation was the removal from management of an Assistant Superintendent, the termination of two employees, and a 30-day suspensions for two other employees.

Time and Attendance Reviews

Miscoding of Labor Hours

The OIG conducted an investigation into false statements and misrepresentations made to the OIG by five management employees regarding the intentional miscoding of labor hours at the Beech Grove maintenance facility. The OIG found that the Superintendent, an Assistant Superintendent, the Budget Manager and two General Foremen made misrepresentations and/or false statement to OIG Investigators and Auditors. As a result of OIG's investigation, the Superintendent received a salary reduction, was demoted and transferred, the Assistant Superintendent retired, the Budget Manager resigned after opting not to accept a demotion and transfer, and two General Foremen were suspended without pay for ten days.

Recovery of Unearned Wages

\$170,200 recovered

An the OIG investigation resulting from an allegation pertaining to Amtrak Engineering employees, found that New Jersey Engineering work gangs were submitting for and receiving pay for hours not worked. As a result of this allegation and the subsequent the OIG investigation, the Engineering Department recovered money paid to employees for time paid and not worked. More importantly, the OIG investigation led to the significant findings detailed below.

Amtrak Engineering argued the employees were receiving duplicate wage payments because of an error in the MAXIMO Payroll System which authorizes wage payments for engineering employees. As a result of this allegation and the subsequent the OIG investigation, \$170,200 was recovered from Amtrak Engineering Department employees who were overpaid.

Congressional Investigation Request

Congressman James L. Oberstar, Chairman of the United States House of Representatives Committee on Transportation and Infrastructure, requested that the Amtrak Office of Inspector General investigate the use of Taxpayer Relief Act of 1997 (TRA-97) funds by the six States that were not served by Amtrak at the time. The six states were Alaska, Hawaii, Maine, Oklahoma,

South Dakota, and Wyoming. Per TRA-97, Amtrak paid each of the six states \$23,230,000, which was 1 percent of Amtrak's tax refund. The TRA-97 and the subsequent Surface Transportation Revenue Act of 1998 (STRA-98) placed restrictions on the use of the monies by the six states. Generally, the monies were to be used for state transportation enhancements including aviation, highway, mass transit, rail, and waterway purposes.

Congressman Oberstar also expressed concern that South Dakota used TRA-97 funds to replenish the SD State Aeronautic Fund after the purchase of a state airplane, and may have violated the express provision of the TRA-97 and STRA-98 laws. The OIG investigation, which included a review of SD TRA-97 purchases and the language of TRA-97 and STRA-98, revealed that no violations of Federal law existed. The Audit of the remaining five states in receipt of TRA-97 funds revealed no violations.

2009 Presidential Inauguration Counter Surveillance Operation/Tactical Deployment

The OIG fielded teams of OIG law enforcement agents to work various assignments related to the 2009 United States Presidential Inauguration. On January 17, 2009, OIG agents worked Amtrak stations in Philadelphia, Wilmington, Baltimore, and Washington, D.C., providing counter-surveillance to protect President-elect Barack Obama and Vice President-elect Joseph Biden during their historic train ride to the nation's capital. OIG agents were employed in a tactical response mission alongside the United States Secret Service, providing vehicles and rapid response along the train route.



Bob Johnston, *Trains Magazine*

Significant Activities: Investigations

On January 19 and 20, 2009, OIG agents worked counter-surveillance missions in New York, Trenton, Philadelphia, Wilmington, Baltimore, Baltimore-Washington International Airport Train Station, New Carrollton, and Washington, D.C. OIG agents manned an OIG command post, maintained an event log, provided communications support, and assisted agents who were in the field.

Agents provided further counter-surveillance and security at Washington Union Station during a pre-Inaugural dinner for the president-elect on January 19, 2009, and during the Presidential Ball on the evening of January 20, 2009. The OIG Agents worked very closely with the United States Secret Service, Amtrak Police Department, and Amtrak's Office of Security Strategy and Special Operations (OSSSO) teams, and numerous state and local law enforcement entities with all missions being successfully completed without incident.

Revenue Protection

RPU-initiated Lead Service Attendant Reviews

During this reporting period, Revenue Protection Unit (RPU) analyzed the applicable support documents for on board food and beverage sales on 97 various Lead Service Attendants (LSA). These LSA reviews coupled with the completion of reviews from the previous reporting period

resulted in the distribution of 35 administrative referrals consisting of various findings covering theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed, based on the RPU referrals, for 30 LSAs with discipline ranging from counseling to termination.

RPU-initiated Conductor Reviews

RPU conducted preliminary reviews of conductor cash fares to identify, analyze and document, then refer for continued handling, conductor reviews that indicate possible theft or misappropriation situations. During this review period, the RPU conducted a random sampling review based on 43 observations on trains in the Northeast Corridor using Ten-Trip tickets.

The review revealed failure or omission by Conductors and Assistant Conductors to follow policy and procedure in several areas that attribute to a negative impact to Amtrak's cash position. As a result of an Administrative Referral forwarded to the applicable Superintendents regarding these findings, all identified Conductors and Assistant Conductors were counseled on their failures and remedial training was provided to crew base personnel.



Bob Johnston, *Trains Magazine*

Amtrak Maintenance Operations

OIG continuing to help with implementation of previous recommendations

In September 2005, the OIG issued report **E-05-04**, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, the OIG recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications. The OIG's report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past three and a half years the OIG has been working with the Mechanical Department to help them implement the OIG recommendations.

Implementation of Reliability-Centered Maintenance

Although day-to-day administration of this initiative is now under the Chief Operating Officer (COO), the OIG remains engaged in an oversight role to help facilitate progress. The OIG continues to monitor implementation and provides advice and recommendations to help Amtrak overcome implementation challenges and help insure that benefits are achieved.

Equipment Reliability Improvements

The OIG continues to facilitate and support the establishment of teams dedicated to conducting Root Cause Analyses into recurring equipment failures. The teams that have been established have made significant contributions to the improvements in reliability of both the Acela trainsets and the High Horsepower (HHP) Locomotives. In calendar year 2008, the delays associated with Acela equipment failures were reduced by 7 percent from the previous year. Efforts to improve on these initial successes and expand to other fleets of equipment are on-going.

Mechanical Maintenance Facility Rationalization and Process Improvement

Potential savings of more than \$5 million; and, overtime reduced by more than \$500,000

Some of the recommendations in the OIG report on Mechanical Maintenance Operations addressed rationalizing Amtrak's maintenance facilities and streamlining Amtrak's maintenance processes. These recommendations are in various stages of implementation. One of the improvement efforts that the OIG continues to support is the consolidation of P42 Diesel Locomotive maintenance to Chicago. Through consolidation and the implementation of a new, streamlined maintenance

philosophy, the OIG estimates maintenance costs can be reduced more than \$5 million per year.

In addition to this specific effort, the OIG is providing advice and assistance with process improvement and manpower utilization for turnaround servicing at Amtrak's major stations. At Washington D.C. alone, overtime expenditures have been reduced by more than \$500,000 during this six month period. As Amtrak implement these improvements at other locations the OIG is hopeful that Amtrak will achieve similar results.

Mechanical Maintenance Servicing Contracts

Under-Billing Commuter Agencies for Parts

\$1,068,044.85 to be recovered

While reviewing one of Amtrak's contracts for maintenance services in preparation for renegotiation, the OIG discovered that Amtrak had been erroneously under-billing one of the commuter agencies for maintenance parts. Based on this discovery, Amtrak retroactively billed the commuter agency for \$1,068,044.85 to cover a five year period of under billing.

Financial Impact of Equipment Delays

Report E-09-02 – issued 3/25/09

OIG-developed tool to assess the benefits of investing in equipment reliability improvement

As part of the OIG's continuing effort to improve the efficiency and effectiveness of Amtrak's rolling stock maintenance program, we noticed that Amtrak has had a difficult time quantifying the monetary benefits associated with investments in maintenance programs that improved equipment reliability. This information is essential to measure the financial benefits of proposed maintenance initiatives and to prioritize programs vying for scarce resources.

The OIG study provides Amtrak a tool to assess the economic benefits of investing in rolling stock maintenance initiatives to improve equipment reliability. The OIG has analyzed the impact that equipment related train delays had on FY '07 ticket revenue and have quantified the impact in terms of revenue loss per delay minute and total annual revenue loss by type of equipment. This information should be helpful in determining which equipment maintenance programs to focus on and in estimating the revenue gains that should be anticipated from any maintenance initiatives that positively impact equipment reliability.

Locomotive Camera Installations

Locomotive Camera Installation

OIG-initiated project expected to show significant reduction in settlement costs

The OIG is continuing to advise and assist on a project to install cab-mounted video cameras on all of Amtrak's locomotives. Freight railroads have shown that these types of cameras have made a huge difference in their ability to defend themselves in claims involving grade-crossing accidents, thereby significantly reducing settlement costs and court awards from these types of lawsuits.

This effort began as an OIG-initiated, limited-scope project to demonstrate and learn about the technology. Since then, cameras have been installed on more than 100 locomotives with another 100 to be completed by the end of the fiscal year. So far, five collisions have been captured by the cameras, clearly showing the cause of the incidents. The installation on the rest of Amtrak's locomotives is planned to follow in FY 2010.

Procurement and Material Supply Chain Management

Alstom Parts Contract

\$200,000 refunded

Amtrak entered into a contract with Alstom TLS in 2006 to supply and manage the parts inventory for the Acela trainsets. This contract has an estimated value of close to \$200 million over the five-year term. As reported previously, the OIG questioned whether Amtrak was getting proper credit for components returned to inventory after bench testing. Based on the OIG's inquiry, Amtrak received a credit of \$2,495,137.20 for overcharges during the period of September 2007 to February 2008. Since the last semiannual, Alstom and Amtrak have agreed on a new pricing methodology for bench test services, which has resulted in a further refund by Alstom of \$200,000 for payments made from March 2008 to August 2008.

Mechanical Supply Chain Effectiveness

At the request of the previous Vice President of Procurement, the OIG sponsored and helped to facilitate a major initiative to improve the efficiency and effectiveness of the material supply chain in providing parts and materials for Rolling Stock maintenance. Cross functional teams were established to evaluate existing practices in demand planning, supplier management, order fulfillment and warranty management. Facilitated by industry experts from the Thomas Group, the teams reviewed existing processes and revised them to more align with industry best practices.



After the arrival of the new Vice President of Procurement, this initiative was transitioned into an overall continuous improvement effort solely managed within the current Procurement and Materials Management Department. The OIG agreed to provide limited additional support through May of 2009. At the conclusion of OIG involvement, the OIG will produce a report that will document the results achieved through this initiative and make recommendations on areas where additional opportunities for improvement are available.

Amtrak's Right-of-Way Maintenance

Amtrak's Right-of-Way Maintenance

Performance and costs benchmarked against European Railroads

As reported in the last semiannual, the OIG has been involved in a multi-year evaluation of the efficiency and effectiveness of Amtrak's right-of-way (ROW) maintenance programs. We recently completed an extensive comparison of Amtrak's performance and costs to that of several European rail passenger systems, which included site visits to discuss best practices with ROW maintenance companies in Sweden, Germany, Austria, Switzerland, Great Britain, and the Netherlands. The OIG is in the process of completing our report and will report in detail on our findings and recommendations in the next semiannual report.

Comparison of Amtrak's Infrastructure Labor Cost to European Railroad Averages

Report E-09-01 – Issued 3/24/09

Reasons for Amtrak's higher labor costs identified

As reported above, Amtrak's OIG is in the process of preparing a report that compares Amtrak's infrastructure maintenance expenses to that of a sample of European Rail Passenger Systems. During the cost comparison phase of this evaluation, it was determined that the annual cost of an Amtrak infrastructure worker is more than twice as much as the average European infrastructure worker. When the OIG briefed these preliminary results to the Amtrak President and CEO, he questioned why this was so.

The report explains the primary reasons Amtrak labor costs are so much higher than that of the average European worker. These reasons are that the Amtrak worker earns significantly more in extraordinary wages (overtime); and that, Amtrak pays more than four times more for employee benefits each year. As a percentage of the total difference between Amtrak and European labor costs, 51 percent of the variance in labor cost is due to Amtrak's higher benefit expenses, 30 percent due to higher extraordinary wages, and 19 percent due to higher base wages. A major contributing factor to the higher base wages and extraordinary wages is that, on average, Amtrak infrastructure workers work 32 percent more hours per year, including six times more overtime hours, than Amtrak's European counterparts.

Human Capital Management

Human Capital Management

Is Amtrak prepared for the Human Capital challenges facing it in the next five years?

This evaluation was initiated to evaluate how effectively and efficiently Amtrak manages its Human Capital throughout the company and how well it is prepared for the numerous Human Capital challenges facing it over the next five years. As part of this, the evaluation examined how Amtrak identifies its manpower needs and then how the company recruits, hires, develops and retains the required employees with the necessary skills to accomplish Amtrak's mission, goals, and objectives.

The field work and benchmarking have been completed and the team is currently drafting their final report, which will be detailed in the next Semiannual Report.

Fleet Utilization of Rolling Stock

Increasing Revenue for Acela

Opportunities for up to \$9 million of additional revenue identified

In August 2008, the OIG started a multi-year evaluation of how well Amtrak plans for and utilizes its fleet of rolling stock. Phase one of this evaluation reviewed how Amtrak projects its market demand, how it performs yield management, and how these two functions relate to the assignment of equipment to trains and routes. Initially the OIG focused on the utilization of Amtrak's Acela fleet.

Based on the OIG initial work, the OIG discovered opportunities where Amtrak could increase revenue on the Acela service with only a marginal increase in costs. The OIG presented these findings to the Acela Executive Oversight Committee. In both cases the committee approved the recommendations and actions are progressing to increase the number of trains operating on the weekends and to take actions to optimize ridership levels during peak demand periods. Based on FY08 revenues, OIG estimates these actions, when fully implemented, could result in up to \$9 million in additional revenue annually.

The OIG is in the process of documenting its initial findings and then will start to focus the OIG analysis on the Northeast Corridor Regional fleet of equipment.

Revenue Protection Initiatives – OIG continuing involvement

Onboard Service Oversight

Amtrak employees handle approximately \$110 million annually in on-board ticket and food and beverage sales. A number of these dollars are continually at risk with respect to fraudulent employee behavior. Thus, the OIG continues to work closely with the Transportation, Service Operations and the Marketing and Product Management departments to advise on conductor and onboard service (OBS) remittance policies, OBS accounting policies and procedures, pro-active strategies for safeguarding Food and Beverage (F&B) inventory, and commissary operations.

The OIG participates directly on a number of steering teams – the Point of Sales Change Management Working Group, the F&B Loss Prevention Working Group, the City of New Orleans (CONO) Pilot Team and the Amtrak Revenue Procedures Oversight and Protection Committee (ARPOPC).

Harassment and Intimidation Complaints

Harassment and Intimidation

Three allegations reviewed with one substantiated

During this reporting period, the OIG concluded its review of three allegations received during the previous reporting period. The OIG issued two letters of no findings, whereby the OIG concluded that the employee was not harassed or intimidated by management as defined by FRA 49 CFR 225.33.

