United States Government Accountability Office

GAO

Report to the Chairman, Committee on Transportation and Infrastructure, House of Representatives

October 2005

AMTRAK MANAGEMENT

Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability

GAO

Accountability ★ Integrity ★ Reliability

GAO-06-145

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-145, a report to the Chairman, Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

Amtrak has struggled since its inception to earn sufficient revenues and operate efficiently. In June 2002, Amtrak's new president began major efforts to improve efficiency. However, the financial condition of the company remains precarious, requiring a federal subsidy of more than $1 billion annually. Capital backlogs are now about $6 billion, with over 60 percent being attributable to its mainstay Northeast Corridor service. GAO reviewed Amtrak's (1) strategic planning, (2) financial reporting and financial management practices, (3) cost containment strategies, (4) acquisition management, and (5) accountability and oversight.

What GAO Recommends

GAO makes recommendations in all five areas reviewed. These are designed to improve the strategic planning process; improve financial information; strengthen controls over costs and acquisition of goods and services; and strengthen transparency, accountability, and oversight. GAO also suggests that Congress ensure that future legislation for intercity passenger rail service contains clear goals and stakeholder roles, and incentives for results and accountability. Department of Transportation officials, in general, agreed with the report's findings. Amtrak's president was not convinced GAO's recommendations would achieve the results GAO expects but, in general, did not comment on specific recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-145.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

October 2005

AMTRAK MANAGEMENT

Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability

What GAO Found

Amtrak's basic business systems need to be strengthened to help achieve financial stability and meet future operating challenges. Recently, Amtrak's management has taken positive steps to instill some discipline and control over operations. However, fundamental improvements beyond these efforts are needed to better measure and monitor performance, develop and maintain financial controls, control costs, acquire goods and services, and be held accountable for results. Several key themes emerged across all five areas GAO reviewed.

- Amtrak lacks a meaningful strategic plan that provides a clear mission and measurable corporatewide goals, strategies, and outcomes to guide the organization. Also absent is a comprehensive strategic planning process, characteristic of leading organizations GAO has studied. Also, while Amtrak has recently taken steps to improve its acquisition function, GAO found that some major departments independently made large purchases and did not always adhere to Amtrak's procurement policies and procedures. Amtrak lacks adequate data on what it spends on goods and services, preventing it from identifying opportunities to leverage buying power and potentially reduce costs. Similarly, while Amtrak has recently reduced costs, revenues are declining faster than costs, leading to operating losses exceeding $1 billion annually. These losses are projected to grow by 40 percent within 4 years; no effective corporatewide cost containment strategy exists to address them.

- Financial reporting and financial management practices are weak in several areas. Financial information and cost data for key operations, while improved, remain limited and often unreliable. For example, Amtrak's on-board food and beverage service lost over $160 million for fiscal years 2002 and 2003. Amtrak's poor management and enforcement of its food and beverage contract (an outside contractor is responsible for procuring and distributing food and beverages for most of Amtrak's trains) may have contributed to this loss. Regarding financial reporting, GAO found that Amtrak had omitted or misallocated key expenses in several areas, substantially understating operating expenses in reports that managers use to assess performance. Similarly, Amtrak has not developed sufficient cost information to target potential areas to cut costs, accurately measure performance, and demonstrate efficiency.

- Developing transparency, accountability, and oversight is critical for achieving operational success. Since Amtrak is neither a publicly traded private corporation nor a public entity, it is not subject to many of the mechanisms that provide accountability for results. Mechanisms that do apply, such as oversight by the board of directors and the Federal Railroad Administration, are limited or have not been implemented effectively. Current congressional review of Amtrak offers an opportunity for addressing these transparency and accountability issues.

Contents

Appendixes

Tables

Figures

Abbreviations

AAMPS	Amtrak Accounting, Material and Purchasing System
Amtrak OIG	Amtrak Office of Inspector General
DOT	Department of Transportation
FMFIA	Federal Managers Financial Integrity Act of 1982
FRA	Federal Railroad Administration
GAGAS	generally accepted government auditing standards
GPRA	Government Performance and Results Act of 1993
IPA	independent public accountant
MBTA	Massachusetts Bay Transportation Authority
RPI	route performance information
SBU	strategic business unit
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
STB	Surface Transportation Board

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

October 4, 2005

The Honorable Don Young
Chairman, Committee on Transportation
and Infrastructure
House of Representatives

Dear Mr. Chairman:

As requested, this report discusses the National Railroad Passenger Corporation's (Amtrak) management and performance. This includes information on Amtrak's strategic planning and a performance-based framework, financial reporting and financial management practices, cost containment strategies, acquisition management, and accountability and oversight. We make recommendations in each of these areas as well suggestions to Congress about intercity passenger rail policy.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. We will then send copies to other appropriate congressional committees, the President of Amtrak, and the Secretary of Transportation. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-2834 or heckerj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Sincerely yours,

JayEtta Z. Hecker
Director, Physical Infrastructure Issues

Executive Summary

Purpose

In recent years, it has become clear that intercity passenger rail service has come to a critical juncture regarding its future in the United States. The National Railroad Passenger Corporation (Amtrak), the current provider of intercity passenger rail service, continues to rely heavily on federal subsidies, now totaling more than $1 billion per year. Since it began operating in 1971, Amtrak has received federal subsidies totaling about $29 billion. Given the precarious financial condition of the corporation, there is a wide diversity of proposals for what might be done to provide more self-sufficient and efficient intercity passenger rail service, ranging from limiting Amtrak's role and introducing competing rail service to keeping Amtrak intact and providing increased funding to improve its equipment and infrastructure.

To help inform congressional deliberations on these issues, the Chairman, House Committee on Transportation and Infrastructure, asked GAO to examine Amtrak's management and performance. GAO's review focused specifically on aspects of Amtrak's management and financial operations. The five areas that GAO addressed, which collectively provide insight into the performance of Amtrak, include (1) strategic planning and a performance-based framework, (2) financial reporting and financial management practices, (3) cost containment strategies, (4) acquisition management, and (5) accountability and oversight.

To address these issues, GAO reviewed documents on Amtrak's strategic planning process and preparation of goals and objectives, reviewed control activities related to Amtrak's financial reporting and the design of internal control policies over certain expenses, reviewed financial reports and obtained data on Amtrak's operating costs, and reviewed Amtrak's procurement policies and procedures. GAO also reviewed legislation relevant to the management and governance of Amtrak, including Amtrak's articles of incorporation and bylaws. GAO reviewed recent grant agreements between Amtrak and the Federal Railroad Administration, observed internal control practices over certain operating expenses, and evaluated selected contracts for the acquisition of various services for compliance with procurement policies and procedures. Finally, GAO interviewed Amtrak officials regarding the five areas addressed in this report, discussed management and accountability issues with members of Amtrak's board of directors, and interviewed officials at selected freight and commuter railroads. A more complete discussion of GAO's objectives, scope, and methodology is presented in chapter 1 of this report.

Background

Amtrak, although federally established and unable to operate without substantial federal subsidies to remain solvent, is not a government agency, but rather a private, for-profit corporation. It currently operates a 22,000-mile network providing service to 46 states and the District of Columbia, mainly using track owned by freight railroads. Amtrak also owns about 650 miles of track, primarily on the Northeast Corridor between Boston, Massachusetts, and Washington, D.C. Amtrak served about 25 million passengers in fiscal year 2004 and about two-thirds of Amtrak's ridership takes trains on the Northeast Corridor. Its financial condition remains precarious, and, according to Amtrak's management, the corporation will require billions of dollars to improve infrastructure for operation of the nationwide intercity passenger rail service.

Amtrak's financial struggles have led to numerous changes in corporate direction and organizational structure. Amtrak has also been influenced by requirements in the Amtrak Reform and Accountability Act of 1997 that it become operationally self-sufficient by 2002—a goal Amtrak did not meet. In 2002, under the direction of a new president, Amtrak established a more centralized, functional organization; adopted a new approach to management; and stated its intent to focus on financial stability and achieving a "state of good repair."[1] As a centerpiece for these changes, Amtrak's president adopted a multipronged management approach that is based on the following five tools—all of which were designed to instill a sense of discipline to company operations:

- department goals that are to be a basis for Amtrak's budget;
- defined organization charts that identify a clear chain of command and are to be used to control labor costs;
- a capital program of specific projects and production targets needed to stabilize the railroad;
- a zero-based operating budget with a focus on maintaining or reducing the budget; and

[1] A "state of good repair" is the outcome expected from the capital investment needed to restore Amtrak's right-of-way (track, signals, and auxiliary structures) to a condition that requires only routine maintenance.

- monthly performance reports, which are to be Amtrak's primary tool for reporting on company performance results, internally and externally.

In April 2005, as GAO's report was being prepared, Amtrak's management and its board of directors released a proposed set of strategic reform initiatives—containing, among other things, a new vision statement—that would substantially change how the corporation operates. Among other things, this proposal would give states a larger role in deciding what services to offer and introduces greater potential for competition in providing intercity passenger rail service. The future of this proposal is largely unknown, and implementation will require both legislative changes (such as the federal government either assuming annual debt service payments or eliminating Amtrak's debt burden as well as removing Amtrak from the railroad retirement system) and extensive changes internally within Amtrak.