The OIG issued one letter of finding to senior management whereby the OIG concluded that even though an injured employee received the proper medical treatment, his manager engaged in behavior that *could be construed* as "harassing or intimidating conduct by an employee that is calculated to discourage or prevent any individual from receiving medical treatment." Management agreed with the OIG findings and immediately addressed these concerns administratively with the employee's manager.

FY 2009 PERFORMANCE MEASURES

10/01/08 – 3/31/09

Audit Results	Total
Congressional Testimony	0
Costs Questioned/Funds to be Put to Better Use	\$5,526,873
Management Decisions to Seek Recoveries	\$1,372,776

Investigative Results	Total
Indictments/Informations	2
Convictions	5
Fines	0
Court Ordered Restitutions/Civil Judgments/Administrative Restitution	\$582,437
Recoveries	0
Years Sentenced	1.25
Years Probation	3
Years Supervised Release	1
Hours of Community Service	0
Personnel Actions – Termination from Employment	2
Personnel Actions – Other Discipline	1
Debarments and Other Administrative Action	n/a
Hotline Complaints Received	21
Hotline Complaints Investigated by OIG	12
Hotline Complaints Referred to Operating Administrations or Other Agencies	9

FY 2009 ADVISORY FUNCTIONS

10/01/08 – 3/31/09

Advisory Functions	Total
FOIA Requests Received	0
FOIA Requests Processed	0
Legislation Reviewed	6
Regulations Reviewed	1





Appendix 1

**OFFICE OF INSPECTOR GENERAL
AUDIT REPORTS ISSUED WITH QUESTIONED COSTS**

10/1/08 – 3/31/09

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	6	\$1,086,633	\$0
B. Reports issued during the reporting period.	6	\$1,477,025	\$0
Subtotals (A + B)	12	\$2,563,658	\$0
LESS			
C. For which a management decision was made during the reporting period.	7		
(i) dollar value of recommendations that were agreed to by management.		\$1,372,776	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$126,566	\$0
D. For which no management decision has been made by the end of the reporting period.	5	\$1,064,316	\$0

**OFFICE OF INSPECTOR GENERAL
AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE**

10/1/08 – 3/31/09

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	1	\$1,300,000
B. Reports issued during the reporting period.	13	\$4,049,848
Subtotals (A + B)	14	\$5,349,848
LESS		
C. For which a management decision was made during the reporting period. (i) dollar value of recommendations that were agreed to by management. (ii) dollar value of recommendations that were not agreed to by management.	2	\$3,966,352
D. For which no management decision has been made by the end of the reporting period.	2	\$1,383,496

Appendix 3

OFFICE OF INSPECTOR GENERAL DETAILED LISTING OF ALL ISSUED AUDIT REPORTS

10/1/08 – 3/31/09

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
12/3/2008	101-2008	Internal Use Computer Software Costs	\$-	\$-	\$-
10/1/2008	102-2007	Accident/Incident Reporting to FRA	\$-	\$-	\$-
1/30/2009	106-2008	Amtrak Uniform Inventory	\$-	\$-	\$-
3/31/2009	201-2009	CMI Promex, Inc. B 073 14595	\$16,504.00	\$-	\$83,496.00
11/5/2008	204-2008	New Jersey Transit - Maintenance of Equipment Services	\$777,394.00	\$-	\$-
1/15/2009	208-2007	Food & Beverage Incentive Payment Review	\$161,780.00	\$-	\$3,193,307.00
11/14/2008	216-2007	Car Hire/Demurrage Expenses	\$13,849.00	\$-	\$773,045.00
12/23/2008	217-2008	FY 2008 MW Inventory Observation	\$-	\$-	\$-
2/23/2009	219-2008	Cycle Inventory Observation - Astoria, NY	\$-	\$-	\$-
12/22/2008	301-2009	Providence Station Audit	\$-	\$-	\$-
2/26/2009	502-2008	Stations - Transportation Certificates	\$-	\$-	\$-
2/6/2009	503-2008	Fuel Supply to LAX - General Petroleum	\$52,184.00	\$-	\$-
3/18/2009	505-2009	Southern Pacific Transportation Company (SP)-Diesel Fuel and Fuel Handling, Jan 1997-Dec 1999	\$455,314.00	\$-	\$-
TOTALS			\$1,477,025	\$-	\$4,049,848

**OFFICE OF INSPECTOR GENERAL
SUMMARY OF REPORTS TO THE PRESIDENT OF AMTRAK CONCERNING INFORMATION OR
ASSISTANCE UNREASONABLY REFUSED OR NOT PROVIDED**

10/1/08 – 3/31/09

Nothing to report this period.

OFFICE OF INSPECTOR GENERAL REVIEW OF LEGISLATION AND REGULATIONS

10/1/08 – 3/31/09

Section (4)a of the Inspector General Act of 1978, as amended, provides that the Inspector General shall “review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports ...concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.”

Furthermore, Section 4(a) states that it is “the duty and responsibility of the Inspector General “to recommend policies for, and to conduct, supervise, or coordinate relationships between such establishment and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to (A) all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by such establishment, or (B) the identification and prosecution of participants in such fraud or abuse.”

In order to enhance the OIG’s ability to meet these Section (4)a, responsibilities, the OIG created during the last reporting period a new group, Management and Policy, to ensure compliance with current and emerging legislation, and government regulations, directives, and mandates. Management and Policy is the primary liaison with the Government Accountability Office, and other government departments and agencies.

In addition, the OIG has an agreement with Amtrak’s Government and Public Affairs Department that allows the OIG to review and comment on the company’s annual grant and legislative request, and other legislative and regulatory concerns of the company. Existing legislation and regulations are reviewed, as necessary, as a part of every audit, inspection and evaluation, and investigation.

During the period covered by this report the OIG continued to cooperate with and monitor Congressional efforts to draft and enact High Speed Rail legislation, as well as other legislation intended to provide additional funding for Amtrak. The specific legislation reviewed was:

Public Law 111-8

The “Omnibus Appropriations Act, 2009” passed by Congress and signed by the President in March of 2009, providing appropriations for all agencies and activities that would be covered by the regular fiscal year 2009 appropriations bills. The Omnibus Appropriations Act funds the OIG at our fiscal year 2008 level of \$18,50,000 for 2009 or \$1,500,000 below the newly authorized level for FY 2009. The OIG continues to work with the Appropriations Committees to ensure that we are fully funded at our authorized level in order to fulfill our mandate responsibilities.

Public Law 111-5

“American Recovery and Reinvestment Act of 2009” commonly referred to as the stimulus bill passed both chambers of Congress and was signed by the President in February of 2009. H.R.1 provided \$1.3 Billion for Amtrak, \$845 million for Capital Grants, \$450 million for Security Grants and \$5 million for the Office of Inspector General.

Public Law 110-432

The “Passenger Rail Investment and Improvement Act of 2008” was signed by the President on October 16, 2008. PRIIA was the first Amtrak reauthorization in 12 years and the first to include a separate five year authorization for the Amtrak Office of Inspector General. The reauthorization also included language that clearly restated Amtrak’s authority to use the General Service Administration for all services provided by GSA to other Federal Departments under sections 502(a) and 602 of title 40, United States Code.

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms the OIG use in reporting audit statistics are defined below:

Questioned Cost -- Cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak's corporate policy or procedure.

Unsupported Cost -- Cost that is not supported by adequate documentation at the time of the audit.

Funds to Be Put to Better Use -- Funds identified in an audit that could be used more effectively by taking greater efficiency measures.

Management Decision -- Management's evaluation of the OIG audit finding and its final decision concerning agreement or non agreement with the OIG recommendation.

Abbreviations/acronyms used in the text are defined below:

AcSEC	Accounting Standards Executive Committee of the American Institute of Certified Public Accountants	MOU	Memorandum of Understanding
Amtrak	National Railroad Passenger Corporation	NRPC	National Railroad Passenger Corporation (Amtrak)
APD	Amtrak Police Department	NJT	New Jersey Transit
APP	Appendix	OBS	Onboard Service
ARPOPC	Amtrak Revenue Procedures Oversight and Protection Committee	OIG	Office of Inspector General
ARRA	American Recovery and Reinvestment Act of 2009	OSSSO	Office of Security, Strategy and Special Operations
CEO	Chief Operating Officer	OTP	On Time Performance
CFR	Code of Federal Regulations	PO	Purchase Order
COO	Chief Operating Officer	P.L.	Public Law
CONO	City of New Orleans	PRIA	Passenger Rail Investment and Improvement Act of 2008
DIG	Deputy Inspector General	RCM	Reliability-centered Maintenance
F&B	Food and Beverage	ROW	Right-of-way
FRA	Federal Railroad Administration	RPU	Revenue Protection Unit
FY	Fiscal Year	SNS	Salinas Amtrak Station
GAAP	Generally accepted accounting principles	SOP	Standard Operating Procedures
G&A	General and Administrative	SP	Southern Pacific
GP	General Petroleum Corporation	STRA-98	Surface Transportation Revenue Act of 1998
GSA	Government Services Administration	TC	Transportation Certificates
HHP	High Horse Power	TPMS	Train Provisioning Management System
HR	Human Resources	TRA-97	Taxpayer Relief Act of 1997
LSA	Lead Service Attendant	UP	Union Pacific
		U.S.C.	United States Code

Reporting Requirements Index

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Stop Fraud, Waste, Mismanagement, and Abuse

Who pays? You pay. Act like it's your money...it is!

Tell Us About It

Maybe you are aware of fraud, waste, mismanagement, or some other type of abuse at Amtrak. Amtrak's Office of Inspector General has a toll free hotline number for you to call. You can write to the OIG.

The OIG will keep your identity confidential. If you prefer, you can remain anonymous. You are protected by law from reprisal by your employer.

Call the hotline:

Nationwide (800) 468-5469

Philadelphia (215) 349-3065 or ATS 728-3065

Write to us:

Inspector General

P.O. Box 76654

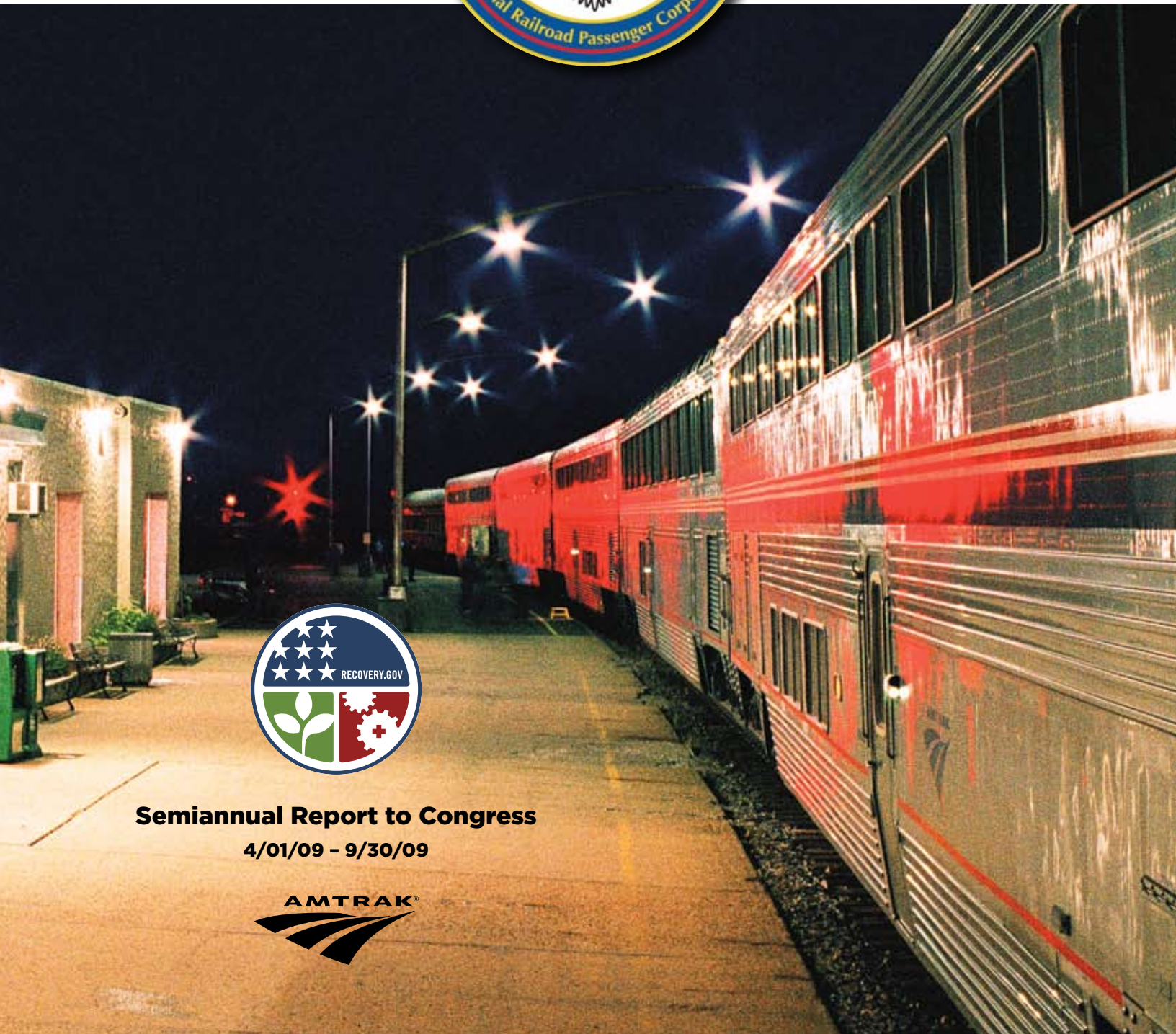
Washington, DC 20013-6654



National Railroad Passenger Corporation
Office of Inspector General
10 G Street, NE, Suite 3W-300, Washington, DC 20002-4285

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EXHIBIT 7



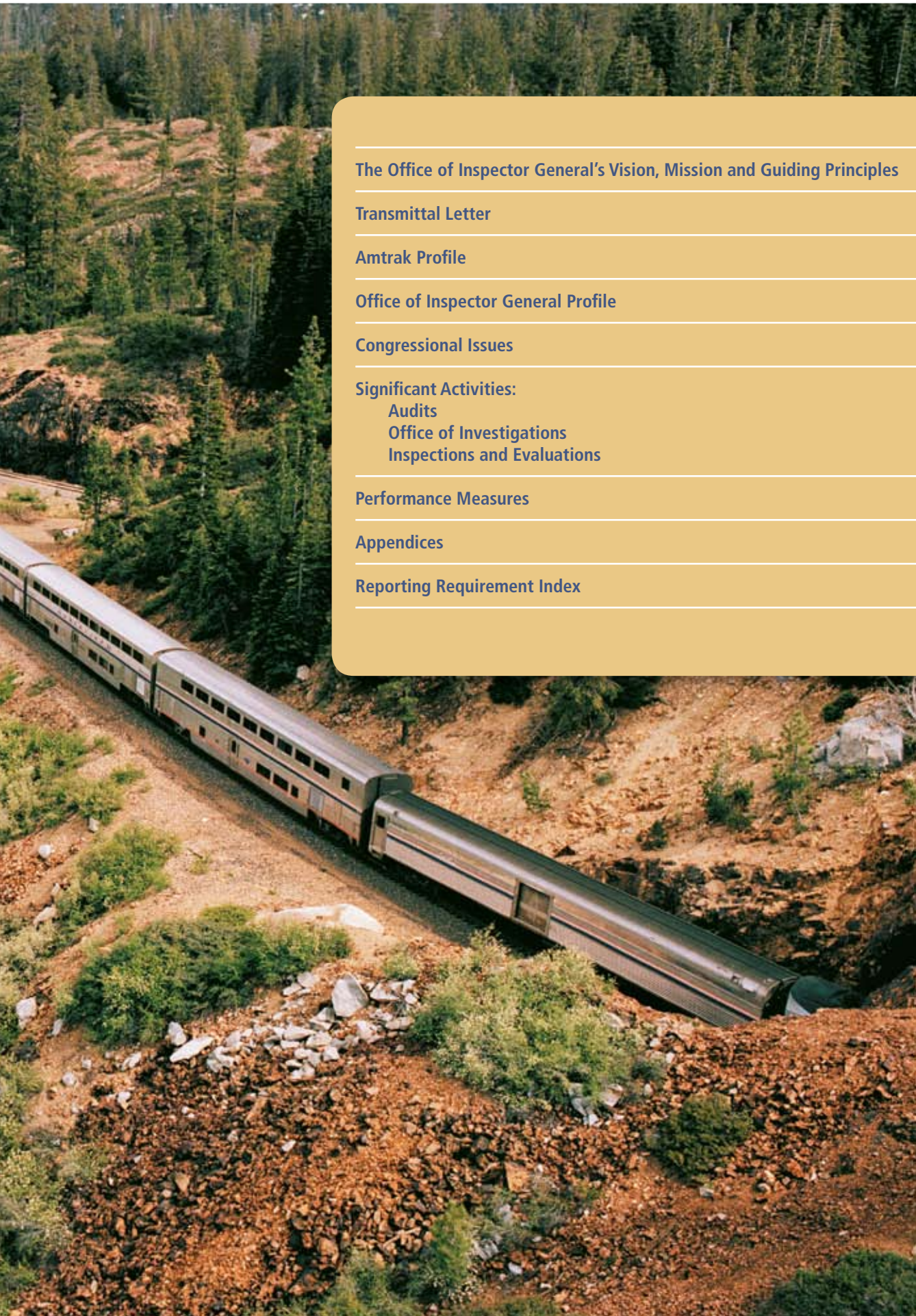
Semiannual Report to Congress

4/01/09 - 9/30/09



EXHIBIT 7





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The OIG Vision

The Office of Inspector General (OIG) strives to provide Amtrak's employees, its customers, the public, and the Congress with the highest quality service and programs through vigilance, timely action, accuracy, and an overall commitment to excellence across the broad range of OIG responsibilities.

The OIG Mission

The OIG will conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations; promote economy, effectiveness and efficiency within the agency; prevent and detect fraud, waste, and abuse in agency programs and operations; review security and safety policies and programs, and, review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.

The Inspector General's Guiding Principles

Amtrak's Office of Inspector General (OIG) will:

- ★ *Work with Amtrak's chairman, the board of directors, and the Congress to improve program management.*
- ★ *Maximize the positive impact and ensure the independence and objectivity of the OIG audits, investigations, inspections, and evaluations, and other reviews.*
- ★ *Use OIG audits, investigations, inspections, and evaluation, and other reviews to improve integrity and recommend changes to prevent fraud, waste and abuse.*
- ★ *Be innovative and question existing procedures and suggest improvements.*
- ★ *Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.*
- ★ *Strive to improve the quality and efficacy of reports and recommendations.*



September 30, 2009
Honorable Thomas Carper
Chairman
Amtrak Board of Directors

Dear Mr. Chairman:

On behalf of the Amtrak Office of Inspector General (OIG), I am pleased to present this Semiannual Report to Congress. The OIG Report highlights significant audits, evaluations, and investigations for the six-month period ending March 31, 2009.

It is the OIG's responsibility to assist the Board and management in making improvements in Amtrak's core business operations which will improve the safety, reliability, and effectiveness of Amtrak services to the traveling public. The current semiannual report identifies some of the recent recommendations that the OIG has made which have resulted in cost savings, improved management policies and procedures, improved revenues, less cost, and more efficient and effective business processes.

In executing its FY 2009 audit plans, the OIG continued its reviews of Amtrak's procurement operations, payments and billings to vendors providing services to Amtrak, and the associated internal controls for physical inventory. I would like to call your attention to two of the areas from the Audit group. Audits documented:

- \$102,602,866 in billable retroactive labor costs that were incurred for Amtrak labor performing reimbursable services for commuter services, state supported trains (403b) and various other individual and corporation force account projects.
- Substantial savings or questions costs concerning the Thames River Project of \$193,306.

OIG investigators and special agents opened 85 new cases and closed 84 cases during the reporting period; 331 investigations remain active as of September 30.

The OIG obtained four criminal indictments, and five criminal convictions/pleas; 20 other cases are pending prosecutorial review. As you will see in the detailed reports, the casework continues to reflect the need for Amtrak to protect better its passenger revenues, and the OIG is working with management to improve controls over the \$1.4 billion revenue stream.

The OIG Inspections and Evaluations group is continuing to facilitate numerous initiatives to improve the reliability and availability of Amtrak's rolling stock (passenger cars and locomotives). I would especially call your attention to the OIG initiated company-wide evaluation of how Amtrak manages its human capital. The team evaluated how well Amtrak identifies its manpower needs and then recruits, hires, develops and retains the individuals with the skills needed to accomplish Amtrak's mission and strategic goals. The resulting report suggests that if the OIG recommendations are implemented a potential savings of between \$23 million and \$50 million could be realized.

While continuing to conduct its normal oversight of Amtrak's programs and operations for this Fiscal Year, the OIG, like Amtrak, has had to rapidly make new plans to accommodate Amtrak's inclusion in the American Recovery and Investment Act of 2009 (ARRA). Under ARRA, Amtrak will be receiving almost \$1.3 billion over the next two years to initiate and accelerate work on the railroad, which will create jobs and further the statutory goals and objectives of intercity passenger rail services. The OIG has been provided \$5 million to oversee the stimulus spending and to report independently on compliance with the goals of ARRA.

As the OIG has previously written, ARRA represents a significant opportunity for Amtrak to accelerate capital work in a number of key areas, including badly needed investments in track, bridges, facilities, and passenger cars and locomotives. Amtrak's current plans are to spend about 66 percent of stimulus dollars on infrastructure and engineering projects, 15 percent on security and life-safety projects, 11 percent on Amtrak's fleet, and the balance on information technology, finance, and other support functions. The OIG will work to ensure that Amtrak uses stimulus funds in a way which complies fully with the transparency and accountability requirements of the Recovery Act and which furthers the Board's policy directives to improve Amtrak's programs and operations.

Since the announcement Amtrak was to receive \$1.3 billion in stimulus funds and an additional \$5 million for the Office of Inspector General, the OIG has hired a new Assistant Inspector General in charge of ARRA oversight and reporting. Additional auditors have been hired in some cities and a few more positions are anticipated as Amtrak's projects are completed. The office has until September 30, 2013 to finish its work under the ARRA act.

Amtrak has embarked upon more than 250 projects all designed to speed Amtrak in to the future by implementing new computer systems, upgrading infrastructure, such as bridges, tunnels, stations and tracks and modernizing its equipment by overhauling and refurbishing existing locomotive and passenger cars. The OIG has completed a review of the criteria used by Amtrak for justification of these projects. The OIG will continue to monitor the projects through completion to ensure they comply with the grant provisions.

Given the considerable challenges and opportunities that have been presented to Amtrak over the past several months, it is important that the OIG have a productive and effective working relationship with the Board of Directors. We will work closely with you and the Board to ensure that the Office can accomplish its statutory mission consistent with the best practices prevalent in the OIG community and in a way which contributes to safer, more reliable, and more cost effective services for the traveling public.

Respectfully,



Lorraine Green
Interim Inspector General

Amtrak Profile

The National Railroad Passenger Corporation, "Amtrak," is incorporated under the District of Columbia Business Corporation Act (D.C. Code § 29-301 et seq.) in accordance with the provisions of the Rail Passenger Service Act of 1970 (Public Law 91-518). Under the provisions of the Passenger Rail Investment and Improvement Act of 2008 (Public Law 110-432; 49 U.S.C. § 24302), Amtrak's Board of Directors reorganized and expanded to nine members.

The company is operated and managed as a for-profit corporation providing intercity rail passenger transportation as its principal business. Congress created Amtrak in 1970 to take over, and independently operate, the nation's intercity rail passenger services. Prior to this America's private freight companies ran passenger rail as required by Federal law. Those companies reported they had operated their passenger rail services without profit for a decade or more. With this in mind, when Amtrak began service on May 1, 1971, more than half of the rail passenger routes then operated by the freight railroad companies were eliminated.

During fiscal year (FY) 2009 Amtrak carried approximately 27.2 million passengers on up to 315 daily intercity trains on more than 21,100 route miles serving 513 communities in 46 states, the District of Columbia, and three Canadian provinces.

In terms of market-share, Amtrak serves 63 percent of the combined airline-intercity rail market between Washington, D.C., and New York City. More than 800,000 people commute every weekday on Amtrak infrastructure or on Amtrak-operated commuter trains around the country under contracts with state and regional commuter authorities. Amtrak employs about 18,400 persons, of whom about 16,000 are agreement covered employees. These employees work in on-board services, maintenance of way, police, station and reservations services, and other support areas.

While ridership in the Northeast Corridor on Acela Express and Northeast Regional services did not keep pace with last year, several short-distance routes did achieve new highs, including the Chicago-St. Louis corridor (up 6 percent), the Harrisburg-Philadelphia-New York Keystone Service (up 2.7 percent), the Raleigh-Charlotte Piedmont (up 3.8 percent) and the Washington-St. Albans Vermonter (up 1.9 percent). Elsewhere on the Amtrak national network, the Los Angeles-Seattle Coast Starlight ridership was up 22.3 percent from the previous fiscal year, recovering from a 15-week service disruption in 2008 that closed a portion of the route in northern California.

Other long distance trains that posted gains in FY 2009 versus FY 2008 include the Los Angeles-New Orleans Sunset Limited route (up 9.8 percent), the San Antonio-Chicago Texas Eagle (up 3.6 percent) and the New York-Miami Silver Meteor (up 3.4 percent) and Silver Star (up 1.1 percent). While other segments posted declines, the 15 long distance trains as a group experienced an increase (up 0.7 percent), highlighting their role in many cases as essential public transportation and reflecting improved on-time performance in most instances.

Amtrak owns the right-of-way of more than 363 route miles in the Northeast Corridor (NEC; including Washington, DC-New York City-Boston, Philadelphia-Harrisburg, and New Haven, CT-Springfield, MA) and 97 miles in Michigan. Amtrak owns 105 station facilities, and is responsible for the upkeep and maintenance of an additional 181 station facilities and 411 platforms. Amtrak owns 17 tunnels and 1,186 bridges.

Amtrak owns most of the maintenance and repair facilities for its fleet of about 2,600 cars and locomotives. Outside the NEC, Amtrak contracts with freight railroads for the right to operate over their tracks. The host freight railroads are responsible for the condition of their tracks and for the coordination of all railroad traffic.



Amtrak's Office of Inspector General (OIG) was established as a statutory entity on April 1, 1989, in accordance with the 1988 amendments (P.L. 100-504) to the Inspector General Act of 1978 (P.L. 95-452; 5 U.S.C. Appendix 3). The OIG is an independent and objective entity within Amtrak whose mission is to detect fraud, waste, and misconduct involving Amtrak's programs and personnel; to promote economy and efficiency in Amtrak operations; and, to keep Congress and the Amtrak Board of Directors fully informed about problems and deficiencies, and the necessity for, and progress of, corrective action.

The OIG investigates allegations of violations of criminal and civil law, regulations, and ethical standards arising from the conduct of Amtrak employees in performing their work. The OIG audits, investigates, inspects, and evaluates Amtrak operations, policies, and procedures, and assists management in promoting integrity, economy, efficiency, and effectiveness.

Amtrak's Office of Inspector General is led by the interim inspector general, Lorraine Green. The OIG consists of four groups: Audits; Investigations; Inspections and Evaluations; and, Management and Policy. Audits is headed by Gary E. Glowacki; Inspections and Evaluations is headed by Calvin Evans; Investigations, and legal counsel, is headed by Colin Carriere; and, Management and Policy is headed by Bret Coulson. The OIG has field offices in Washington, DC, Baltimore, Wilmington, Philadelphia, New York, Boston, Chicago, and Los Angeles.

Audits:

Audits is responsible for conducting independent reviews of Amtrak's internal controls and recommending improvements to better safeguard its assets; testing the reliability of financial reporting and providing accounting counsel over company operations; reviewing information technology programs and information security; reviewing procurements and material acquisitions for appropriateness of cost, pricing, and compliance with applicable grant and/or contract terms and conditions; and, monitoring compliance with laws and regulations.

Investigations and Legal Counsel:

Investigations is responsible for investigating various types of fraud and abuse particularly allegations of financial wrongdoings, kickbacks, construction irregularities, bribery, and false claims; performing reviews of Amtrak's safety and security programs; recommending to the company better internal controls to prevent fraud and abuse; and, reporting violations of law to the Attorney General and prosecutors. The group is charged with reviewing and safeguarding Amtrak's

cash and credit card purchases for transportation and food services on board Amtrak trains.

Legal Counsel is responsible for providing legal assistance and advice to the Inspector General, Audits, Inspections and Evaluations, and Investigations. Counsel provides legal and investigatory directions to Investigations, coordinates with outside attorneys including local and federal agencies and law enforcement attorneys, and appears in court on behalf of the OIG and its employees.

Inspections and Evaluations:

Inspections and Evaluations is a hybrid unit whose staff have specialized skills in engineering, safety, labor/employee relations, mechanical maintenance operations, strategic planning, and finance. This group conducts targeted inspections and evaluations of Amtrak programs, providing assistance to managers in their efforts to determine the feasibility of new initiatives and the effectiveness of existing operating methodologies.

The inspection and evaluations process they utilize, whether requested or mandated, consists of independent studies and analytical reviews that often serve as the cornerstone for strategies to improve cost efficiency and effectiveness, and the overall quality of service delivery throughout Amtrak.

Management and Policy:

Management and Policy provides mission and administrative support services to the OIG by managing: budget formulation and execution; policy development; training, personnel security; dissemination of OIG information; human resources; and OIG facilities. Management and Policy ensures performance quality and compliance with current and emerging government regulations, directives, and mandates. The office is the primary liaison with the Government Accountability Office, and other government departments and agencies. Management and Policy has primary responsibility for Amtrak's security oversight; and, works closely with, and provides oversight on, the policy, programs, and procedures for Amtrak's Office of Security Strategy and Special Operations, and the Amtrak Police Department.



Legislation and Regulations Reviewed

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to Amtrak's programs and operations and to make recommendations concerning their impact. The OIG uses results from its audits, inspections and evaluations, investigations, and legislative experiences as the basis for its recommendations to Congress. During the reporting period, the OIG reviewed legislation, regulations, policy, and procedures that could affect Amtrak and provided comments both internally within, and to, the relevant Congressional committees and staff.