Results in Brief

At a time when Amtrak is at a critical crossroads, GAO found that the corporation faces major challenges in instituting and strengthening its most basic business systems. Fundamental improvements are needed in the way Amtrak measures and monitors performance, develops and maintains financial controls, controls cost, acquires goods and services, and is held accountable for results. Although Amtrak management has taken steps to instill discipline and control over its operations, the corporation still lacks effective operating practices characteristic of well-run organizations, whether public or private. Regardless of the future role that the administration and Congress may determine for Amtrak, major improvements are needed in the corporation's strategic management and cost controls. The following are highlights of the progress made and improvements needed in each of the five core areas GAO reviewed:

- *Strategic planning and management*: Amtrak has improved its management approach in recent years through the implementation of such things as organization charts and operating budgets and the monitoring of employment levels (called headcount). However, it lacks a comprehensive strategic planning process and performance-based framework characteristic of leading organizations (including government entities and private corporations) that GAO has studied in the past. For example, Amtrak lacks a meaningful strategic plan that articulates both a comprehensive mission statement and corporatewide goals to indicate how Amtrak plans to accomplish its mission. Amtrak has developed a capital plan (which it calls a strategic plan) that focuses on the corporatewide goal of achieving a state of good repair, but it lacks a strategic plan that includes measurable corporatewide goals, strategies, and outcomes to guide the entire organization. In addition, without a mission or corporatewide goals, Amtrak cannot ensure that the annual department-specific goals developed by Amtrak's various departments support or improve overall corporate performance. Although Amtrak's management tools provide a framework for developing annual goals and budgets, these tools do not provide a long-term, integrated approach for managing the corporation and focus on outputs, not outcomes. Amtrak also needs a performance-based approach to its strategic planning process—that is, developing action plans for improving performance, generating key data to monitor performance, and using incentives to ensure responsibility and accountability—to achieve goals. As part of its newly proposed reform initiative, Amtrak plans to release a strategic plan in the fall of 2005, which will include a mission and goals for the company. This is a step in the right direction, but challenges, such as the need for congressional action and the ability to keep employees focused on long-term change, exist to fully implementing these initiatives.

- *Financial reporting and financial management practices*: In recent years, Amtrak's management has placed increased emphasis on providing reliable financial information, and progress has been made. For example, Amtrak's independent public accountant (IPA) previously reported multiple areas of significant internal control weaknesses as part of an annual audit of Amtrak's financial statements. For fiscal year 2004, the IPA reported that much progress had been made. In general, however, Amtrak has not implemented "preventive controls" necessary to better ensure the production of relevant and reliable financial information for management and stakeholders. GAO found that improvements are needed in the usefulness of information provided to management and stakeholders, in the design and implementation of internal control practices over certain areas of expense, and in Amtrak's efforts to strengthen financial management practices. For example, one key report used by Amtrak's management on a monthly basis omitted depreciation from each train route and business line, which totaled $606 million in 2003 and $479 million in 2002; this omission substantially understated reported expenses, which, in turn, hindered making a meaningful analysis of operating results and an assessment of performance. In another instance, as the result of omitting certain accrued benefit expenses in allocating such costs, employee benefits were understated by more than $100 million, and Amtrak failed to adequately document more than $500,000 in supplemental retirement benefits awarded to Amtrak executives.

- *Cost containment*: Amtrak has instituted measures (such as controls over headcount levels) designed to contain costs, and its efforts have had some success. However, Amtrak's annual operating losses have grown and are now over $1 billion annually. These losses are projected to rise about 40 percent over the next 4 years. Efforts to contain costs have been limited for two main reasons. First, the company has not yet developed a comprehensive, corporatewide cost containment plan that provides cost reduction goals, identifies how those goals are to be achieved, and provides for continuous improvement on those goals. Second, Amtrak has not fully developed unit cost and asset performance metrics that could help reduce costs and demonstrate efficient use of its resources. As part of its cost containment strategy, GAO found that Amtrak also needs to continue to use and seek to expand its use of cost reduction practices prevalent in the railroad industry—such as benchmarking and efficiency reviews. This would allow Amtrak to compare its practices with those of more efficient railroads and other transportation sector businesses to help decrease Amtrak's operating costs. Absent any changes, continued and increasing federal subsidization to keep the company solvent will be needed.

- *Acquisition management*: Amtrak's system for acquiring goods and services—when compared with the best practices of leading organizations—lacks critical elements needed to ensure efficiency, cost-effectiveness, and accountability. In recent years, Amtrak has taken steps to centralize its purchasing function to provide more authority and oversight and Amtrak has recently published a procurement manual, which provides detailed guidance on acquisition policies and procedures. However, some Amtrak units have made spending decisions and purchased services independent of the procurement department and sometimes in violation of the company's stated procurement policies and procedures. In addition, GAO's review of certain contracts, for the purchase of such things as advertising and professional services, showed a high frequency of noncompetitive contracts—that is, either sole or single source awards—and questionable review and approval practices. Further, review of expenditure data and selected transactions revealed the inappropriate use of a purchasing tool (designed for small purchases of $5,000 or less) for which standards were clearly delineated. Finally, GAO found that Amtrak's knowledge and information systems related to procurement are fragmented and have limited ability to produce useful spending information. As a result of these problems, Amtrak cannot ensure that it is receiving the best value when acquiring goods and services.

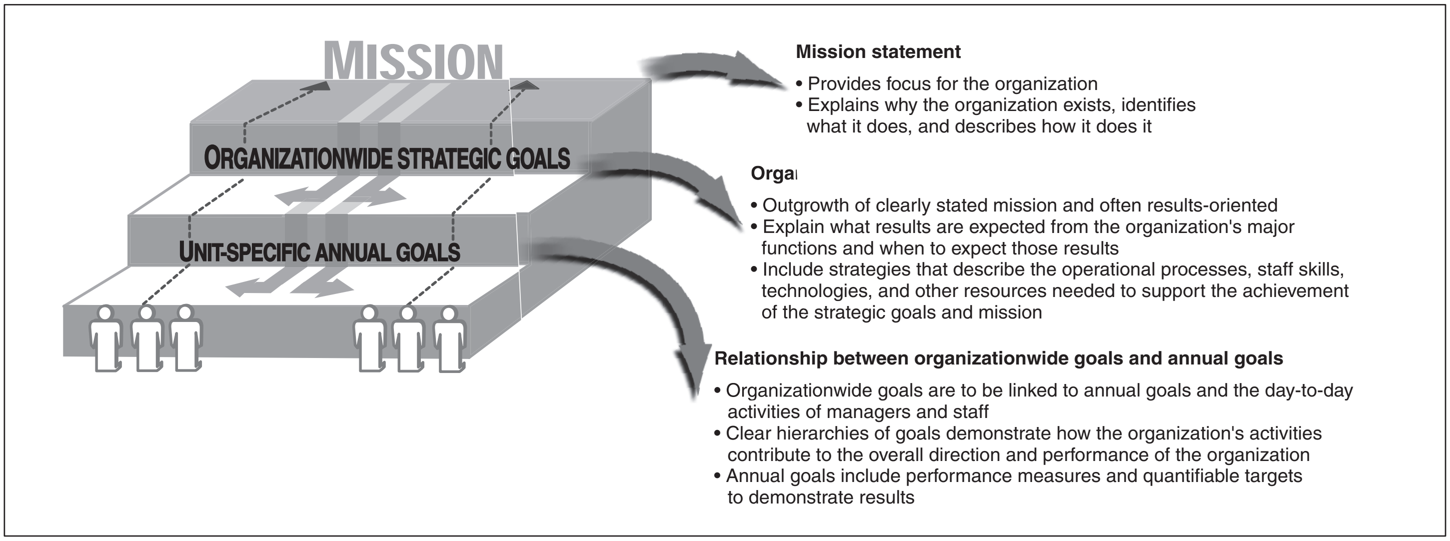
- *Accountability and oversight*: Although Amtrak operates in the public spotlight, few formal accountability mechanisms apply, and those that do have not been effectively used. Amtrak's position as an organization that is neither a publicly traded private corporation nor a public entity means that it is not subject to many of the mechanisms that provide information to stakeholders or hold the company accountable for results. For example, Amtrak is not subject to either Securities and Exchange Commission rules, regulations, or public disclosure requirements, nor is it accountable to shareholders holding common or preferred stock since, by law, shareholders have little or no role in selecting members of the board of directors. Accountability and oversight mechanisms that do apply, such as oversight by the board of directors and the Federal Railroad Administration, are limited or have not been implemented effectively.

Principal Findings

Amtrak Lacks a Comprehensive Strategic Plan and a Performance-Based Approach to Better Ensure Cost-effective Results

Leading organizations GAO has studied—both public and private—use strategic planning as a foundation for articulating a comprehensive mission and goals for all levels of the organization. This effort involves several important elements. (See fig. 1.) The first element is developing a comprehensive mission that employees, clients, and other stakeholders understand and find compelling. Leading organizations also seek to establish clear hierarchies for performance goals and measures for each organizational level linking them to overall corporate goals. Without clear, hierarchically linked performance measures, managers and staff throughout the organization will not have straightforward road maps showing how their daily activities can contribute to attaining corporatewide goals and mission.

Figure 1: Key Elements of a Strategic Plan



Source: GAO.

In contrast, Amtrak has not yet developed a meaningful strategic plan that includes critical elements characteristic of leading organizations we have studied. Specifically:

- *No comprehensive mission statement*. Amtrak has no comprehensive mission statement to provide and communicate a clear focus for the company. Amtrak's president believes that the administration and Congress are responsible for developing a mission, but federal law already articulates the company's purpose—to operate a national rail passenger transportation system. As any public or private organization, Amtrak is responsible for taking this purpose and establishing a clearly defined mission, a critical task that neither the management or the board of directors has yet accomplished.

- *Limited corporatewide goals*. Although Amtrak's management has established a goal for the corporation—returning the railroad to a state of good repair—this goal is too narrowly focused and does not encompass all corporate activities. For example, Amtrak's goal of a state of good repair and related capital plan address infrastructure aspects of the organization, such as repairing bridges and rails. Although this plan guides Amtrak's capital function, Amtrak lacks a strategic plan that articulates measurable corporatewide goals, strategies, and outcomes for other important aspects of its operations, such as human capital, and other lines of business, such as commuter rail and reimbursable services.