During the semiannual reporting period, the OIG conducted oversight of Amtrak's American Recovery and Reinvestment Act of 2009 (ARRA) activities and expenditures. As required by ARRA, the OIG has filed monthly reports of the OIG's ARRA financial expenditures and oversight activity with www.Recovery.gov, the website of the Recovery Accountability and Transparency Board.

The Inspector General Reform Act of 2008 established an independent budget submittal process for the OIG. The Chairman of the Amtrak Board of Directors submitted the OIG's Fiscal Year 2011 budget estimate and request to the Office of Management and Budget on September 14, 2009. The OIG's annual budget estimate and request are submitted to Congress as part of Amtrak's annual grant and legislative request.

The specific legislation reviewed is found in Appendix 5.

Procurement and Material Management Issues

Consulting Services for the NEC/ACELA Improvement Program

Audit Report 201-2008 – Issued 5/13/2009

Amtrak issued Purchase Order S-046-72239 to Celerant Consulting Inc (Celerant) to perform consulting services for the NEC/ACELA Improvement Program totaling \$1,437,550. The purpose of the audit was to determine the accuracy and acceptability of the cost and pricing data shown on Celerant's cost proposal or other data submitted for use in verifying the weekly billing labor rate (\$11,000 per consultant week) for a sole source contract and their applicable travel expenses. The audit disclosed that the documentation provided by Celerant adequately supported the accuracy of the weekly billing labor rate and the travel expenses.

AmPlan Eligibility Review

Audit Report 103-2009 – Issued 9/30/2009

The OIG audited the health and welfare benefits enrollment process for its agreement-covered employees. The audit objective was to determine whether eligible dependents of Amtrak employees are receiving health and welfare benefits and if adequate internal controls are in place to ensure accuracy and to detect and prevent unnecessary expenditures by Amtrak for ineligible dependents.

The OIG found that Amtrak's employees' dependents are not verified to ensure eligibility for the health and welfare benefits. The OIG discovered that United Healthcare, Amtrak's third party administrator (TPA), does not require proof of student status for dependent children, identified as, full-time college students, between the ages of 10 and 25. United Healthcare only requires verbal acknowledgement from the employee rather than the submission of actual proof of student's status. Amtrak's policy states: "A dependent child that is a full-time student needs proof of student status and this must be provided to the TPA each semester to continue healthcare coverage." Due to the severity of the deficiencies found in Amtrak's Human Resources verification and dependent eligibility process, the OIG issued a quick reaction report to correct the internal control deficiencies.

Management Response:

Management agreed the verification of dependent eligibility process will be developed and implemented.

Food and Beverage Transition Review

Inventory controls need to be improved

Audit Report 202-2009 – Issued 6/17/2009

The OIG performed a review of Amtrak Food and Beverage inventory transition from Gate Gourmet, Inc. (GGI) to Aramark, Inc. The OIG primary objective was to observe the physical inventory transition from GGI to Aramark, which took place between November 30, 2008 through December 21, 2008. The OIG observed the transition of inventories from GGI to Aramark for Amtrak's main commissaries which are located in Boston, New York, Washington, Sanford, Miami, New Orleans, Chicago, Oakland, Los Angeles, and Seattle.

The audit disclosed that the inventories were conducted in accordance with management instructions. Based on the results of the reconciliation of the EATEC Physical Inventory Quantity on Hand (QOH) Before and After reports, the OIG determined that all 10 commissaries visited had high gross variances, with Chicago having the highest gross variance - 216.24 percent.

The OIG noted that some of the items on the QOH Before report had negative counts and negative total dollar values, and after GGI adjustments, the inventory values were positive. The high gross variances are largely attributable to the lack of accurate inventory accounting from trains stripped rather than an actual loss of goods.

Additionally, the Managed Services Provider was still was taking an inordinate amount of time to finish the inventory reconciliation. This practice allows the Managed Services Provider too much time to arbitrarily adjust shrinkage differences. Amtrak Managers of Contract Food and Beverage should be required to have more of a presence when the inventory process begins and ends.

Management Response:

Management agreed and has begun implementation of the OIG recommendation.

Accounting and Reporting Procedure Issues

Amtrak Safety Audit Program Review

Reporting controls need improvement

Audit Report 218-2008 – Issued 9/29/2009

The OIG review disclosed that Amtrak Management lacks an adequate reporting system to effectively identify the date each safety finding is actually corrected. Responsible Amtrak Officials (RAO) self-correct and report the remediation of safety audit findings to Safety Audit, and the Safety Audit Program does not require objective or follow-up verifications of the corrective actions reported. Instead, the Safety Audit Group relies on RAOs to notify

Significant Activities: Audits

Safety Audit when and whether findings are corrected and available for closure. Potentially, corrective actions could be reported to Safety Audit and not actually implemented, or the actions taken could be insufficient to correct the findings.

Management Response:

Management response was still pending at the end of this reporting period.

Contract Audits

Unbilled Reimbursable Retroactive Wages

\$102,602,866 not invoiced for reimbursable retroactive wage increases.

Audit Report 207-2008 – Issued 5/13/2009

In January 2008, Amtrak signed labor agreements with 13 unions (23 agreements) which awarded pay increases retroactive from July 2002 through June 2008. The OIG formally notified Management that significant portions of the retroactive labor wages were incurred in performing reimbursable contracts. A number of these contracts contain specific provisions that allow Amtrak to invoice its customers for retroactive pay adjustments. Other contracts are based in whole or in part on reimbursable costs.

The audit documented \$102,602,866 in billable retroactive labor costs that were incurred for Amtrak labor performing reimbursable services for commuter services, state supported trains (403b) and various other individual and corporation force account projects. Of the total reimbursable labor costs, \$49,362,032 was incurred for force account projects, \$36,407,325 was incurred for commuter services, and \$16,833,509 was incurred for state supported trains. Amtrak has contractual rights concerning labor expenses which should be enforced. Moreover, Amtrak is prohibited by law from subsidizing "operating losses of commuter rail passenger or rail freight transportation" under 49 USC Section 24104(f) and Authorization of Appropriations statutes.

The OIG recommended that Management invoice the entire \$102.6 million retroactive wage amounts for labor costs incurred by Amtrak on behalf of its customers. OIG further recommended that the entire accounts receivable should be properly recorded, and any reductions in customer liability should be properly written off.

Management Response:

Management response was still pending at the end of this reporting period.

Chicago Lease Audit

Cost recovery of \$122,081; future savings for FY 2008 to FY 2011 is estimated to be \$247,955

Audit Report 105-2009 – Issued 3/30/2009

The OIG performed an audit of the Amtrak lease for the property located at 525 W. Van Buren St., Chicago, Illinois (Chicago Property) and contracted with Lease Audit and Advisory Services, Inc. (LAAS) to perform specific services in connection with the audit. The objective of this audit was to determine whether Operating Expense Statements submitted to Amtrak are in compliance with the provisions of the Lease Agreement with the Landlord.

The audit required LAAS to perform the following services: an analysis to determine whether rental escalation statements are calculated correctly in accordance with provisions of lease agreement(s) between Amtrak and the landlord; identifying any rental overcharges billed by the landlord; assisting OIG in recovering any overcharges; negotiating any future rental payments; examining annual escalation billings to ensure that all expenses are being billed in accordance with the initial settlement; and, performing follow-up audits as necessary.

In its audit LAAS found that the Landlord for the Chicago Property was charging a management fee that was in excess of prevailing market conditions. The Landlord agreed to reduce the management fee to 3 percent for the period 2005 through 2007 resulting in a credit due Amtrak of \$179,531. Amtrak's share of the savings was \$122,081. The future savings for FY 2008 to FY 2011 is estimated to be \$247,955.

The OIG recommend that the overpayments should be recovered from the Landlord. And, the OIG recommend Amtrak Real Estate Development revisit its review procedures for monitoring Amtrak property leases and ensure they address compliance with the lease requirements and consistency with industry standards.

Attleboro Pawtucket Amendments Review

\$42,128,287 of Amtrak funds was used to cross-subsidize the MBTA

Amtrak failed to identify \$2,392,291 of increased MBTA service costs

Amtrak failed to bill \$278,927 to the MBTA for its share of maintenance and equipment costs

Audit Report 205-2009 – Issued 9/30/2009

The objectives of the OIG audit were to assess Amtrak's compliance with the cost recovery terms of the Attleboro Agreement and associated amendments. OIG reviewed maintenance, capital, reimbursable and dispatching costs related to the Attleboro Line that was incurred by Amtrak during the period July 1, 2003 through June 30, 2009. OIG noted the following cost recovery related issues:

- ★ OIG found that Amtrak subsidized the Massachusetts Bay Transportation Authority (MBTA) an estimated \$42,128,287 in Amtrak funds for the maintenance and operation of the Attleboro Line Commuter Operations.

Amtrak is prohibited from subsidizing losses of commuter rail passenger or freight transportation under 49 USC Section 24104(f) and prohibited from cross-subsidizing commuter rail passenger or freight transportation under 49 USC Section 24904.

- ★ **OIG found that Amtrak failed to identify, calculate and bill an estimated \$2,392,291 in increased maintenance costs incurred as a result of a MBTA service increase. The Attleboro Agreement allows Amtrak to be reimbursed for all increased operating and maintenance costs resulting from MBTA service increases.**
- ★ **OIG found that Amtrak failed to bill MBTA an estimated \$222,059 for its share of expenses at the Boston South Station Centralized Electric and Traffic Control (CETC) Facility. OIG found that Amtrak failed to bill \$56,868 to the MBTA for Pawtucket, RI Layover Facility Usage Fees.**

The OIG reported that since an apparent cross-subsidization violates federal statutes, Amtrak needs to consider substantially amending this agreement and/or enforcing terms in such a way as to avoid unbilled or uncollected activities which benefit the MBTA. Due to the long history of late and non-payment by MBTA, Amtrak should consider not performing reimbursable work for this customer that has little or no joint benefit to Amtrak.

Management Response:

Management response was still pending at the end of this reporting period.

Thames River Bridge Project Contract Modification C-0012PS Pier Modifications

Cost recovery of \$7,638

Audit Report 302-2009 – Issued 6/3/2009

The Office of Audits completed an audit of modification C-0012-PS to contract number C-069-24978 between Amtrak and Cianbro Construction Corporation (Cianbro). Cianbro's contract was entered into to rehabilitate the Thames River Bridge in New London, Connecticut. Amtrak executed the modification to install additional reinforcing steel and strengthen concrete on two bridge piers. The modification was executed for a not-to-exceed amount of \$2,080,198.33.

The audit objective was to determine if the cost or pricing data submitted by Cianbro in support of the modification cost was accurate, complete, and current. The results of the review indicated that Cianbro's submitted cost or pricing data was not entirely accurate, complete, or current. The OIG identified adjustments that increased and decreased Cianbro's submitted costs resulting in a

conclusion that Amtrak is due a net decrease in the cost of the modification in the amount of \$7,638.

Management Response:

Amtrak management agreed with the findings and Cianbro credited the project for the questioned \$7,638.

Thames River Bridge Project Audit of Counterweight Extra Work Claim

Question Cost of \$99,634

Audit Report 303-2009 – Issued 6/22/2009

The OIG completed an audit of Cianbro Construction Incorporated's \$1,810,950 claim for extra work performed in removing the counterweight on the Thames River Bridge in New London, Connecticut. The claim was submitted under contract number C-069-24978 between Amtrak and Cianbro for the rehabilitation of the Thames River Bridge. Cianbro submitted the \$1,810,950 claim, dated July 23, 2008, for extra costs incurred to remove the old counterweight from the bridge. Cianbro stated that the extra costs incurred were the result of a "change condition," from that which was disclosed in the contract.

The OIG audit objective was to determine if the cost or pricing data submitted by Cianbro in support of the counterweight claim was accurate, complete, and current as of the date of certification.

The results of the audit indicated that Cianbro's submitted cost or pricing data was not entirely accurate, complete, or current. The OIG identified adjustments in the amount of \$99,634 that should reduce the amount of the claim.

Mueser Rutledge Consulting Engineers Subcontract under Contract C-076-00870 Thames River Bridge Span Replacement Audit Report 307-2007 – Issued 8/26/2009

The Office of Inspector General audited Mueser Rutledge's (MR) invoices for work on the Thames River project. The Thames River project is the replacement of the moveable span on the Thames River Bridge in New London, Connecticut. MR was a subcontractor on this project hired to develop a stabilization plan for two of the existing bridge piers that moved during construction. MR submitted invoices totaling \$1,446,712, as of My 29, 2009, for engineering consulting services.

The audit objective was to determine that costs submitted by MR were in accordance with contractual terms and supported by detailed books and records. The OIG reviewed the qualifications of engineers assigned to the project to determine that their educational levels and experience were in accordance with contractual requirements.

Significant Activities: Audits

The OIG found that the costs presented in MR's invoices were fully supported by detailed payroll records, time sheets, and travel vouchers and were in accordance with contractual terms.

Thames River Bridge Project Grouting Program Contract Modifications

Question Cost of \$86,034

Audit Report 308-2007 – Issued 6/4/2009

The Office of Audits completed an audit of contract modification costs submitted by Cianbro Construction Incorporated for pier grouting activities on the Thames River Bridge, Span Replacement Project in New London, Connecticut. Cianbro is the prime construction contractor on this project. Construction contract C-069-24978, between Amtrak and Cianbro, was modified in order to stabilize two bridge piers that began to move during construction. Cianbro's certified grouting program costs, for the cost plus modifications totaled \$10,996,068. The objective of this audit was to determine whether the cost or pricing data submitted by Cianbro in support of the grouting program was accurate, complete, and current.

The OIG started the audit in the spring of 2008 by reviewing Cianbro's first submission of grouting program costs totaling \$10,938,565. The OIG then questioned \$376,209 of the original submission due to overstated subcontractor material costs, incorrect subcontractor equipment rates, and incorrectly allocated direct and indirect labor charges. Cianbro agreed to an initial reduction of \$290,175 which was removed from Cianbro's final certification of grouting program costs.

The OIG completed the audit in February 2009 after Cianbro submitted its final certified costs for the grouting program in the amount of \$10,996,068. The results of the audit of Cianbro's final certified costs indicated that the \$10,996,068 included \$86,034, which the OIG had previously questioned. The \$86,034 represents the amount of subcontractor overbilling caused by for incorrect equipment rates. As a result, the OIG recommended that Amtrak seek an additional price reduction for the grouting program in the amount of \$86,034.

Management response:

Management disagreed with the recommended \$86,034 reduction stating that contract clauses in the prime contract between Cianbro and Amtrak would not flow down to Cianbro's subcontractor since the subcontractor was not involved when the contract was signed by Amtrak and Cianbro.

OIG Response:

The OIG disagrees with management's position and believe that the finding should stand.

Station Audits

Baltimore Station Audit

Audit Report 211-2009 – Issued 7/9/2009

The OIG review disclosed that internal controls needed to be made in the Baggage Room and processing controls needed improvement for station expenses, expenses for the inconvenience of passengers, documentation supporting Over and Short Ledgers, and the performance of Mini-Audits.

Management Response:

Station management addressed all of the concerns noted in the report prior to the issuance date.

Baltimore Station Audit – Facility

Audit Report 213-2009 – Issued 8/6/2009

The OIG conducted an audit of the Baltimore Station Ticket Office and Baggage Room, the OIG observed that exterior improvements needed to be made to the station and some general maintenance issues needed to be addressed.

Management Response:

Amtrak's Engineering Department corrected the issues that were cited in the report.

Denver Station Audit

Audit Report 402-2009 – Issued 9/29/2009

The OIG audited the Denver, CO ticket office. The purpose of the review was to: verify assigned working funds, ticket stock and other assets; verify station sales and other activities; and determine compliance with daily station accounting procedures and evaluate safeguards over assets.

The OIG could not verify all assigned working funds at the ticket office. Of 13 Seller's Banks; one was missing, another was inaccessible, and nine others did not contain the dollar amount issued. Ticket stock, station sales and other activities were verified.

Overall, the OIG found ticket agents were not always in compliance with Amtrak's policies and procedures. Specifically:

- ★ Ticket agents have not fulfilled their responsibility to protect and secure Amtrak funds.
- ★ One ticket agent was using the common working fund on a daily basis, which is not permitted.
- ★ Duplicate keys to cash drawers were not sealed and maintained in the safe as required.

- ★ Ticket agents were not aware of their responsibility to report late conductor remittances, thus did not report them in accordance with procedures.
- ★ Refund and exchange tickets were not die-stamped, some were not properly marked for cancellation, and most of the exchange tickets did not contain the new ticket number and value.

The OIG identified control weaknesses with regards to general monitoring of the station activities by the District Manager. Specifically we found:

- ★ The District Manager failed to ensure the working fund at the station was maintained at the authorized level by counting the entire working fund during the mini-audits.
- ★ Station management has not taken action to coordinate employees' schedules to avoid paying unnecessary overtime due to flex time.
- ★ The District Manager failed to monitor and review all elements of the station operations during the mini-audit; i.e., did not count the entire working fund in the safe or review all required documents necessary to answer the mini-audit questions.
- ★ The District Manager(s) did not monitor shortages closely enough to identify a suspicious pattern of shortages occurring over a two year period.

The OIG made detailed recommendations to address each finding.

Management Response:

Management has agreed with the findings but has not provided its action plan to address each recommendation.

Route 128 Station Audit

Audit Report 305-2009 – Issued 8/21/2009

The Office of Inspector General performed a station audit of the Route 128 Station Ticket Office located in Westwood, Massachusetts. The purpose of the review was to: test for compliance with station accounting and reporting procedures; verify assigned working funds, ticket stock and other assets; evaluate safeguards over assets; and, appraise the efficiency of station operations. The audit indicated that the Route 128 Station ticket office is in compliance with station accounting and reporting procedures. Therefore, the report did not contain any formal audit findings. However, the OIG made the following observations which were reported for management's information:

- ★ Die stamp imprints were not clearly displayed on tickets (ink or cleaning issue).
- ★ Exchange ticket transactions do not always show

the amount of an upgrade on the original cancelled ticket.

- ★ The Control Logs for manually issued tickets needs to be completed properly and the Station's copy of the ticket should be maintained with the Lead Ticket Agent.
- ★ Training is needed for Ticket Agents regarding the proper reporting of manually issued tickets for Group Travel transactions, and the accounting of the transaction in the Automated Station Accounting Program (ASAP) and in the functional usage of ASAP.
- ★ Passenger addresses should be recorded on refund documents.
- ★ Maintenance is needed to correct excessive rust to the sides of escalators that service the tracks.

Management Response:

Station management agreed with the observations and provided the OIG with a corrective action plan that addressed all of the observations.

Glenwood Springs Station Audit

Audit Report 403-2009 – Issued 9/29/0909

The OIG conducted an audit of the Glenwood Springs, CO ticket office. The purpose of the review was to: verify assigned working funds, ticket stock and other assets; verify station sales and other activities; and, to determine compliance with daily station accounting procedures and evaluate safeguards over assets.

The review found that assigned working funds, ticket stock, station sales and other activities were verified and the station was in compliance with Amtrak's policies and daily station accounting procedures. However, the OIG found that management over the station operations can improve in the following areas: safeguarding of assets, performance of mini-audits, and approval of miscellaneous expenses.

While evaluating safeguards over assets, auditors observed that ticket agents count station cash in a room that is within public view, which provides inadequate security over counting cash and unnecessarily exposes Amtrak funds and employees to a safety/security risk.

In addition, mini-audits, which are a management control to detect deviations from policy, were not conducted in accordance with procedures. The mini-audits for this station, as currently performed by the District Manager, are not functioning as intended; i.e., as a reliable monitoring tool to ensure the station is in compliance with policies and procedures.

Lastly, there was no evidence that the miscellaneous expenses had been approved by the District Manager since he did not sign the Form NRPC-2382, Miscellaneous

Significant Activities: Audits

Station Expense Report, as required. Furthermore, miscellaneous expenses were not reported in the month in which the expenses were incurred.

The OIG recommended that the District Manager or Superintendent immediately install a curtain or window covering in the room containing the safe to provide the ticket agents with a place to count the cash that has a reasonable level of security, out of public view and that the District Manager conduct sufficient reviews at the stations by taking the time necessary to accurately complete each question on the mini-audit.

Information Technology

New OIG Website Successfully Launched to Comply with Inspector General Reform Act and American Recovery and Reinvestment Act.

Cost savings of approximately \$250,000

Under the Inspector General Reform Act of 2008 (IG Reform Act) enacted on October 14, 2008, Amtrak's Office of Inspector General was required to implement a new website within six months that would meet a number of key technical and publishing requirements.

The OIG successfully launched its new OIG website that meets the following key technical requirements of the IG Reform Act:

- ★ Direct link from Amtrak.com homepage to the OIG website Amtrakoig.com.
- ★ Reading Room to make OIG reports easily accessible to public.
- ★ Keyword search functionality.
- ★ Secure and anonymous Tip Hotline Form for submission of allegations.
- ★ Compliance with Section 508 of the Rehabilitation Act that makes the website accessible to people with disabilities.

It is important to note that the new website was implemented one month ahead of the legislative deadline and at an estimated savings of \$250,000 by utilizing the internal resources instead of contracting out to design, build and operate the website. To provide additional safeguards, OIG website is hosted externally at a web hosting service provider. And, the OIG finalized internal process for publishing OIG reports and job openings to the website.

Subsequently, the OIG made the following upgrades to the public website to comply with the OMB guidelines regarding American Recovery and Reinvestment Act of 2009 (ARRA):

- ★ Recovery Act section that includes a full text of the law, role of OIG in oversight of the ARRA funds, whistleblower protection under the act, and a separate Tip Hotline Form.
- ★ A separate section in the Reading Room for Recovery Act Financials and Reports.
- ★ Technical enhancements such as virtual directory redirection for "Recovery" keyword and RSS feed to electronically transmit ARRA related documents to Recovery.gov site.

The OIG is currently working to convert its public website Amtrakoig.com into Amtrakoig.gov site, and migrate to a new web hosting service. This along with a planned implementation to an externally hosted .gov email service, should be completed during the next semiannual reporting cycle.

Significant Progress Made in the Implementation of ACL CCM for Purchase to Payment Process

In recent past, the OIG purchased ACL continuous controls monitoring (CCM) solution for Purchase-to-Payment (P2P) and Payroll processes. While the OIG has used the ACL software for more than ten years for targeted data mining and analysis on an ad hoc basis, the CCM capability will allow us to perform data analytics on critical business information such as procurement and payroll on a continuous basis.

ACL CCM provides a mechanism to continuously audit and monitor internal control effectiveness of critical business processes by automatically applying pre-defined analytic tests against control parameters and business rules. These tests are effective in detecting and preventing suspicious activity and non-compliant business transactions in a timely manner prior to the financial loss and damage to the business becomes widespread. It allows auditors to use the automated means to provide independent assurance to Amtrak management and Board in the effectiveness of internal controls and the integrity of the transactions underlying business operations.

In 2009, the OIG initiated an audit project to implement the P2P module and assess key controls in Amtrak's Purchase to Payment process. The OIG successfully completed the Requirements Definition Phase by working effectively with Amtrak management from Procurement, Materials Management, Finance and IT areas.

The OIG configured the in-scope standard tests and are now working on implementing custom tests. After testing is completed, the OIG will implement the P2P module in the production environment.

The OIG plans to implement the Payroll module next in 2010. Based on the experience and lessons learned from these deployments, we will decide whether to implement other modules such as Order-to-Cash, General Ledger, Travel and Entertainment Expense, and Purchasing Cards in the future.

Provided Management Advice in Developing Amtrak Enterprise Architecture

The OIG actively participated in the Enterprise Architecture Steering Committee by reviewing and providing timely feedback on IT Enterprise Architecture (EA) deliverables. Amtrak senior executive leadership has identified the creation of an IT Strategic Plan as a critical goal to coordinate business vision and strategy with IT investment and planning. The first phase of this effort is the creation of an Amtrak Enterprise Architecture (EA) that provides a cohesive future state vision for business processes, applications, services, information and infrastructure. Business Drivers and Enterprise Business Strategies were first identified to influence the following Target Architectures:

- ★ Business Architecture: Describes the future capabilities that the business needs to support a future vision.
- ★ Information Architecture: Describes how information is managed to support future business needs.
- ★ Technology Architecture: Describes what technology investments need to be made to support the future business needs.

Amtrak IT Department and Gartner jointly delivered EA artifacts that describe Amtrak's Current and Target Architecture. The EA artifacts included a Transformation Plan or Roadmap consisting of 14 key "gap closing" EA initiatives requiring over \$600 million in capital investment. These EA initiatives have been grouped in to five broad IT programs, i.e. Strategic Asset Management, Next Generation Reservation System, IT Infrastructure Initiative, Amtrak Information Modernization, and Enterprise Customer Management.

Management Responses over 180 Days Old for Which Corrective Action Has Not Been Completed

Mass Transit Products, Inc. - Termination for Default for Superliner I Overhaul

Questioned costs of \$63,184

Audit Report 219-2005 – Response 1/25/2006

The Procurement and Materials Management Department is still involved in ongoing settlement negotiations with the contractor and its suppliers and the OIG will continue to monitor the actions taken.

Rocla Concrete Ties

Questioned costs of \$1.3 million

Audit Report 218-2005 – Response 4/14/2008

Based on the terms contained within the Supplies contract dated June 2, 2003, Rocla over billed Amtrak approximately \$1.3 million. Subsequent to our report, Procurement improperly granted Rocla extraordinary contract relief for the questioned costs. Procurement then issued Purchase Order Number S-073-06014 totaling \$6,324,800 to replace 80,000 of defective concrete ties. OIG is currently performing an audit of the new contract and will continue to monitor Management's actions associated with the latest incidents of concrete tie failures.

In the future the OIG plans to review the warranty terms of the previous contract.

DMJM+Harris Inc. – East River Tunnel Ventilation Project

Questioned Costs of \$102,112

Audit Report 208-2008 – Response 3/9/2009

The Procurement and Materials Management Department is involved in negotiations with the contractor for settlement of the final cost. OIG was requested to review 100 percent of the labor hours and costs used during the Modification No. 2 of the original contract for Construction Management Services for the rehabilitation of the East River Tunnel Ventilation Facility at Long Island City, New York; OIG has started this review.

UP Audit

\$144,659 Excess Billings Identified

Report 407-2004 – Issued 3/7/2007

Effective January 1, 2000, The National Railroad Passenger Corporation (Amtrak) entered into an Agreement with the Union Pacific Railroad Company (UP), which consolidated the four previous contracts for the Southern Pacific (SP), the Union Pacific, the Southern Pacific Central States Line, and the Denver and Rio Grande Western Railroads for intercity rail passenger operations on tracks and properties owned by UP. Under the agreement provisions, the UP bills Amtrak each month for specific services and facilities for intercity rail passenger operations. The purpose of our audit was to determine the accuracy, reasonableness, and validity of the charges the UP billed Amtrak for selected items and to develop an audit adjustment claim if appropriate.

The scope of the audit encompassed the period from January 1, 2002 through December 31, 2003, and consisted of analyzing the UP's monthly billing costs, records, payments, technical opinions, vendor invoices, Amtrak delay reports, internal/external letters and memoranda, historical documentation of similar railroad

Significant Activities: Audits

billings, where available, and other information, as deemed necessary.

The OIG did not audit 100 percent of the billing costs due to resource limitations, dollar materiality, and other constraints. The OIG selected 14 of 23 items billed for audit accounting for more than 98 percent of the total billing. The OIG found erroneous billings in 10 of the 14 items selected for audit, \$230,282 overbilled and \$85,623 underbilled for a net total of \$144,659 due Amtrak. UP representatives agreed with the OIG findings.

The OIG recommended that management initiate a final settlement letter and that monies due Amtrak be collected.

Management Response:

The OIG received management's response on April 14, 2008 agreeing with the findings and indicating that \$121,808 will be collected from the UP and \$22,851 from the Burlington Northern/Santa Fe (BNSF) for fueling rented locomotives.

Host RRCA & Operations Management Controls Report 401-2008 – Issued 8/21/2008

The OIG completed a review of the Host Railroad Contract Administration (HRG) and Operations Management (CA) departments' internal controls. The objectives of this audit were to identify management controls for the railroad contract administration and negotiation as it relates to the administration, and to evaluate the adequacy and effectiveness of these controls. The audit covered the period from January 1, 2007 through December 31, 2007 and prior years for some areas.

The OIG found that management's controls are inadequate and ineffective. The current billing review process before approving payment to host railroads is not adequate to detect material errors. The OIG found that: railroad monthly billings are not thoroughly and completely reviewed before payment; the current OTP billing process consistently allows and results in significant over billing; the adoption of DAI could result in a cost saving of \$341,000 per year; the current organizational structure does not maximize operational efficiencies and effectiveness; responsibilities and functions are not clearly defined and separated; HRG and CA Departments do not have formal written procedures; CSX, Norfolk Southern (NS) and UP amendment agreement changes are not current; HRG does not actively monitor operational changes that affect host railroad agreements and billings; and generally, the bases for flat rated costs are not documented.

AUDIT STATISTICS

Status of Audit Projects

Audits in progress at 4/01/09	64
Audit projects postponed or cancelled	6
Audit projects started	19
Audit reports issued	19
Audit projects in progress 9/30/08	59

Audit Findings

Questioned costs	\$103,679,156
Unsupported costs	\$0
Funds to be put to better use	\$44,706,930

Total	\$148,386,086
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The OIG recommended fundamental changes in the way Amtrak handles its host railroad contracts including: an internal reorganization for the groups dealing with host railroads; a change in the billing review process from untimely back-end audits to a timely front-end thorough and complete review; and, a contractual change in OTP incentives to adopt Delay Avoidance Incentive or similar process.

Management Response

Management agreed to take responsibility for the billing reviews and has begun to take steps necessary to implement recommendation.