- *Annual goals are not tied to comprehensive mission or corporatewide goals*. Absent an overall comprehensive mission and corporatewide goals, Amtrak's departments develop goals based on their activities and the priorities of Amtrak's president. Without a process for developing department-specific goals that relate to a comprehensive mission and corporatewide goals, departments cannot effectively assess or communicate whether their goals improve overall company performance. Moreover, the departments' abilities to establish and achieve goals are hampered by a lack of data analysis and Amtrak's organizational restructuring. Amtrak officials said that, in some cases, these goals are an expression of "aspiration," rather than a realistic target.

- *Management tools focused on the short term, not the long term.* Although Amtrak's management tools provide a framework for developing annual goals and budgets, these tools do not provide a long-term, integrated approach for managing the corporation, and they focus on outputs, not outcomes. Without a strategic plan to guide all business activities, Amtrak does not have a process for integrating the efforts across the organization or for assessing and addressing company risks. Moreover, without a strategic plan, Amtrak does not have overall corporate performance measures and cannot establish a clear understanding of what it is trying to accomplish with its resources and company activities.

Leading organizations GAO has studied also adopt a performance-based approach to ensure that all activities and individuals are working toward and achieving results. Although Amtrak's key departments are making some progress in this regard, GAO identified a number of ways in which they could improve. Specifically:

- *Develop specific strategies and action plans*. Amtrak's key departments do not consistently develop specific strategies or action plans for critical actions and milestones to achieve goals. For example, in addressing train delays, one department was still in the process of developing a plan that deals mainly with mitigating passenger-loading problems and did not develop documented strategies or actions for other problems that affect on-time performance, such as freight or commuter train interference.

- *Provide performance-based incentives.* While Amtrak managers say they hold their managers accountable for achieving department goals, Amtrak does not have a pay-for-performance management system to provide incentive for achieving goals. Although Amtrak has proposed such a system to its board of directors, the board has concerns about the system, such as which management positions would be eligible and the operational and financial metrics to make merit pay and bonus decisions.

- *Improve performance-based data.* Amtrak's ability to monitor, evaluate, and report on performance is hindered by its data systems and reporting processes. This was a theme that was common across virtually every area GAO reviewed. For example, although the transportation, engineering, and mechanical departments report on their goals in a quarterly review, they do not report on all of their goals in this report. For example, the transportation department did not report on three of its eight goals at the end of fiscal year 2004.

In April 2005, the board, in conjunction with Amtrak management, issued a set of strategic reform initiatives for Amtrak, which is a first step toward developing a more strategic approach for the company. These initiatives include a proposed vision for Amtrak and for the future of intercity passenger rail and a proposed transition to planning and reporting by lines of business. Amtrak intends to release a new strategic plan for fiscal year 2006, which would ultimately result in the development of a comprehensive mission and goals for each line of Amtrak's business. Department goals would then be aligned to each line of business, according to an Amtrak official. The proposed changes in planning and reporting could provide Amtrak with a more all-encompassing approach, but fully implementing these initiatives requires overcoming major challenges. For example, as the chairman of Amtrak's board noted, legislative action is required to implement many aspects of the plan. These legislative actions include, among other things, the federal government either assuming Amtrak's annual debt service payments or eliminating Amtrak's debt burden (about $3.8 billion in short- and long-term debt at the end of fiscal year 2004) as well as transitioning Amtrak out of the railroad retirement system. Amtrak officials also noted that major challenges internally within Amtrak, including the time and effort needed to implement these initiatives and the ability to keep its employees focused on long-term change, even with the uncertainty of Amtrak's future, may hinder implementation of the new planning process.

Financial Management Practices Could Better Support Amtrak's Decision Making

GAO examined the following three aspects of Amtrak's financial management and accountability framework: (1) the usefulness of financial information provided to management and external stakeholders, (2) the design of internal control over selected areas of expense, and (3) Amtrak's efforts to strengthen financial management practices. Opportunities for improvement are present in all three of these areas.

- Although Amtrak has made progress in establishing a more systematic process to provide financial information to management and stakeholders, much of the financial information it uses for day-to-day management purposes lacks certain relevant information or is of questionable reliability. Amtrak's monthly performance report, which Amtrak's president had deemed a "critical" document for managing the company, demonstrated this issue in several respects. For example, the monthly reports did not include relevant information on Amtrak's food and beverage revenue and expenses, even though food and beverage financial losses were over $160 million for fiscal years 2002 and 2003. Also, information in another key report was often of questionable reliability. For example, data reported in monthly reports subsequently required significant adjustments—requiring up to 7 months to complete—to correct errors in amounts before financial statements could be issued. As a result, the reliability of the information provided to managers and stakeholders during the fiscal year was limited.

- GAO reviewed internal control practices in two areas—employee benefit expenses and food and beverage service—and found weaknesses in both. Employee benefits, for example, as reported in monthly performance reports, were understated by more than $100 million because certain accrued employee benefit expenses were not considered. Further, documentation was inadequate to fully support more than $500,000 of supplemental retirement benefits awarded to Amtrak executives. In the area of food and beverages, poor enforcement of contract provisions may have contributed to Amtrak's spending $2 for every $1 in revenue from on-board service. For example, Amtrak has never required the contractor supplying food and beverages for its trains to submit an independently audited annual report of budget variances for key items, even though the contract requires such a report. Also, Amtrak has never audited the contractor's purchase data—which is allowed under the contract—to ensure that the contractor is passing along any discounts or rebates the contractor receives on items purchased.

- For fiscal years 2003 and 2002, Amtrak's IPA reported multiple areas of significant internal control weaknesses as part of an annual audit of Amtrak's financial statements. However, for fiscal year 2004, the IPA reported that much progress had been made and only one significant weakness remained—involving accounting for capital assets.[2] Amtrak's progress in addressing its control weaknesses is an important achievement. In general, however, its efforts have been achieved primarily through the implementation of manual detective controls instead of preventive controls. Thus, improvements made by the end of fiscal year 2004 enable the production of useful financial information after the fact—typically, 5 to 6 months after the end of the year. However, until effective controls are established that prevent errors in financial information and address their underlying causes, Amtrak's ability to produce relevant and reliable financial information for management and stakeholders to use for decision making will be hampered.

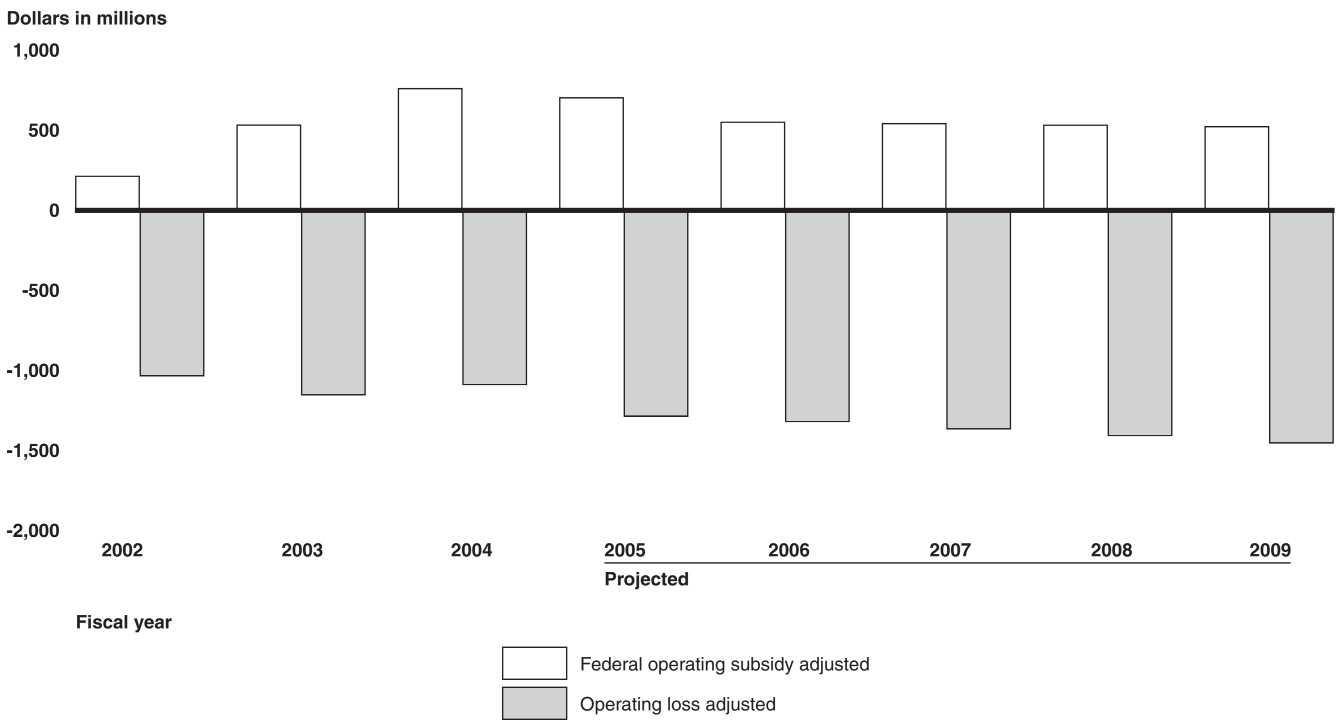
Despite Increasing Operating Losses and Federal Subsidies, Amtrak Has Not Developed a Comprehensive Cost Control Strategy

Amtrak's annual operating loss was over $1 billion in fiscal year 2004 and is projected to increase about 40 percent to over $1.4 billion by fiscal year 2009. (See fig. 2.) Amtrak has made efforts to cut costs, reducing its total expenses by 9 percent (in constant dollars) from fiscal years 2002 to 2004 by reducing headcount and introducing organizational efficiencies, among other things. Amtrak reduced its total employment by about 3,500 employees and reduced its labor costs by about $200 million over the same period. Amtrak is working to reduce its costs through, among other things, labor negotiations with its unions; the introduction of health care contributions from its employees; the use of outsourcing for several of its mechanical, engineering, and other functions; and the creation of unit cost metrics in some of its operating departments to measure productivity. During the same period, Amtrak's revenues have decreased by 16 percent. In addition, Amtrak's projected losses may be understated, since they do

[2]On June 27, 2005, Amtrak management provided GAO with a draft copy of the internal control report from its IPA, which is based on the IPA's audit of the fiscal year 2004 financial statements. GAO's comments on fiscal year 2004 are based solely on the contents of this draft internal control report. This report was subsequently issued on August 12, 2005.

not include interest expenses that are reported in its financial statements and rely on $377 million in reduced costs that Amtrak estimates could be achieved as a result of operating efficiencies and benefits from capital investments it plans to undertake in fiscal years 2005 to 2009. Amtrak also faces serious challenges to reducing costs in the future. For example, Amtrak's labor costs, which account for almost 50 percent of its total expenditures, are expected to increase over the next 5 years, putting more of a burden on Amtrak to reduce its other costs in order to significantly reduce its operational costs. These projections also do not take into account the removal in April 2005 of its Acela trainsets from service for an undetermined period due to brake-related problems. The absence of the Acela trainsets could have a significant impact on Amtrak's fiscal year 2005 revenues.

Figure 2: Amtrak's Constant Dollar Operating Losses and Federal Operating Subsidy, Fiscal Years 2002 to 2009



Source: GAO analysis of Amtrak and Federal Railroad Administration data.

Note: Amounts are in constant 2004 dollars. Fiscal years 2005 to 2009 figures for operating loss and federal subsidy are Amtrak projections. Operating losses from fiscal year 2002 to 2004 and projected losses from fiscal years 2005 to 2009 do not include interest expenses.

Amtrak's cost containment efforts have had limited success for two main reasons. First, Amtrak has not developed a comprehensive, corporatewide cost containment plan. Management's focus has been on creating and monitoring its yearly operating budget and managing headcount levels, leaving its various departments to decide on how much emphasis, if any, to place on other cost containment actions. Second, Amtrak has not fully developed unit cost and asset performance metrics that could help reduce costs and demonstrate efficient use of its resources. Amtrak officials said that such factors as recent increases in ridership and overhauls completed, when combined with recent decreases in employees (headcount), show that the company is "doing more with less." However, a significant portion of the reduction in headcount came as a result of termination of a commuter rail service and mail and express freight services—not necessarily from finding efficiencies while offering the same level of service. Without unit cost or asset performance statistics, Amtrak is less able to understand and measure its performance as well as demonstrate progress toward being more efficient. Some of Amtrak's departments are beginning to develop cost metrics, but they are encountering difficulty in obtaining detailed and reliable data as well as baseline statistics for trend analyses. Amtrak has some corporatewide efficiency metrics, such as ticket and passenger revenue per passenger mile, but these metrics do not demonstrate asset performance, such as output per unit of labor or per gallon of fuel consumed. The latter would give better insight into how efficiently Amtrak is using its assets.

Amtrak also needs to continue and expand its use of widely used industry cost containment practices—such as benchmarking, outsourcing, and efficiency reviews. Doing so would allow Amtrak to compare its practices with those of more efficient railroads and other transportation sector businesses to help decrease Amtrak's operating costs. Regarding benchmarks, freight railroads GAO contacted compare their cost containment strategies against those of their competitors as a means of incorporating best practices into their strategies. While some of Amtrak's departments have used benchmarking, other departments can use this technique to compare their performance against the other companies in the industry. With respect to outsourcing, Amtrak has outsourced several functions, including some maintenance of equipment and maintenance of way functions, and its commissary operations, and it has recently identified other noncore functions as possible candidates for outsourcing. However, Amtrak management has recognized that it must develop accurate cost statistics to effectively compare in-house costs with the costs of outsourcing. With respect to efficiency reviews, managers from freight railroads told us that they hire operational and process engineers and use cross-functional teams to study key aspects of their operations, such as internal processes, route schedules, and yard operations, to find out how to improve these functions and track improvement efforts. In 2001, an outside consulting firm reviewed Amtrak's operations and recommended numerous actions. However, not all of these findings were implemented, nor were any resulting savings tracked, because changes in Amtrak's leadership and a subsequent reorganization changed Amtrak's focus, according to Amtrak officials.

Amtrak's Acquisition Function Is Limited in Promoting Efficiency, Cost-effectiveness, and Accountability in Acquiring Goods and Services

Amtrak's system for acquiring goods and services, when evaluated against a set of best practices that typify organizations with highly successful systems, is missing critical elements needed to ensure efficiency, cost-effectiveness, and accountability. In recent years, Amtrak has made improvements in this area, strengthening its purchasing function by (1) centralizing as well as elevating this function to the same level as other key departments, (2) issuing a procurement manual to communicate company procurement policies and procedures, and (3) performing outreach to major company departments to clarify and provide training on certain procurement policies and procedures. Nonetheless, as noted below, GAO identified several opportunities for improvement.

First, Amtrak has not yet succeeded in fully integrating the procurement function and adopting a more strategic approach to acquisitions throughout the company. When planning acquisitions of goods and services, departments that need these goods and services have sometimes functioned independently of the procurement department. This does not allow leveraged buying and may have resulted in Amtrak paying more than necessary for some purchases. For example, in fiscal year 2004, the Amtrak technologies department issued and signed a contract modification expanding an existing software contract without the procurement department's knowledge and in violation of Amtrak's procurement policy. This expansion increased the value of the contract by $200,000.

Second, while the procurement department has made efforts to become more involved with other departments' procurement of goods and services, it has not adequately communicated and enforced policies and procedures intended to promote competition, obtain best prices, and protect the financial interests of the company. Amtrak only recently (June 2005) issued a comprehensive procurement manual that provides detailed guidance for procurement staff to follow when awarding contracts, and, basically, some departments, acting independently in purchasing goods and services, have not conformed to Amtrak's own procurement policies and practices. The lack of clear direction and accountability until recently may have contributed to goods and services being acquired noncompetitively—that is, either sole or single source contracts—and independently of the procurement department. For example, GAO reviewed in detail a nonprobability sample of 61 contracts that had expenditures in 2002 and 2003, a substantial number (36) were awarded noncompetitively, and these contracts often did not include sufficient justification, which was required for a noncompetitive award. Further, review of selected transactions revealed the inappropriate use of a purchasing tool (designed for small purchases of $5,000 or less) for which standards are clearly delineated. In some instances, this tool was used for purchases of over $100,000. Additionally, some departments have authority to acquire services independent of the procurement department. GAO's review of one of these services—acquisition of outside legal services—showed weaknesses indicating that Amtrak may not be receiving the best value for the money and may be making improper payments. Problems with respect to outside legal services included lack of competition, lack of spend analysis, lack of specificity in documenting terms and conditions of the services to be provided, inadequate review of invoices, and inadequate supporting documentation for payments.

Finally, a poor knowledge and information system limits Amtrak's ability to identify opportunities for potential cost savings. Simply put, Amtrak cannot accurately determine how much it spends on goods and services, thereby missing opportunities to better leverage buying power and reduce overall spending. To make strategic, mission-focused acquisition decisions, leading private and public sector organizations establish spend analysis systems that provide knowledge about which goods and services are being acquired, the amount spent, and who is buying and supplying them. This knowledge allows organizations to identify opportunities to leverage buying, save money, and improve performance. In contrast, Amtrak's knowledge and information system does not produce the data needed to enable Amtrak to identify strategic sourcing opportunities. Such data could enable Amtrak to leverage its buying power and potentially reduce procurement costs.

Amtrak Does Not Have Adequate Oversight of or Accountability for Its Performance and Results

Fundamental changes are required to implement the needed improvements GAO identified with respect to measuring and monitoring performance, developing and maintaining financial records and internal controls, controlling costs, and procuring goods and services. However, as Amtrak focuses much of its attention on restoring its infrastructure to a state of good repair, there is a serious question regarding whether the company will sufficiently address these areas.

Oversight and accountability mechanisms to better ensure that needed improvements are addressed are limited or have not been exercised effectively. A major contributing factor is the unusual situation under which Amtrak operates—as neither a publicly traded private corporation nor a public entity. This means that Amtrak is not subject to accountability and oversight mechanisms by which other private or public entities would have to abide. For example, unlike publicly traded private corporations, Amtrak is not subject to accountability to stockholders or financial markets or to Securities and Exchange Commission rules, filings, and public disclosure requirements. Also, unlike public entities, Amtrak is not subject to the Government Performance and Results Act of 1993, the Federal Managers Financial Integrity Act of 1982, or various other reporting and accountability requirements established in law or regulation. Another factor is that existing oversight mechanisms are not working or are limited in scope. For example, although Amtrak has a board of directors with oversight authority, the board has been operating with less than a full complement of positions filled for considerable periods of time and conducts little formal oversight of performance. Also, federal regulators, such as the Federal Railroad Administration, have exercised limited oversight of Amtrak's operations or overall performance.

Both the administration and Amtrak have proposed reforms that would change the basic operating structure, establish competition for intercity rail, and provide a different method for distributing federal subsidies. The effect of these changes, if implemented, on improving oversight and accountability mechanisms is unknown at this juncture. Reaching agreement on to whom Amtrak is accountable, however, is a critical first step. Without it, inadequate accountability will continue, and the issues raised in this report may not receive the visibility needed to resolve them. The board and other key stakeholders can take actions within the current operating framework, such as developing policies and procedures to increase oversight and accountability.

Congress has a central role in this issue. It created Amtrak and has continued to subsidize its operations over time. Amtrak's reauthorization expired in September 2002, and Congress is now considering what, if any, changes are needed in the structure and financing of intercity passenger rail. As part of this reauthorization, Congress will also play a role in determining the type of oversight to be provided and the accountability mechanisms to be used to ensure that the desired results and outcomes are achieved. As we reported in April 2003, the key components of a framework for evaluating federal infrastructure investments include (1) establishing clear, nonconflicting goals; (2) establishing the roles of government and private entities; (3) establishing funding approaches that focus on and provide incentives for results and accountability; and (4) ensuring that the strategies developed address the diverse stakeholder interests and limit unintended consequences. We continue to believe these components are important in evaluating and establishing federal policy toward intercity passenger rail.