Theft and Fraud

Theft Scheme Involving Train Provisioning Management System Clerks and 42 Lead Service Attendants

Restitution order expected, amount not yet determined
 On July 7, 2009, a former Train Provisioning Management System (TPMS) Clerk entered a plea of guilty in the United States District Court for the Northern District of Illinois Eastern Division to violation of Title 18 USC, Section 666 (a) (1) (A) Theft or Bribery Concerning Programs Receiving Federal Funds. The former TPMS Clerk, in conjunction with another former TPMS Clerk, orchestrated a theft scheme involving 42 Lead Service Attendants – all of whom were terminated or resigned – and a loss to Amtrak of \$124,686.02. Sentencing is set for October 5, 2009.

On September 10, 2009, another former TPMS Clerk was sentenced in the United States District Court for the Northern District of Illinois Eastern Division to 12 months and one day of incarceration and held responsible for \$94,000 of the loss to Amtrak. The sentencing followed a guilty plea on January 12, 2009 to violation of Title 18 USC, Section 666 (a) (1) (A) Theft or Bribery Concerning Programs Receiving Federal Funds. The former employee, co-conspired for the with the aforementioned former TPMS Clerk on the theft scheme above.

Recovery of Restitution

\$145,105.71 recovered

The OIG has been conducting investigations related to potential fuel fraud and shortages. During this reporting

period, based on a previously reported OIG investigation, a joint effort between the OIG's Investigation and Audit units, the company was able to recover an additional \$145,105.71 from a vendor in disputed funds. The joint effort identified that in at least two Amtrak locations a major fuel vendor had supplied Amtrak with a lesser grade of fuel than that for which Amtrak had contracted.

Theft of Fleet Credit Cards

OIG's continuing joint investigation with the Government Services Administration (GSA) Office of Inspector General regarding the theft of fleet credit cards led to the indictment of a former Amtrak employee involved in the case. The former employee was indicted by a Federal Grand Jury on one count of Theft of Government Property (18 USC 641) and one count of Unauthorized Access Device Fraud (18 USC 1029) and Aiding and Abetting (18 USC 2). The indictment charged the former employee with selling stolen fleet credit cards to a co-conspirator, who had already pled guilty as reported in the last Semi Annual period. On August 25, 2009, the former employee subsequently pled guilty to one count of aiding and abetting the theft of government property (18 USC 641 and 2). The former employee is awaiting sentencing.

Theft of Unclaimed Payroll Checks

\$18,471 to be recovered

Amtrak payroll checks that were in the unclaimed or abandoned property file were diverted by an Amtrak employee in the Payroll Department to an Amtrak Conductor. The Conductor negotiated the diverted checks in the total amount of \$18,471. These unclaimed property checks had been returned to Amtrak due to the death or relocation of the recipient. Payroll Department employees were charged with locating the recipient or family members of the recipient. When the recipient was found, a manually generated check was to be issued to them. Both employees were administratively terminated as a result of OIG's investigation. Subsequently, this matter was referred for prosecution to the United States Attorney's Office.

TYPES OF ALLEGATIONS

4/1/09 – 9/30/09

Fraud	9
Theft/Embezzlement	3
Bribery	1
Kickbacks	3
False Claims	4
False Statements	1
False T&A Records	10
False Expense Reports	1
Drug Violations	2
Other Criminal	9
Waste	2
Abuse of Position	4
Mismanagement	5
Conflict of Interest	3
Administrative Inquiry	9
Other Non Criminal	17
Referral to Other Agency	2

TOTAL 85

SOURCES OF ALLEGATIONS

4/01/09 – 9/30/09

Amtrak Employee	18
Anonymous Source	20
Confidential Informant	9
Private Citizen	24
Referred by Other Amtrak Department	4
Referred by Fed/State/Local Law Government	5
Other	5

TOTAL 85

Significant Activities: Investigations

On July 1, 2009, both former employees pled guilty to one count of 18 USC 371, conspiracy to commit Interstate Transportation of Stolen Property. On September 18, 2009, the former Payroll employee was sentenced to six months home confinement, three years probation and 200 hours of community service. The former conductor was sentenced to two years probation and 150 hours of community service. Both former employees were ordered to jointly and severally make restitution to Amtrak.

Counterfeit Maryland Area Rail Commuter Monthly Tickets

\$5,600 to be recovered

The OIG investigated a report of counterfeit Maryland Area Rail Commuter (MARC) Monthly Tickets being used on-board various MARC trains. As a result, OIG determined that 32 counterfeit monthly tickets were passed for \$5,600 in lost revenue. OIG interviewed the suspect, who confessed to making the counterfeit monthly tickets and selling them for extra money. OIG is pursuing \$5,600 in restitution from the suspect.

Kickbacks

Kickback Resulting from Contract Award

OI received information from an anonymous source alleging that a New York Structures Supervisor had received a motorcycle from an asbestos abatement contractor in consideration for his assistance and support in connection with the award of a contract. The subsequent OI investigation substantiated the allegation.

As a result of the OIG investigation it was revealed that an asbestos abatement contractor had been recommended by an Amtrak Structures Supervisor for a significant project in New Jersey. The contractor was awarded the contract in May 2002. The contractor rewarded the Structures Supervisor for his support with the gift of a motorcycle at the request of the Structures Supervisor.

The Structures Supervisor initially told OIG Agents that he had purchased the motorcycle from a private owner and had paid cash for the motorcycle. He obtained an altered bill of sale to conceal the purchase. Prior to an administrative hearing, the Structures Supervisor was terminated in April 2009.

Waste, Abuse, and Mismanagement

Mismanagement Related to Amtrak Defeased Leases

In 1999 and 2000, Amtrak entered into 12 separate financed sale and lease-back transactions known as "defeased leases" involving 624 in-service passenger coach cars. The defeased lease transactions were

between Amtrak and various lessors and were secured through Guaranteed Investment Contracts with insurance companies. The potential debt associated with these 12 defeased leases was about \$900 million. At the time of the defeased lease negotiations, Babcock & Brown (Babcock) represented two of the lessor banks. In late 2007, Amtrak became aware that two of its guarantors were in financial trouble putting Amtrak in jeopardy of default under the terms of its defeased lease agreements.

In early 2008, Amtrak decided to engage Babcock to provide financial advice to Amtrak on replacement of the two troubled guarantors for the defeased lease agreements, along with providing strategic advice and participating in potential transaction restructuring negotiations with Amtrak's lessors. Amtrak management determined that Babcock's previous representation of two lessors would not adversely affect the advice Babcock provided to Amtrak.

The OIG found that Babcock's advising Amtrak in connection with the replacement of guarantors for defeased leases put Amtrak at a greater business risk. This should not have been treated cavalierly by Amtrak management and should have been fully vetted prior to continuing with the engagement of Babcock. Babcock's financial advice regarding the defeased lease transactions heavily favored one course of action: replacement of the two troubled guarantors.

In response to a direct question from an official of the Department of Transportation (DOT) concerning whether Amtrak was getting clean independent advice free from any potential conflict of interest in connection with Babcock's advisory services to Amtrak, an Amtrak official assured the DOT official that all was well. OIG's investigation concluded that Amtrak's representation at that time may have been less than fully candid, based on incomplete fact validation and insufficient expertise to determine whether a conflict or other risk to Amtrak existed.

The OIG found that Amtrak managers appeared to have hastily predetermined a course of action that was not fully thought through. Amtrak spent a significant amount of money on both legal and financial advice, in addition to the millions of dollars spent in connection with replacing the guarantors or unraveling of the original defeased lease transactions.

Amtrak failed to review invoices from Babcock for substantiation of expenses claimed, some of which far exceeded the norms that Amtrak pays to other contractors or advisors.

As a result of the OIG's investigation, several recommendations were recently submitted for consideration to the Amtrak Board of Directors.

Management Response:

Management response was still pending at the end of this reporting period.

Vendor Over-Billing

\$32,477 recovered

The OIG identified more than \$34,000 in over billings by a vendor contracted to provide modules for the Superliner Remanufacture project at Amtrak's Beech Grove facility. The over billings consisted of unauthorized charges for General and Administrative costs on a change order and erroneous charges related to scrap material.

The OIG identified questionable actions by the Senior Contracting Agent which allowed the purchase of two unused Deluxe Dividing Door Partitions totaling \$10,669, as well as two possible underpayments to the contractor. As a result of OIG's investigation, the Senior Contracting Agent received a formal counseling for her actions, and Amtrak has recovered \$32,477 from the vendor.

Mismanagement of Training Funds

The OIG received an allegation that a Group Information Officer assigned to Amtrak's Information Technology (IT) Department had circumvented Amtrak policies and procedures by using IT "training funds" to pay for his Ph.D. degree.

The OIG investigation confirmed that after the employee's Educational Assistance Application was denied, he sought and obtained monies stated as "training funds" to pay in full for two prerequisite doctoral courses in furtherance of his Doctorate of Management. It should be noted that prior to the completion of the OIG investigation, the company undertook steps to clarify its policy related to the use of training funds.

Abuse of Position

★ The OIG determined that a Chicago Trainmaster abused his position by requiring a Conductor to allow two personal friends to ride in business class even though the friends had only paid coach fares. The Trainmaster

received a verbal counseling and was required to repay Amtrak the cost of the two upgrades.

- ★ An Auto Train On Board Services (OBS) Manager abused his position by allowing family members or friends of Amtrak employees working the Auto Train to ride complimentary as unticketed passengers on Auto Train as an incentive to encourage employees to work during the holidays. The OBS Manager received a reprimand.
- ★ The OIG received an allegation that a Human Resources Manager was directly involved with the hiring of a family member. It was alleged the Manager took an active role in securing an additional week of vacation for the family member as a part of the hiring package. The OIG's subsequent investigation supported the allegation. As a result, the Manager received a one day suspension.

Misappropriation of Amtrak Assets

Unauthorized Vehicle Use

- ★ An OIG investigation revealed that an Amtrak employee took an Amtrak vehicle home, without alternate garaging authority, several times. Subsequently the employee was disciplined and suspended for 10 days.
- ★ An OIG investigation revealed that an Amtrak employee took an Amtrak vehicle to his place of business, without alternate garaging authority, approximately a dozen times over a two year period. As a result of OIG's investigation, subsequently the employee was disciplined and suspended for 10 days.
- ★ An Amtrak investigation revealed that an Amtrak employee was leaving work early and taking an Amtrak vehicle home without authorization. The employee's supervisor told OIG that he may have verbally approved that the employee could take the company vehicle home. Subsequently the employee was disciplined and suspended for 30 days. The supervisor received a



Significant Activities: Investigations

reprimand for giving him unauthorized permission to take the company vehicle home.

Falsification of Documentation

Falsification of Employment Application

As the result of an allegation and the subsequent OIG investigation, the OIG discovered that an employee had falsified his employment application alleging that he graduated from high school. The OIG referred the findings to Human Resources. The employee was terminated for providing false information on the job application.

Assistance to Other Agency

Assistance to United States Marshal Service

The OIG assisted the United States Marshal Service with travel information on a person they were investigating for failure to register as a sex offender. The information which OIG provided was crucial to the investigation and led to the indictment of the person. The prosecution in this matter is pending.

Recommendations to Enhance Efficiency and Effectiveness

Family Medical Leave of Absence (FMLA) and Leave of Absence (LOA) Systematic Problem Addressed

The OIG, in conjunction with the Department of Labor's Office of Inspector General, opened a pro-active investigation into potential Family Medical Leave of Absence (FMLA) and leave of absence (LOA) abuse at Amtrak. With the assistance of Amtrak's Health Services Department, which conducted an exhaustive review of its files, the OI was able to identify a number of suspect employees who had the ability to continue to utilize Amtrak benefits, while failing to provide the necessary paperwork required to maintain a LOA status.

The OIG notified various affected Amtrak departments requesting that they verify their employees' LOA status and confirm that all Amtrak policies and procedures regarding LOA had been followed. As a result of this cooperative initiative, the notified departments have taken or are in the process of taking the appropriate action to remedy this systemic problem. To date, approximately 12 employees have been terminated with a cost prevention of approximately \$465,000 in savings to Amtrak each year.

In addition, the paperwork for approximately 17 employees have been updated and accurately reflected in Amtrak systems. Lastly, the status for approximately 25 employees is still pending. This investigation is on-going.

Improvement Program / Issuance of Managerial Oversight Guidelines

Following the dismissal of a Buildings and Bridges (B&B) Supervisor assigned to the Maintenance of Way (MOW), OIG agents were advised of actions of harassment and retaliation being launched against an employee who had testified in the Administrative Hearing which precipitated the firing. An OIG investigation was conducted and resulted in numerous allegations, including but not limited to a lack of managerial oversight, overtime fraud, time and attendance issues, and misuse as well as theft of company property.

The subsequent investigation, interviews and OIG administrative referral resulted in the agreement of the Engineering Department to OIG's recommendations to implement changes which will include required attendance of all employees, headquartered at the MOW, at a Communication/Training Improvement Program. In addition, "A Manager/Supervisor Expectation and Guideline Letter" will be sent to all applicable managers and supervisors. Lastly, Engineering will be implementing a centralized time and attendance kiosk for all major headquarters over the next year to enhance the existing Maximo timekeeping system.

Reconciliation of Management Leave Records

During the course of an investigation on another matter, OIG Agents discovered that Washington Crew Base Managers were unable to record their leave in the System, Applications and Products (SAP) data processing system for calendar year 2008. As a result of recommendations made by OI in a Management Referral, the affected leave records will be reconciled enabling Amtrak to recoup hundreds of leave hours that went unrecorded.

Theft Tracking Devices

The OIG received an allegation that a "Bobcat" Tractor/Backhoe was stolen from the Penn Coach yard and could not be located. The OIG conducted an investigation into the matter and found that the "Bobcat" had been rented without requiring a tracking device be placed on the machine in case of theft. The loss of the machine cost Amtrak approximately \$15,000. The OIG recommended to rent only machines on which tracking devices had been installed.

Management Response

Management agreed with the with OIG's recommendation.

Change of Purchase Policy

\$66,090 settlement for future credit on purchases or services

Amtrak Engineering reported that Amtrak had ordered, paid for but never received switch board equipment from an equipment provider in 2001. The equipment cost Amtrak \$66,090. The subsequent OIG investigation confirmed this information and based on the resulting OIG Management report, Amtrak changed its purchase policy.

On August 21, 2009, a Confidential Settlement Agreement was made with the contractor to provide Amtrak \$66,090 by wire transfer or check, or extend credit to Amtrak in the amount of \$66,090 towards future purchases or services.

Cancellation of Amtrak-Issued American Express Credit Cards

A review by the OIG of Amtrak accounting records revealed that some Amtrak employees had retained their Amtrak-issued American Express Credit Cards after they left Amtrak employment. OI referred this information to Accounting Management for further handling. Accounting Management found that out of 738 active American Express Credit Cards assigned to Amtrak employees, 31 were found to be issued to employees who no longer work for Amtrak. As a result, those American Express Credit Cards were cancelled.

Change of Policy Regarding Vendor 1099 Forms

Proactive research by the OIG of Amtrak's Accounting system revealed that some vendors who had done business with Amtrak in 2008 did not receive a form 1099 for income reporting purposes. As a result of the OIG findings and subsequent referral, Accounting addressed the omissions and created additional steps to prevent similar problems in the future.