Matters for Congressional Consideration

As part of the deliberation about the future of Amtrak and intercity passenger rail, Congress may wish to consider establishing a national policy for intercity passenger rail, and determining the appropriate role for Amtrak by ensuring that reauthorization or reform legislation (1) establishes clear, nonconflicting goals; (2) establishes the roles of both the federal and state governments as well as private entities; (3) establishes funding approaches that focus on and provide incentives for results and accountability; and (4) provides that the strategies developed address the diverse stakeholder interests and limit unintended consequences.

Recommendations for Executive Action

GAO is making detailed recommendations to Amtrak in all five areas examined. These recommendations are designed to improve (1) strategic planning to better guide the company, (2) financial information and financial management practices for better management of operations and for transparency internally and with key stakeholders, (3) corporatewide cost containment efforts to maximize efficiency and minimize operating losses, (4) acquisition of goods and services to ensure that the company gets the best value for the money, and (5) accountability and oversight mechanisms to better ensure that needed management improvements are sufficiently addressed and resolved and to provide needed transparency among key internal and external stakeholders. Specific recommendations in each area are found at the end of each report chapter.

Agency Comments and GAO Evaluation

GAO provided a draft of this report to the Department of Transportation (DOT) and Amtrak for review and comment. GAO received oral comments from DOT officials, including the department's general counsel. The DOT officials told GAO that, in general, they agreed with the draft report's findings, and they said the recommendations would be helpful as they work with Amtrak to achieve significant improvements in program and financial management (in accordance with Congress' statutory mandate that Amtrak become self-sufficient). The DOT officials agreed that if Amtrak receives federal funds, it needs to strengthen its accountability to the public and the federal government in a way that is effective, notwithstanding its peculiar corporate structure. Further, DOT officials told GAO that the department has worked with the Amtrak board of directors to enhance the board's oversight of Amtrak in a number of beneficial ways. DOT officials said that in 2005, the board has been especially active and has met with unusual frequency in an effort to require Amtrak management to address necessary changes. They also noted that the board's ability to work through board committees might benefit by having a full roster of congressionally confirmed directors in place, something that has not occurred since 2002. Finally, the DOT officials emphasized the potential utility of an expanded role for FRA, including additional legal authority to implement tools for enhanced oversight, such as the authority to impose more flexible and effective grant provisions for the funding it provides to Amtrak and the associated withholding of funds for nonperformance. FRA also provided clarifying and technical comments that GAO incorporated into this report as appropriate.

Amtrak provided its comments in a letter from its president and chief executive officer. (See app. II.) Overall, the president said that he was not convinced that GAO's recommendations would produce the results GAO expects, saying that there is no "silver bullet" for fixing Amtrak, nor is there a cookie-cutter approach that can be taken. Rather, he said that steady incremental improvements are best. In general, Amtrak did not comment on GAO's specific recommendations. The president also said that since coming to Amtrak, management has focused on maintaining liquidity, cleaning up the books, and rebuilding its plant and equipment, which has allowed the company to do more work with fewer people and keep operating needs flat. Basically, he said that "the results speak for themselves."

GAO believes that, although improvements have been made, the overall results have not been satisfactory. During the last 3 fiscal years, Amtrak's operating losses have increased to over $1 billion annually, and such losses are projected to increase about 40 percent by 2009. In addition, GAO found systemic problems in all five areas that it reviewed and found that Amtrak faces major challenges in instituting and strengthening its basic business systems. Certainly, the president's actions have helped quell what would likely have been even higher losses, but further fundamental changes are needed to help address a situation that is not yet under control. The recommendations contained in this report reflect sound and proven ways adopted by leading organizations to efficiently and effectively manage their operations. The importance of robust strategic planning, sound financial management, across-the-board cost control strategies, disciplined procurement practices, and strong oversight is undeniable. In GAO's opinion, not recognizing the value of these areas and not adapting them to Amtrak's environment will continue to lead to suboptimal results.

The views reflected in the comments of Amtrak's president that steady incremental improvements are the best approach for addressing Amtrak's problems do not appear consistent with the magnitude of changes discussed in Amtrak's April 2005 strategic reform initiatives. In April 2005, Amtrak's management and board of directors released their strategic reform initiatives—initiatives characterized by Amtrak as a dramatic departure from business as usual that would substantially change how Amtrak operates. As Amtrak's board chairman stated in April 2005, these initiatives include structural, operating, and legislative changes that, among other things, would outline a new focus on planning, budgeting, accounting, and reporting of financial activity and performance along Amtrak's business lines; increase state financial involvement in existing and emerging rail corridors; and open the market for virtually all functions and services of intercity passenger rail to competition. The chairman also stated that, although Amtrak had made substantial progress in establishing an organizational structure and management controls that had resulted in cost savings, "we have considerable room for further improvement." GAO believes the strategic reform initiatives clearly acknowledge the substantial systemic problems facing Amtrak, including those discussed in this report, as well as the need for reform in how intercity passenger rail service is delivered. GAO encourages Amtrak's president and management to work together with the board of directors to ensure that the issues and challenges raised in the strategic reform initiatives are addressed. This will be important if Amtrak is to make meaningful progress in addressing its problems and becoming more efficient.

Amtrak's president also commented about specific areas, as follows:

- *Strategic planning*: The president said that Amtrak's management team has identified the problems "as only we can" and has developed an approach that "works best for us." He said that the strategic planning mechanisms we recommend or that government agencies adopt may not be in line with those followed by Amtrak, but the goals are the same. He reiterated that to him, while process is important, results are what matter. GAO agrees that results matter, but, overall, results are not improving. As both public and private organizations have long recognized, sound strategic planning mechanisms or "processes" are vital to chart a clear direction and mission, develop road maps for cost-effective operations based on this mission, and measure and be held accountable for results. The management tools Amtrak has adopted since May 2002, while helpful, are focused too narrowly and are clearly insufficient to stem the operating losses the company is experiencing. By focusing on "outputs," such as overhauls and track laid, rather than "outcomes," such as achieving on-time performance and a certain level of customer service, company management has no assurance that limited funds are being used for those areas that result in the highest return with respect to the impact on operating losses and the efficient and effective management of the company. GAO believes adopting a systematic and organized strategic approach—in line with GAO's recommendations—is necessary to achieve the results that both management and the public expect.

- *Procurement management*: Amtrak's president said that many of the issues GAO raised in the draft report are ones that Amtrak has focused on for a number of years, and the company is in the process of implementing changes in this area. GAO commends Amtrak for recognizing the need to improve its procurement function. However, GAO's work shows that there continues to be substantial systemic problems with Amtrak's procurement function and that additional actions are needed to ensure Amtrak is getting the best value for its money in the acquisition of goods and services and in recognizing cost saving opportunities.

- *Financial management*: Amtrak's president commented that, during his tenure, Amtrak's financial performance has improved dramatically and that the company closes its books on time and reports monthly results more quickly than most companies of its size. In addition, the president noted that Amtrak's material internal control weaknesses and reportable conditions (as reported by Amtrak's IPA), and the dollar value of net audit adjustments, had all decreased. Amtrak's president agreed that Amtrak's financial processes were labor intensive, but he said that lack of modern technology had not stymied Amtrak's efforts to produce results. GAO agrees that Amtrak has made improvements in its financial management and reporting and that the number of material internal control weaknesses and reportable conditions has decreased. This report acknowledges these improvements. However, GAO's work shows that there continue to be substantive problems related to financial management at Amtrak—problems that act to undermine the usefulness of financial information produced and adversely impact Amtrak's ability to make sound business decisions. These problems include monthly performance reports that are not as useful as they could be and that contain financial data that are not reliable, inadequate internal controls related to certain expenses (such as employee benefits expenses and Amtrak's food and beverage service), and weak efforts to strengthen management practices and make financial information transparent. GAO believes Amtrak will find it difficult to make sound business decisions related to its operations and its different lines of business, control its costs and operating losses, increase its efficiency and cost-effectiveness, and demonstrate progress in achieving outcome-based goals and objectives without addressing these financial management problems.

- *Food and beverage service*: The president said that Amtrak has recently taken a number of actions to better manage this service, including reforming the delivery of food service (such as eliminating food and beverage service on selected short-distance trains) and renegotiating its contract with Gate Gourmet (formerly called Dobbs International). Amtrak's president also noted that GAO's draft report failed to mention the cost of labor as it relates to food and beverage service—a cost that both GAO and Amtrak agree is the largest single cost of the operation. GAO agrees that Amtrak's actions regarding its food and beverage service are steps in the right direction, and GAO encourages Amtrak to continue to seek ways to improve management and controls over this service. Both GAO's June 2005 testimony before the Subcommittee on Railroads, House Committee on Transportation and Infrastructure, and its August 2005 report on Amtrak's food and beverage service discussed management and control problems related to this service and made recommendations for improving this control.[3] Both the testimony and the report also acknowledged the labor costs associated with Amtrak's food and beverage operation. GAO agrees that labor costs associated with Amtrak's food and beverage service are substantial and should be an integral component in any strategies and plans Amtrak develops to improve the efficiency and cost-effectiveness of this service. GAO's June 2005 testimony indicated that a recent Amtrak Inspector General report suggested a way that Amtrak could address its food and beverage labor costs. Since labor costs associated with the food and beverage service are part of Amtrak's overall labor cost structure, it was beyond the scope of GAO's work for this report to analyze these specific costs. This present report discusses internal controls related to Amtrak's food and beverage service and identifies ways Amtrak can strengthen these controls to ensure this service is operated more efficiently and cost-effectively.