Revenue Protection Unit

RPU-Initiated Lead Service Attendant Reviews

During this reporting period, in conjunction with onboard train observations of LSAs, RPU analyzed the applicable support documentation for on board food and beverage sales for 128 trains on 56 different LSAs. The completed reviews resulted in 21 administrative referrals consisting of various findings covering theft and fraud to failure to follow procedures. At the completion of this reporting period, discipline had been assessed, based on these and previous reporting period RPU referrals, for 14 LSAs, with discipline ranging from termination, suspension or disqualification to formal reprimand, remedial training or counseling.

In an effort to identify any significant problems related to LSA compliance with on board policy and procedure on trains featuring Point of Sale (POS) machines, RPU conducted a sampling of 33 random observations on 24 different Los Angeles and Oakland LSAs. The observations and subsequent analysis of the corresponding documents,

reports and systems revealed numerous and consistent failures. As a result of these findings, OIG issued findings and Administrative Referrals to the applicable Superintendents.

Oakland Management has agreed with RPU findings and responded by addressing employee failures with discipline on the 11 LSAs identified as having violated policy. Written changes to policy, refresher notices, job briefings, and Operation Standards Updates (OSU) will be utilized to identify exceptions to policy.

Management Response

Los Angeles Management has agreed with RPU findings and responded by addressing RPU findings with discipline on the 11 LSAs identified as having violated policy. A review of the current policy and procedures for hours of service issues will be conducted and revised, if necessary. Management will incorporate a POS reconciliation report into the LSA review process and conducted job briefings with reinforcement of the correct policy and procedure on identified RPU findings.

RPU-Initiated Conductor Reviews

During this review period, RPU conducted 33 random observations of Conductors and Assistant Conductors based out of Los Angeles and Oakland. Ten random reviews were conducted on 11 different Conductors and Assistant Conductors assigned to work the Downeaster trains in New England. The review revealed widespread

PROSECUTIVE REFERRALS

4/01/09 – 9/30/09

<i>Referrals</i>	<i>U.S. Attorney</i>	<i>Local/ State</i>	<i>TOTAL</i>
Criminal Cases			
Indictments	4	0	4
Convictions/Pleas	5	0	5
Pending*	20	0	20
Declinations	0	0	0
TOTAL			29
Civil Cases			
Suits Filed	0	0	0
Settled	0	0	0
Pending	0	0	0
TOTAL			0
TOTAL CIVIL AND CRIMINAL			29

**Some of these will be reflected under pending civil cases because these matters are being handled by the United States Attorney's Office in parallel proceedings. In cases where there have been convictions or pleas, we may be awaiting sentencing, restitution or other resolutions.*

Significant Activities: Investigations

CASE STATUS OF INVESTIGATIONS

4/1/09 – 9/30/09

Total Open Cases as of 4/1/09	330
Closed Cases	-84
Opened Cases	85
Total Ongoing Cases as of 9/30/09	331

patterns of apparent intentional disregard for or lack of knowledge of required policy and procedure. Several of these findings were in areas that attribute towards a negative impact to Amtrak's cash position or pose a safety and/or security issue. Administrative Referrals were forwarded to the applicable Superintendents for further handling.

Management Response

Oakland Management has agreed with RPU findings resulting in eight individuals counseled, five charge letters issued, with two employees accepting waivers for 20 day suspensions. Management will issue notices clearly stating and reminding conductors of policy and procedure, as well as establish meetings with each manager and Pacific Division staff member to reinforce careful monitoring ensuring future compliance.

Management has agreed that they will ensure that any time a policy is changed it is clearly stated in writing and submitted to the proper department for inclusion into the Service Standards Manual (SSM), and replace verbal agreements with state agencies with clearly defined written policies.

Los Angeles Management has agreed with RPU findings and responded by addressing RPU findings with a review and, if necessary, revisions to policies and procedures as needed. Management will reinforce acceptable policies and procedures as job briefings.

Boston management has responded to the RPU Referral pertaining to Downeaster Ten-trip Ticket Mishandling with appropriate discipline and/or refresher notification of policies and procedures.

Boston management met with the Manager for Epicurean Feast, provider of food and beverage service on Downeaster trains, to discuss observations made by RPU indicating that, in general, the service provided by this private company does not portray Amtrak in the best light.

Formal Investigation Issues

OIG personnel spend energy and countless hours researching allegations that often represent findings of wrongdoing resulting in discipline. For those discipline matters handled through the formal discipline process involving a trial, it is important that all parties be

prepared, confident and knowledgeable of the process. Amtrak's process for handling formal discipline cases equitably divides responsibility among three participating parties; the Hearing Officer, the Charging Officer, and if guilt is proven, the senior department official. Having the best qualified, experienced and unbiased individuals for these positions is paramount to the success of Amtrak's discipline program.

The Hearing Officer must be able to be objective in his conduct. He must be able to exercise a high degree of self-control and have the ability to analyze and evaluate facts without regard to personal opinions. He should avoid any expression of his personal opinion regarding the case or with regard to the guilt or innocence of the employee.

During this reporting period, RPU became concerned about opinions against investigations related to OIG/RPU findings by a West Coast-based Hearing Officer. The Hearing Officer has exerted his authority to either dismiss cases or rule unfavorably without reasonably valid justification on several, consecutive occasions and in spite of significant evidence.

In addition to the loss of a significant impact for the energy and time spent by OIG/RPU investigating and proving wrongdoing by employees, these oversights, weaknesses and biased opinions often result in the failure to hold wrongdoers responsible for their actions.

The OIG intends to recommend to management that the system applicable to hearing officers who attend to OIG investigations be modified.

Case Handling

The OIG receives allegations from various sources, including employees, confidential informants, Congressional sources, federal agencies and third parties. Presently, we are handling 331 investigations; in the last six months, we opened 85 cases and closed 84 cases.

As set forth in the chart below, entitled "Sources of Allegations," employees and anonymous source referrals accounted for about 44 percent of the allegations during this reporting period, with employees being the source of 18 of the 85 allegations, or 21percent.

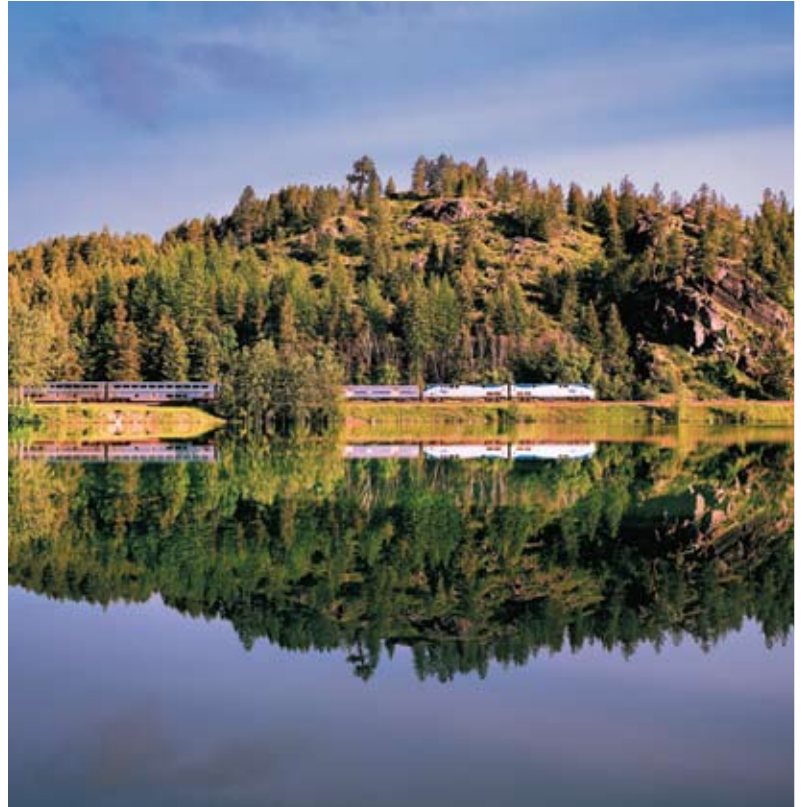
The OIG received 76 HOTLINE complaints during this reporting period. The majority of HOTLINE complaints received during this reporting period were from private citizens.

OIG Hotline

The fraud OIG HOTLINE program has continued to provide employees or third parties an opportunity to report allegations of fraud, waste, abuse, and other wrongdoing. Employees can access the HOTLINE 24 hours a day by calling Amtrak Telephone

System (ATS) number 728-3065 in Philadelphia and the toll free number (800) 468-5469 if outside Philadelphia. During working hours from 9:00 a.m. to 4:30 p.m., the OIG answer callers on the HOTLINE system. During other hours or during those occasions when staff are away from the office, callers can leave a message on the HOTLINE answering machine.

People may write in confidentially to P.O. Box 76654, Washington, DC 20013. The OIG received nine telephonic HOTLINE complaints during this reporting period, which is an increase from the previous reporting period. The majority of HOTLINE complaints received during this reporting period were made by anonymous sources and private citizens.



HOTLINE STATISTICS

4/01/09 – 9/30/09 TOTAL

Hotline Complaints Received: 76

Sources of Hotline Complaints:

Private Citizen	42
Anonymous Source	22
Amtrak Employee	10
Federal LEO	1
Other OIG	1

Classification of Complaints:

Criminal – Other	33
Non-criminal/Other	13
Fraud	6
Theft	4
False T&A	5
Mismanagement	3
Abuse of Position	1
Conflict of Interest	1
Waste	2
Administrative Inquiry	8

Complaints Referred To:

OI Field Offices	35
Management	31
APD	2
RRB/OIG	1
No Action Required	6
OIG Audit/Inspections	1

Significant Activities: Inspections and Evaluations

Human Capital Management – Amtrak faces significant Human Capital Management challenges over the next 5 years

\$23M to \$50M in potential savings identified

Report E-09-03 – Issued 5/15/2009

In November 2007, the Office of the Inspector General (OIG) initiated a company-wide evaluation of how Amtrak manages its human capital (HC). The team evaluated how well Amtrak identifies its manpower needs and then recruits, hires, develops and retains the individuals with the skills needed to accomplish Amtrak's mission and strategic goals.

The OIG found that, although the traditional role of human resources (HR) has evolved over the past 20 years from being mainly transactional and reactionary to one that is more proactive and strategic, Amtrak has been slow in following this trend. For various reasons, the Human Resources and Labor Relations Departments have not been viewed as strategic partners at Amtrak. This will need to change for Amtrak to address its human capital management challenges in the future.

Once the economy rebounds, there is a real danger that Amtrak will lose skilled craftsman and technical expertise faster than it can replace them. In fact, over a quarter of Amtrak's workforce will be eligible for retirement in less than five years. Investments in recruiting, developing, motivating, and retaining, highly qualified employees with the skills that are critical to Amtrak's current and future needs are required for the company to maintain its position as the leader in intercity passenger rail within the United States. To ensure these investments are spent wisely and targeted in the correct areas, Amtrak needs a comprehensive, corporate-wide HC strategy that is tied to the company's strategic plan and is supported by Amtrak's senior leadership and its Board of Directors.

To help the company address this critical issue and to improve the efficiency and effectiveness of its HC, the report makes 24 specific recommendations – including the creation of a HC officer position for the company to provide a single point of accountability for leading the strategic transformation of HC management that must occur if Amtrak is to be successful in the future.

In an attempt to quantify the potential benefits Amtrak could realize by improving its HC management practices, the OIG compared Amtrak's expenditures in this area with other large companies. Based on the OIG benchmarking, the OIG estimates that Amtrak could potentially save between \$23 million and \$50 million if it performed as efficiently as the benchmarked companies. These estimates represent the potential savings in costs for typical HR administration and services.

Although far from insignificant in themselves, these savings are only a part of the benefits to be gained.

Lower turnover, greater productivity, improved morale, less overtime, and lower training costs are all benefits that could be gained through more efficient and effective management of Amtrak's human capital.

During the course of the Human Capital Management Evaluation, the OIG decided to conduct a separate and more detailed review of employee development and training. A separate report on that evaluation will be issued in the next reporting cycle.

Management Response

Management agreed with all of the recommendations except to combine the Labor Relations and Human Resources departments into one department under a single Human Capital Officer.

Lessons Learned: An Analysis of the Acela and Surfliner Programs – Lessons learned from past major equipment procurements documented to guide future procurements

Report E-09-04 – Issued 7/21/2009

Amtrak is currently planning a number of rolling stock equipment procurements. To insure current Amtrak decision-makers are knowledgeable of "lessons learned" from past Amtrak procurements, the OIG decided to review the experience of two of Amtrak's major equipment procurement programs during the last 15 years (Acela and Surfliner) and document the "lessons learned" from these programs. To accomplish this, the OIG interviewed over a dozen of the key individuals involved in these procurements.

The individuals interviewed had many recommendations from their experiences with these procurements. The OIG report discusses both programs and documents 20 of these recommendations to help guide Amtrak management in any future major equipment procurement.

Management Response

Management agreed with the recommendations and has already incorporated some of them into current procurement actions.

Amtrak's Infrastructure Maintenance Program

Potential cost savings of \$50M to \$150M identified

Report E-09-05 – Issued 9/28/0909

As reported in the last semiannual report, the OIG has been involved in a multi-year evaluation of the efficiency and effectiveness of Amtrak's right-of-way (ROW) maintenance programs. The OIG recently issued our final report of this evaluation, which utilized a combination of qualitative and quantitative techniques to assess the efficiency and effectiveness of Amtrak's program and to identify opportunities for improvement.

Significant Activities: Inspections and Evaluations

To measure the relative efficiency and effectiveness of Amtrak's Infrastructure Maintenance program, the OIG benchmarked Amtrak's performance metrics to those of comparable European railroads. To identify the "best practices" in infrastructure maintenance, OIG staff visited six European countries/infrastructure operators that were included in the benchmarking study and had unique expertise in specific areas of infrastructure maintenance and renewal.

The benchmarking process showed that Amtrak has an opportunity to reduce its long-term infrastructure capital and operating maintenance costs by \$50 million to \$150 million per year by improving the overall efficiency and effectiveness of its infrastructure maintenance program to the level of comparable European railroads. During the visits to the six European countries/infrastructure operators, the OIG staff discovered numerous maintenance practices and technologies that Amtrak may be able to adopt to improve the efficiency and effectiveness of its infrastructure maintenance program.

The OIG evaluation further revealed that there are numerous causal factors that determine why Amtrak spends more on its infrastructure maintenance and that some of these factors are outside of Amtrak's direct control.

This report documents the OIG staff findings and lists 16 recommendations to help Amtrak manage its Infrastructure Maintenance Program more effectively and efficiently and to take advantage of the opportunity to reduce its long-term infrastructure capital and operating maintenance costs. The recommendations take into consideration that Amtrak is not totally in control of all of the factors impacting its infrastructure maintenance costs and that Amtrak must enlist the support of outside agencies to accomplish several of the recommended actions.

Management Response

Management response was still pending at the end of this reporting period.

Procurement and Material Supply Chain Management

Additional credit of \$575,937.70 for overcharges

Amtrak entered into a contract with Alstom TLS in 2006 to supply and manage the parts inventory for the Acela trainsets. This contract has an estimated value of close to \$200 million over the five-year term. As reported previously, the OIG questioned whether Amtrak was getting proper credit for components returned to inventory after bench testing. Based on the OIG's inquiry, Amtrak received a credit of \$3,271,074.95 for overcharges during the period of September 2007 to August 2008. Of this total, \$2,695,137.20 was reported

in previous semiannual reports. Additional credits are still pending based on further OIG analysis of settlement calculations.