Amtrak also made various clarifying and technical comments that GAO has addressed in the text of this report. Among the technical comments was a proposal by Amtrak's procurement department to liberalize Amtrak's policy related to delegation authority for contract changes. This proposal was in response to GAO's recommendation that Amtrak ensure that contract changes be approved in accordance with the company's current delegation of authority policy. At the time of GAO's review, this policy limited change order approvals on the basis of the cumulative value of contracts—that is, the level of authority needed to approve contract change orders is determined by the cumulative value of the contract, not the amount of the change order. Amtrak's proposal would change this policy to allow approval of change orders by a contracting agent until the total value of all contract changes meets or exceeds the agent's delegated authority to approve changes. Additional changes beyond this dollar value would then require approval by an individual with a higher level of delegation authority. GAO agrees that some flexibility in the approval authority may be desirable, especially for relatively low-dollar value changes. However, in liberalizing its approval authority for change orders, Amtrak should proceed cautiously by setting monetary thresholds for contracting agents that represent a relatively low-dollar value when compared with the

[3] GAO, *Amtrak: Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service*, GAO-05-761T (Washington, D.C.: June 9, 2005); and *Amtrak: Improved Management and Controls over Food and Beverage Service Needed*, GAO-05-867 (Washington, D.C.: Aug. 24, 2005).

original value of the contract. Doing so would allow more efficient use of procurement department resources while maintaining oversight of contract changes. Also, as GAO recommends in this report, Amtrak's procurement department, regardless of whether or not this proposal is adopted, should exercise proper oversight of its contracting agents to ensure adherence to its current delegation of authority policy.

Introduction

Intercity passenger rail is at a critical crossroads regarding its future in the United States. The current provider of intercity passenger rail service, the National Railroad Passenger Corporation (Amtrak), has struggled since its inception in 1970 to earn sufficient revenues and continues to rely heavily on federal subsidies to remain solvent; currently, these subsidies total more than $1 billion annually. Despite federal subsidies, the corporation has continued to experience financial difficulties. For example, in June 2001, Amtrak was forced to mortgage a portion of Pennsylvania Station in New York City to raise $300 million; in July 2002, it had to obtain a $100 million loan from the federal government in order to meet expenses and continue operating. In June 2002, under a new president and chief executive officer, Amtrak underwent reorganization. However, the financial condition of the corporation is still precarious, and, according to management, the railroad will require billions of dollars to improve its infrastructure and achieve a “state of good repair” as it continues to operate a nationwide intercity passenger rail service.[1]

In recent years, various congressional and administration proposals have called for restructuring intercity passenger rail in the United States. These proposals have included breaking Amtrak up and introducing competing rail service. For example, one recent proposal would create a separate infrastructure corporation as a means to maintain and rehabilitate the Northeast Corridor—which runs from Washington, D.C., to Boston, Massachusetts, and is a critical component in Amtrak’s passenger rail system—and other infrastructure. A separate operating corporation would be created to provide rail service. Under this proposal, much of the responsibility for intercity passenger rail service would be delegated to states or groups of states operating through interstate compacts, and the operating corporation that succeeds Amtrak would have to compete to provide service.[2] In contrast, other proposals call for little restructuring at all and instead would keep Amtrak intact and provide it with increased funding to improve equipment and infrastructure.

[1]A “state of good repair” is the outcome expected from the capital investment needed to restore Amtrak’s right-of-way (track, signals, and auxiliary structures) to a condition that requires only routine maintenance.

[2]On April 13, 2005, the Secretary of Transportation offered proposed legislation for restructuring intercity passenger rail, called the Passenger Rail Investment Reform Act. In general, this proposal would transition the ownership and management of the Northeast Corridor to an interstate compact of Northeast Corridor states and the District of Columbia, reduce (and after 4 years eliminate) operating subsidies for long-distance train service, and require that train operations be opened to competition.

To aid Congress as it deliberates on the future of Amtrak and intercity passenger rail in the United States, the Chairman, House Committee on Transportation and Infrastructure, asked us to examine various aspects of Amtrak's management and performance. This report discusses Amtrak's (1) strategic planning and a performance-based framework for achieving goals; (2) financial reporting and internal control practices and how well they support management and accountability of the corporation; (3) costs and cost containment strategies, including the existence and use of metrics to identify and understand the nature of the corporation's costs; (4) acquisition management, including the procurement department's placement within Amtrak and integration into other departments' acquisition activities, compliance with procurement policies and procedures, and the quality of Amtrak's knowledge and information systems; and (5) overall accountability and oversight of the corporation.

Amtrak's Financial Struggles Have Led to Changes in Corporate Direction and Organization

The Rail Passenger Service Act of 1970 created Amtrak to provide intercity passenger rail service because existing railroads found such service to be unprofitable. Currently, Amtrak operates a 22,000-mile network that provides service to 46 states and the District of Columbia. In operating this network, Amtrak mainly uses track owned by freight railroads. Amtrak owns about 650 miles of track, primarily on the Northeast Corridor between Boston, Massachusetts, and Washington, D.C. In fiscal year 2004, Amtrak served about 25 million passengers, or about 68,640 passengers per day. According to Amtrak, about two-thirds of its ridership is wholly or partially on the Northeast Corridor.

Amtrak has undergone numerous changes in its corporate direction and organizational structure in an attempt to improve its financial condition. These changes were influenced, in part, by the Amtrak Reform and Accountability Act of 1997, which required Amtrak to become operationally self-sufficient by December 2002.[3] Examples of changes over the last decade include the following:

- *Establishment of strategic business units (SBU)*. In September 1994, Amtrak's then president stated that a vision for the corporation needed to be articulated and that decisions needed to be more market-driven. Between October 1994 and January 1995, with the assistance of a

[3]This act prohibited Amtrak from using federal funds for operating expenses, except an amount equal to excess Railroad Retirement Tax Act payments, after 2002.

management consulting firm, Amtrak reorganized into the SBUs in an attempt to address these issues. According to Amtrak, the SBUs were established to provide a method for better managing performances and differences in businesses or markets within the company and were designed to anticipate and facilitate rapid response to change, place decision making close to the customer, and establish authority and accountability. Amtrak established three SBUs—Northeast Corridor, Intercity, and West. The SBUs were largely self-contained units that had their own chief executive officers, handled their own rail service, procured their own materials and supplies, and handled their own financial management and planning. Amtrak also established corporate and service centers to support the SBUs and provide services that either had economies of scales or required special technical skills.[4] In undergoing this reorganization and establishing the SBUs, the expectation was that this new structure would, among other things, result in fewer management positions, lower costs, and establish accountability for results.

- *Improvement of financial health by reducing service.* In 1995, Amtrak attempted to improve its financial condition by changing its approach to route and service actions. In particular, Amtrak eliminated 9 routes, truncated 3 routes, and changed the frequency of service on 17 routes. The expectation was that Amtrak could save about $200 million from these actions while retaining a high percentage of revenues and passengers.

- *Improvement of financial health by expanding service.* In December 1999, Amtrak again changed corporate direction by adopting a strategy that consisted of 15 planned route and service actions, the majority of which involved an expansion of service. The expectation was that by increasing service significant new revenue would be generated, especially from hauling mail and express cargo.

None of the above changes met expectations. Instead of the SBUs leading to decreased costs, Amtrak's operating costs generally increased. For example, as we reported in May 2000, Amtrak incurred about $150 million

[4]For example, Amtrak retained a chief financial officer, a general counsel, and a chief mechanical officer. The corporation also retained a board of directors to provide overall governance, a president to manage the company and establish strategic direction, and a management committee to set corporate policy.

more in expenses than planned over the 1995 to 1999 period.[5] Employment levels were a significant factor. Although Amtrak's total employment generally decreased from 1994 to 1996, by 1999 Amtrak had about the same number of management employees and more agreement employees (union-represented) than in 1994.[6] In addition, Amtrak's operating loss (total revenue minus total expense) fluctuated between fiscal years 1994 and 2002 but generally increased from about $770 million in fiscal year 1995 to about $1 billion in fiscal year 2002.[7] At the same time, Amtrak continued to receive substantial federal operating and capital support.[8] (See fig. 3.) Subsequent financial results from the service actions in 1995 and 1999 also did not meet expectations. As we reported in April 2002, the 1999 service expansion failed, in part, because Amtrak overestimated the mail and express revenue it was able to generate and because Amtrak failed to obtain a full understanding of freight railroad concerns before implementing the expansion strategy.[9] At the time of our report, most of the route actions of the service expansion had been canceled.

[5]GAO, *Intercity Passenger Rail: Amtrak Will Continue to Have Difficulty Controlling Its Costs and Meeting Capital Needs*, GAO/RCED-00-138 (Washington, D.C.: May 31, 2000). As we reported, Amtrak missed its expense targets from 1995 through 1997 by about $355 million. However, in 1998 and 1999, Amtrak spent less than planned by $205 million. The net was $150 million more than planned.

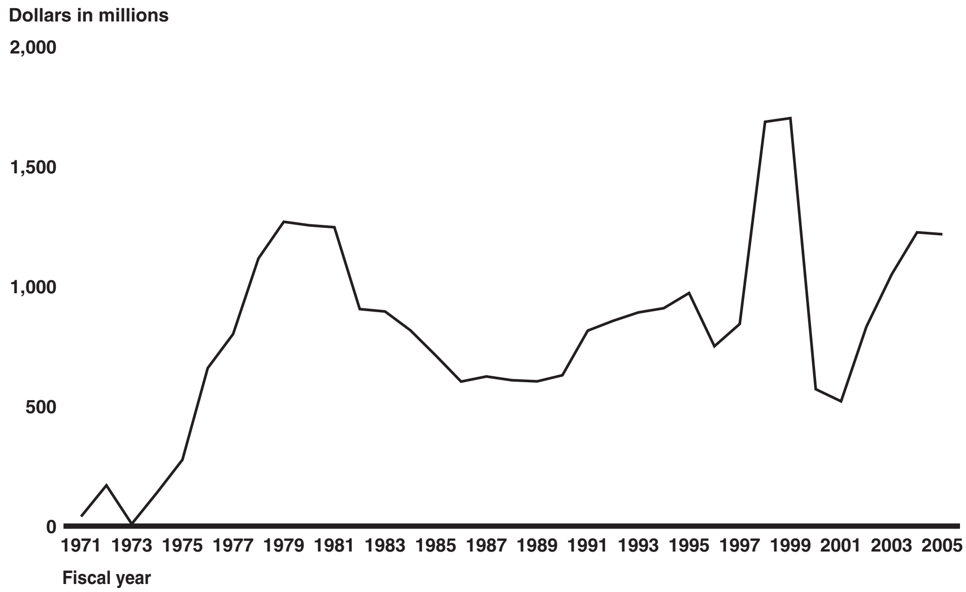
[6]In 1999, Amtrak employed about 22,500 agreement employees and about 2,700 management employees—about the same total number as in 1994. Between September 2000 and September 2002, total Amtrak employment decreased from 24,886 to 21,442.

[7]In nominal dollars; values exclude federal and state capital payments recognized as revenue.

[8]In fiscal years 2004 and 2005, Amtrak received over $1 billion in federal subsidies.

[9]GAO, *Intercity Passenger Rail: Amtrak Needs to Improve Its Decisionmaking Process for Its Route and Service Proposals*, GAO-02-398 (Washington, D.C.: Apr. 12, 2002).

Figure 3: Federal Subsidies to Amtrak, Fiscal Years 1971 to 2005



Source: GAO analysis of Federal Railroad Administration data.

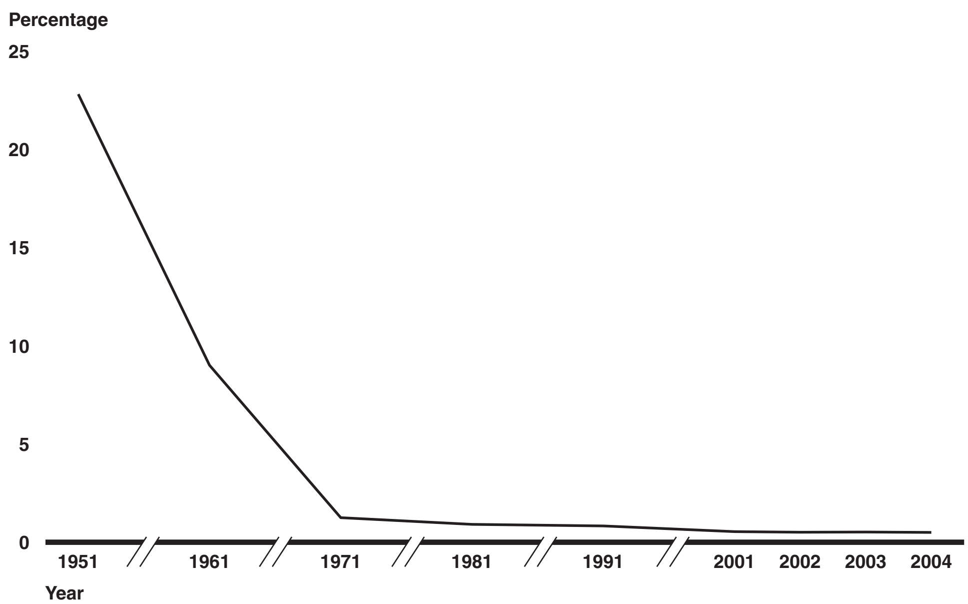
Note: Amounts are in nominal dollars. Excludes $880 million in loan guarantees but includes about $2.2 billion in Taxpayer Relief Act funds received in fiscal years 1998 and 1999. Amounts for fiscal year 1998 exclude $199 million in capital funds since Amtrak received Taxpayer Relief Act funds in that year. The receipt of Taxpayer Relief Act funds precluded Amtrak from receiving the $199 million in capital funds.

Amtrak's financial condition, instead of improving, deteriorated. In June 2001, Amtrak mortgaged a portion of Pennsylvania Station in New York City for $300 million to meet expenses. In November 2001, the Amtrak Reform Council—an independent oversight body created by the Amtrak Reform and Accountability Act of 1997—formally determined that Amtrak would not reach operational self-sufficiency by December 2002, as required by the act. Finally, in July 2002, Amtrak obtained a $100 million federal loan to meet expenses and continue operating. As we reported in April 2003, Amtrak also had developed a substantial deferred capital backlog of infrastructure improvements—about $6 billion worth ($3.8 billion, or about 63 percent, of which was attributable to the Northeast Corridor).[10]

[10]GAO, *Intercity Passenger Rail: Issues for Consideration in Developing an Intercity Passenger Rail Policy*, GAO-03-712T (Washington, D.C.: Apr. 30, 2003). In April 2005, the Department of Transportation Inspector General estimated this backlog at about $5 billion.

Aside from the financial struggles, reorganizations, and route and service actions, Amtrak has also struggled with a small share of the intercity travel market (see fig. 4). On the basis of data obtained from the Federal Railroad Administration (FRA), intercity passenger rail accounted for a relatively substantial portion (15 percent or more) of the travel market through the mid-1950s. However, by the early 1970s—about the same time Amtrak was created—the rail portion of intercity travel had declined to just over 1 percent of the intercity travel market. Since 1981, the passenger rail portion of the intercity travel market has been less than 1 percent, and, in 2004, intercity passenger rail was estimated at 0.5 percent of the market. FRA officials said decisions to invest in a national highway program and improvements in air travel, in part, led to the dramatic decreases in rail ridership.

Figure 4: Intercity Passenger Rail Market Share, 1951 to 2004



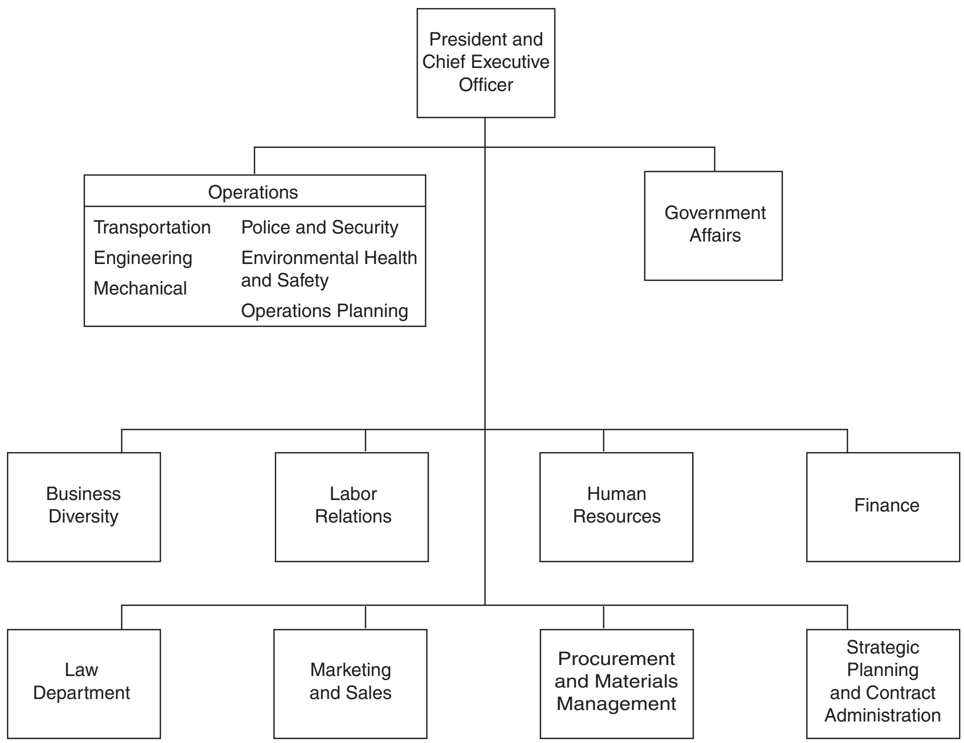
Source: Federal Railroad Administration.

Note: Data used to prepare this table are based on various estimates made by FRA. Unit of measure is millions of intercity passenger miles. A passenger mile is one person transported one mile. The market share is based on intercity passenger rail's share of the total intercity passenger miles of automobiles, buses, air carriers, and railroads.

Most Recent Changes Have Focused on Improved Management, Financial Stability, and Infrastructure Renewal

In June 2002, under Amtrak's new president and chief executive officer, the corporation abolished the SBUs and reorganized again. In making this organizational change, Amtrak recognized that the previous structure was too complex, had overlapping management duties, and had inefficient management decision making. The reorganization was to establish a more centralized, functional structure; establish accountability; and form a more orderly, lean hierarchy. (See fig. 5 for Amtrak's current organization chart.)

Figure 5: Amtrak Organization Chart, as of October 2004



Source: GAO analysis of Amtrak data.

According to Amtrak's new president, the company faced a multitude of problems at the time of his arrival. These problems included (1) no approved and distributed budget (even though the fiscal year was half over); (2) a finance department that was unable to close its books for fiscal year 2001 (and did not do so until 1 year after the close of fiscal year 2001); (3) no organization charts; (4) little control over employment (called "headcount"); and (5) an organization with fragmented responsibility for large functional areas, such as transportation, engineering, and mechanical (equipment). Amtrak's president told us that, when he arrived, he needed a structure to help him gain control of the company and that many functions were in poor shape. For example, he said that the procurement function was a part of the finance department and had no clear purchasing authority or review. Amtrak adopted a number of strategies to address these problems. These strategies included restoring company accounting practices to strict compliance with generally accepted accounting principles; preparing a multiyear project-specific capital plan to achieve a state of good repair; and using the budget process to establish operating goals and objectives and to hold managers accountable. Amtrak's president said these strategies were used to reduce headcount; increase production (e.g., ties installed, cars overhauled); and shift maintenance activities into planned production lines as opposed to spot repairs.