Amtrak Mechanical Maintenance Operations

\$2.5 million in additional benefits realized

In September 2005, the OIG issued report E-05-04, which resulted from a year-long system-wide review of Amtrak's Mechanical Maintenance Operations. In this report, the OIG recommended that Amtrak adopt a more modern maintenance philosophy based on Reliability-Centered Maintenance (RCM). An RCM-based program requires that all maintenance activities be supported by sound technical and economic justifications.

The OIG's report recommended specific actions that Amtrak should take to transition to RCM and to make the operations more efficient. For the past four years the OIG has been working with the Mechanical Department to help them implement the OIG recommendations.

Some of the recommendations in the report on Mechanical Maintenance Operations addressed streamlining Amtrak's maintenance processes. One of the improvement efforts that the OIG continues to support is providing advice and assistance with process improvement and manpower utilization for turnaround servicing at our major stations.

During FY09, working with management at three of Amtrak's maintenance locations, productivity improvements have generated more than \$3 million in benefits from reduced overtime, vacant positions not filled, or labor made available for other work. \$500,000 of these benefits were reported in the previous semiannual report. As we assist management in implementing these improvements at other locations the OIG hopes to achieve similar results.

Locomotive Camera Installations

The OIG is continuing to oversee and advise on a project to install cab-mounted video cameras on all of Amtrak's locomotives. Freight railroads have shown that these types of cameras have made a huge difference in their ability to defend themselves in claims involving grade-crossing accidents, thereby significantly reducing settlement costs and court awards from these types of lawsuits.

This effort began as an OIG-initiated, limited-scope project to demonstrate and learn about the technology. Since then, cameras have been installed on more than 230 locomotives. The cameras are now recording a collision or some other incident somewhere in Amtrak's system almost every day, greatly helping to pinpoint the causes of the incidents. The installation on the rest of Amtrak's locomotives is planned to follow in FY 2010.

Significant Activities: Inspections and Evaluations

Harassment and Intimidation Complaints

Amtrak's Statement of Policy Against Harassment and Intimidation states, in part, "Amtrak will, under no circumstances, tolerate harassing or intimidating conduct by any employee that is calculated to discourage or prevent any individual from receiving proper medical treatment or from reporting an accident, incident, injury or illness." This Statement of Policy conforms to Federal Railroad Administration Regulations 49 CFR Part 225.33. The Amtrak OIG investigates allegations of violation of this policy.

During this reporting period, the OIG concluded its review of two allegations received during the previous reporting period. The OIG issued one letter of no finding, whereby the OIG concluded that the employee was not harassed or intimidated by management as defined by FRA 49 CFR 225.33. However, the OIG substantiated the allegation in the other case and found that the employee's manager harassed and intimidated the employee with the intent to discourage the employee from reporting an injury. Amtrak Management was briefed on the findings.

Management Response

Management response was still pending at the end of this reporting period.

INVESTIGATIONS AND EVALUATIONS

4/01/09 – 9/30/09

Findings

Cost Savings	\$575,937.70
Potential Future Savings	\$73-\$200 million
Productivity Savings	\$2.5 million

FY 2009 PERFORMANCE MEASURES

4/01/09 – 9/30/09

Audit Results	Total
Congressional Testimony	0
Costs Questioned	\$104,743,472
Funds to be Put to Better Use	\$44,706,930
Management Decisions to Seek Recoveries	\$103,679,156

Investigative Results	Total
Indictments/Informations	4
Convictions	5
Fines	0
Court Ordered Restitutions/Civil Judgments/Administrative Restitution	\$112,471
Recoveries*	\$145,105
Years Sentenced	1
Years Probation	5
Years Supervised Release	0
Hours of Community Service	350
Debarments and Other Administrative Action	0
Hotline Complaints Received	76
Hotline Complaints Investigated by OIG	36
Hotline Complaints Referred to Operating Administrations or Other Agencies	36

* Recovery totals do not include recoveries made as a result of joint activities with OIG

FY 2009 ADVISORY FUNCTIONS

4/01/09 – 9/30/09

Advisory Functions	Total
FOIA Requests Received	1
FOIA Requests Processed	1
Legislation Reviewed	0
Regulations Reviewed	0

Appendices



**OFFICE OF INSPECTOR GENERAL
AUDIT REPORTS ISSUED WITH QUESTIONED COSTS**

4/1/09 – 9/30/09

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	5	\$1,064,316	\$0
B. Reports issued during the reporting period.	8	\$103,679,156	\$0
Subtotals (A + B)	13	\$104,743,472	\$0
LESS			
C. For which a management decision was made during the reporting period.	10		
(i) dollar value of recommendations that were agreed to by management.		\$78,277,292	\$0
(ii) dollar value of recommendations that were not agreed to by management.		\$25,939,248	\$0
D. For which no management decision has been made by the end of the reporting period.	3	\$526,932	\$0

Appendix 2

OFFICE OF INSPECTOR GENERAL AUDIT REPORTS ISSUED WITH FUNDS TO BE PUT TO BETTER USE

4/1/09 – 9/30/09

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	2	\$1,383,496
B. Reports issued during the reporting period.	1	\$44,706,930
Subtotals (A + B)	3	\$46,090,426
LESS		
C. For which a management decision was made during the reporting period.	2	\$83,496
(i) dollar value of recommendations that were agreed to by management.		\$1,300,000
(ii) dollar value of recommendations that were not agreed to by management.		
D. For which no management decision has been made by the end of the reporting period.	1	\$44,706,930

**OFFICE OF INSPECTOR GENERAL
DETAILED LISTING OF ALL ISSUED AUDIT REPORTS**

4/1/09 – 9/30/0

Date Issued	Report Number	Report Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
9/29/2009	103-2009	AmPlan Eligibility Process Review	\$0	\$0	\$0
5/6/2008	105-2008	Mechanical Facility Support Equipment	\$0	\$0	\$0
4/14/2009	105-2009	Chicago Leases Expense Audit	\$247,955	\$0	\$0
5/13/2009	201-2008	Celerant Consulting Inc.	\$0	\$0	\$0
6/17/2009	202-2009	Food & Beverage Inventory Transition	\$0	\$0	\$0
9/30/2009	205-2009	Attleboro Pawtucket Amendment Transition	\$278,927	\$0	\$44,706,930
5/13/2009	207-2008	Reimbursable Retroactive Wages Review	\$102,602,866	\$0	\$0
7/9/2009	211-2009	Baltimore Station Review	\$0	\$0	\$0
8/6/2009	213-2009	Baltimore Station Real Estate Review	\$0	\$0	\$0
9/29/2009	218-2008	Amtrak Safety Audit Program Review	\$0	\$0	\$0
6/3/2009	302-2009	Thames River Pier Contract Modification	\$7,638	\$0	\$0
4/21/2009	303-2009	Thames River Counterweight Claim	\$99,633	\$0	\$0
8/31/2009	305-2009	Route 128 Station Audit	\$0	\$0	\$0
8/26/2009	307-2009	Mueser Rutledge Change Order	\$0	\$0	\$0
4/14/2009	308-2007	Cianbro Construction Grouting Change Order	\$376,209	\$0	\$0
5/14/2009	401-2009	Station Audit – Naperville, IL	\$0	\$0	\$0
9/29/2009	402-2009	Station Audit – Denver, CO	\$50	\$0	\$0
9/29/2009	403-2009	Station Audit – Glenwood Springs, Co	\$0	\$0	\$0
8/24/2009	506-2009	Union Pacific Railroad – Diesel Fuel and Fuel Handling	\$65,878	\$0	\$0
TOTAL:			\$103,679,156	\$0	\$44,706,930

**OFFICE OF INSPECTOR GENERAL
SUMMARY OF REPORTS TO THE PRESIDENT OF AMTRAK CONCERNING INFORMATION OR
ASSISTANCE UNREASONABLY REFUSED OR NOT PROVIDED**

4/1/09-9/30/09

Nothing to report this period.

**OFFICE OF INSPECTOR GENERAL
REVIEW OF LEGISLATION AND REGULATIONS***4/1/09-9/30/09*

Section (4)a of the Inspector General Act of 1978, as amended, provides that the Inspector General shall “review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports ...concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.”

Furthermore, Section 4(a) states that it is “the duty and responsibility of the Inspector General “to recommend policies for, and to conduct, supervise, or coordinate relationships between such establishment and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to (A) all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by such establishment, or (B) the identification and prosecution of participants in such fraud or abuse.”

During the semiannual reporting period, the OIG conducted oversight of Amtrak’s American Recovery and Reinvestment Act of 2009 (ARRA) activities and expenditures. As required by ARRA, the OIG has filed monthly reports of the OIG’s ARRA financial expenditures and oversight activity with www.Recovery.gov, the website of the Recovery Accountability and Transparency Board.

The Inspector General Reform Act of 2008 established an independent budget submittal process for the OIG. The Chairman of the Amtrak Board of Directors submitted the OIG’s Fiscal Year 2011 budget estimate and request to the Office of Management and Budget on September 14, 2009. The OIG’s annual budget estimate and request are submitted to Congress as part of Amtrak’s annual grant and legislative request.

GLOSSARY OF AUDIT TERMS AND ABBREVIATIONS

The terms the OIG use in reporting audit statistics are defined below:

Questioned Cost -- Cost or expenditure of funds for an intended purpose that is unnecessary, unreasonable, or an alleged violation of Amtrak’s corporate policy or procedure.

Unsupported Cost -- Cost that is not supported by adequate documentation at the time of the audit.

Funds to Be Put to Better Use -- Funds identified in an audit that could be used more effectively by taking greater efficiency measures.

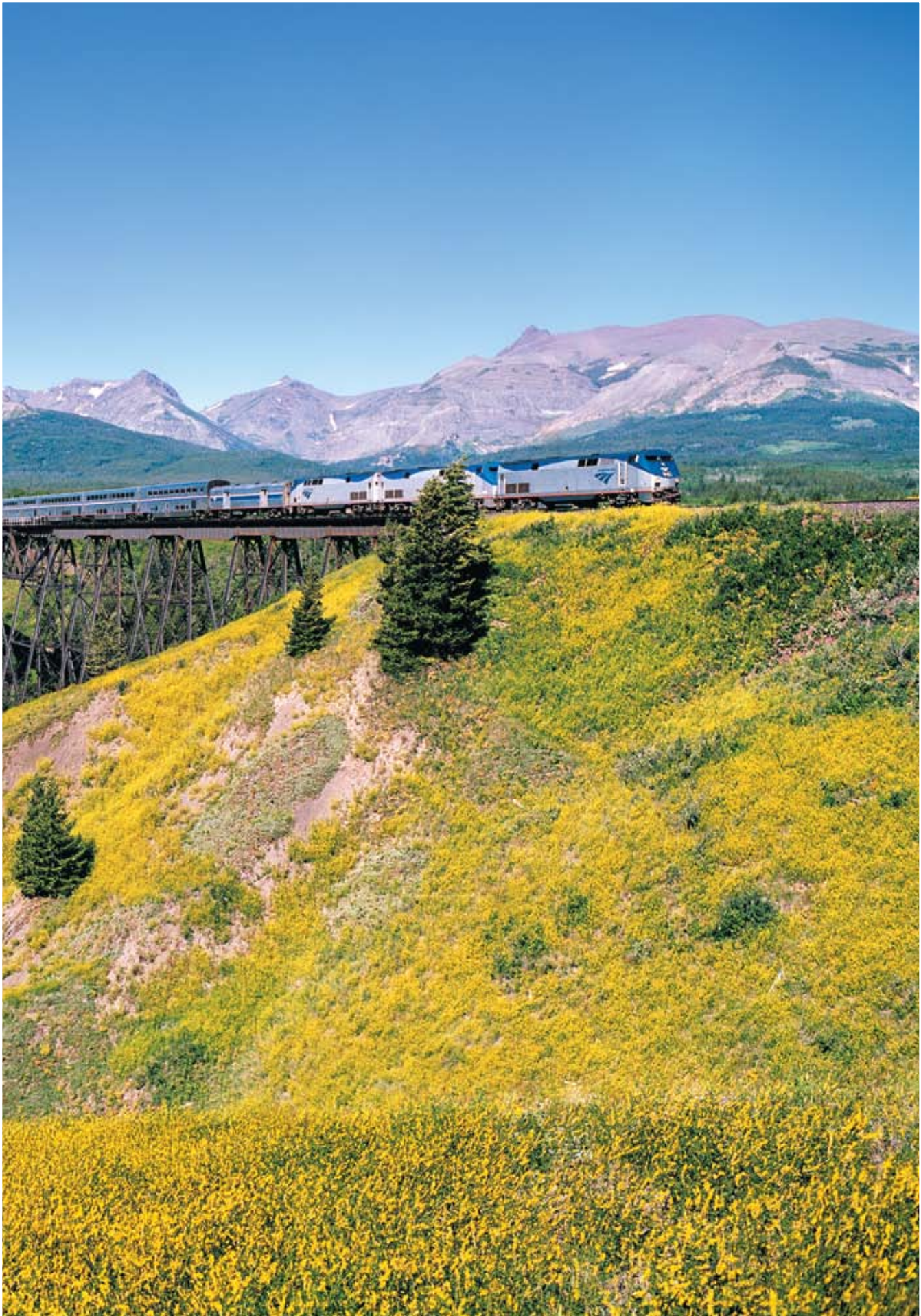
Management Decision -- Management’s evaluation of the OIG audit finding and its final decision concerning agreement or non agreement with the OIG recommendation.

Abbreviations/acronyms used in the text are defined below:

ACL	CCM Continuous Controls Monitoring	MOW	Maintenance of Way
Amtrak	National Railroad Passenger Corporation	NRPC	National Railroad Passenger Corporation (Amtrak)
ARRA	American Recovery and Reinvestment Act of 2009	NS	Norfolk Southern Railroad
B&B	Buildings and Bridges	OBS	Onboard Service
BNSF	Burlington Northern Santa Fe Railroad	OIG	Office of Inspector General
CA	Operations Management	OSU	Operation Standards Updates
CCM	continuous controls monitoring	OTP	On Time Performance
CEO	Chief Operating Officer	P2P	Purchase-to-Payment
CETC	Centralized Electric and Traffic Control	POS	Point of Sale
EA	Enterprise Architecture	P.L.	Public Law
FMLA	Family Medical Leave of Absence	QOH	Quantity on Hand
FY	Fiscal Year	RCM	Reliability-centered Maintenance
GSA	Government Services Administration	RAO	Responsible Amtrak Officials
HC	Human Capital	ROW	Right-of-way
HR	Human Resources	RPU	Revenue Protection Unit
HRG	Host Railroad Contract Administration	SAP	System, Applications and Products
IT	Information Technology	SP	Southern Pacific Railroad
LAAS	Lease Audit and Advisory Services, Inc.	SSM	Service Standards Manual
LOA	Leave of Absence	TPA	Third Party Administrator
LSA	Lead Service Attendant	TPMS	Train Provisioning Management System
MBTA	Massachusetts Bay Transportation Authority	UP	Union Pacific Railroad
MOU	Memorandum of Understanding	U.S.C.	United States Code

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