In conjunction with the 2002 organizational change, Amtrak's president also adopted a new approach to management that focused on five management tools: (1) defined organization charts, (2) zero-based operating budget, (3) capital budget (communicated through a 5-year strategic plan), (4) department-by-department goals and objectives, and (5) monthly performance reports. (See table 1.) The performance reports were to contain financial as well as production and budget variance information. Amtrak uses the five management tools not only to manage the company but also to help contain costs. The changes were designed to increase control over Amtrak, instill a sense of discipline in how the company was operated, and simplify the management structure to assign more responsibility to fewer people and hold them accountable for results. Since the reorganization, Amtrak has centralized many of its departments (such as the mechanical and marketing and sales departments) and established a budget process focused on the five management tools and control of headcount.

Table 1: Amtrak's Five Management Tools

Tool	Description
1. Organization chart	• Identifies a clear chain of command • Basis for developing Amtrak's budgets • Used to control Amtrak's labor costs
2. Operating budget	• Based on the headcounts and resources needed to accomplish department activities (zero-based budgeting process) • Focuses on maintaining or reducing the budget
3. Capital budget	• Based on capital investment needed to stabilize the railroad • Includes specific projects with production targets • Communicated through Amtrak's strategic plan
4. Goals and objectives	• Developed by each department • Basis for Amtrak's budgets
5. Monthly performance report	• Summarizes Amtrak's financial results, operating statistics, and capital activity • Primary tool for reporting Amtrak's performance, both internally and externally

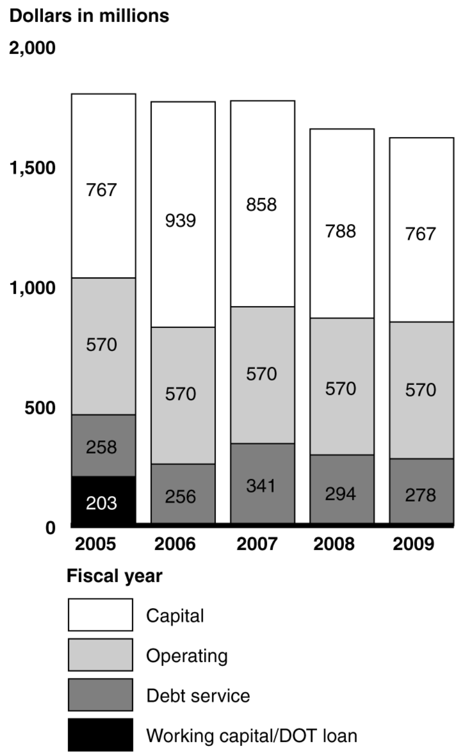
Source: GAO analysis of Amtrak data.

As part of the reorganization, Amtrak also refocused its efforts on stabilizing the corporation financially and restoring the infrastructure to a state of good repair. For example, Amtrak's April 2003 strategic plan (covering the period of fiscal years 2004 to 2008) stated that intercity passenger rail was in crisis, in part, due to physical deterioration and financial instability. To address these issues, the plan identified over $5 billion in total capital funding needs—with annual funding needs (both operating and capital) ranging from about $1.8 billion in fiscal year 2004 to about $1.4 billion in fiscal year 2008. These funds were to be used to, among other things, return plant and equipment to a state of good repair, control operating deficits, and restore liquidity to the corporation. The plan was designed to address Amtrak's immediate problems and to buy time for policy makers to decide the future structure of intercity passenger rail. Amtrak's June 2004 strategic plan (covering the period of fiscal years 2005 to 2009) similarly reiterated the need to stabilize the railroad and make capital investments in infrastructure. It identified about $4 billion in capital funding needs over the 5-year period—with about $1.7 billion in average annual funding needs (operating, capital, and debt service).[11] Under this

[11]The calculation of annual funding needs excludes $203 million in funds that were needed in fiscal year 2005 for working capital and were also needed to repay a Department of Transportation loan.

plan, operating support was projected to remain constant at $570 million per year, while capital funding needs were expected to increase from fiscal years 2005 to 2006 and then gradually to decrease. (See fig. 6.) Again, the June 2004 plan was designed to address Amtrak's immediate problems of stabilizing the railroad while bringing the infrastructure to a state of good repair.

Figure 6: Projected Funding Needs in Amtrak's June 2004 Strategic Plan



Source: Amtrak Strategic Plan, FY2005-2009 (dated June 29, 2004).

Note: The $203 million shown for fiscal year 2005 was a one-time need for working capital and was also needed to repay a Department of Transportation loan.

Amtrak's Operations, Governance, and Oversight Are Covered by a Variety of Requirements

Amtrak's operations, governance, and oversight are covered by a hybrid of public and private sector requirements. Amtrak was created as a corporation under federal law. Until 1997, Amtrak was classified as a mixed-ownership government corporation under the Government Corporation Control Act. Although federally created and the recipient of substantial federal financial assistance—about $29 billion since it began operating in 1971—Amtrak is to be operated as a for-profit corporation.

We reported in December 1995 that the Government Corporation Control Act was intended to make government corporations accountable to Congress for their operations while allowing them the flexibility and autonomy needed for their commercial activities.[12] A mixed-ownership corporation can be defined as a corporation with both government and private equity. In the case of Amtrak, the federal government held preferred stock of the corporation, and there were private entities that held common stock.[13] At the time of our 1995 report, Amtrak had nine board of director (board) members, five were appointed by the President and the remaining four were the Secretary of Transportation, the president of Amtrak, and two individuals selected by Amtrak's preferred stockholder (the federal government). Also at that time, Amtrak reported that it was not subject to and did not administratively adopt such statutes as the Government Performance and Results Act of 1993 (GPRA) and the Federal Managers Financial Integrity Act of 1982 (FMFIA). GPRA was designed to impose a new and more businesslike framework for management and accountability, including a requirement that federal agency missions be clearly defined and that both long-term strategic and annual goals be established and linked to mission statements. FMFIA imposed requirements for heads of federal agencies to evaluate and report on internal controls.[14]

[12]GAO, *Government Corporations: Profiles of Existing Government Corporations*, GAO/GGD-96-14 (Washington, D.C.: Dec. 13, 1995).

[13]At the end of fiscal year 2004, the federal government continued to hold preferred stock of Amtrak (approximately 109 million shares, with a book value of about $10.9 billion), and there were 9.4 million shares of common stock outstanding (with a book value of about $94 million) held by three railroads and a holding company.

[14]Internal controls are plans of organization, methods, and procedures adopted by management to ensure that (1) resource use is consistent with laws, regulations, and policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

The Amtrak Reform and Accountability Act of 1997 changed Amtrak's status as a mixed government corporation by removing Amtrak from the list of mixed-ownership government corporations. Today, Amtrak is at most similar in nature to a "government-established private corporation." Reflecting its private stature, Amtrak is not subject to most statutes that make federal establishments accountable. Statutes such as GPRA and FMFIA do not apply to Amtrak. Amtrak is a closely held corporation whose stock is not publicly traded; it is not subject to Securities and Exchange Commission oversight or to provisions of the Sarbanes-Oxley Act of 2002. However, as conditions to Amtrak's continued receipt of federal subsidies, Amtrak is subject to such federal statutes as the Freedom of Information Act and the Inspector General Act of 1978. Recent grant agreements between FRA and Amtrak have also made Amtrak subject to federal regulations applicable to for-profit organizations as well as certain federal procurement regulations.[15] Amtrak is also subject to limited jurisdiction by the Surface Transportation Board over matters such as compensation disputes with other railroads, as well as federal railroad safety laws administered by FRA.[16]

As a private, for-profit corporation, most statutes and regulations that govern the activities of federal entities do not apply to Amtrak. This includes federal acquisition regulations. Instead, Amtrak develops its own policies and procedures for handling the acquisition of goods and services. Under the terms of grant agreements between Amtrak and FRA, Amtrak is expected to comply with procurement, ethical, and other standards, including standards governing the conduct of employees engaged in the award and administration of contracts. Generally, contracts are to be awarded competitively using written procurement procedures, thereby ensuring that materials and services purchased with federal grant funds are obtained in a cost-effective and appropriate manner. The standards also require that procurement records and files shall include the basis for contractor selections, justifications for the lack of competition, and the basis for contract cost or price. Amtrak has incorporated both the federal

[15]Under the fiscal year 2005 operating grant agreement between Amtrak and FRA, Amtrak is subject to 49 C.F.R. Part 19, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and 48 C.F.R., Subpart 31.2, Contracts with Commercial Organizations.

[16]Amtrak also told us it was subject to federal environmental laws (including the Clean Water Act, the Clean Air Act, and the Resource Conservation and Recovery Act); the Occupational Health and Safety Act; and regulations of the Food and Drug Administration.

standards and their requirements in its procurement manual issued in June 2005. FRA is responsible for ensuring compliance with procurement standards.

Amtrak's corporate governance is defined in its articles of incorporation and bylaws. Amtrak is domiciled in the District of Columbia. The board is responsible for managing the affairs and business of the corporation and for oversight of Amtrak's president and management team. The Amtrak Reform and Accountability Act of 1997 reduced Amtrak's board from nine to seven members, who are appointed by the President with the advice and consent of the Senate. The Secretary of Transportation represents the federal government as a member of Amtrak's board. The board has operated with less than a full complement of voting members (seven members) since July 2003. Between October 2003 and June 2004, the board had only two voting members (excluding the Secretary of Transportation or his designee).[17] As of May 2005, the board had three members, (excluding the Secretary of Transportation or his designee and the president of Amtrak). Amtrak's bylaws also authorize the establishment of committees to assist the board in carrying out its management responsibilities. In March 2002, the board eliminated ad hoc committees, along with the corporate strategy committee and the safety, service, and quality committee. At that time, the audit, corporate affairs, finance, compensation and personnel, and legal affairs committees were created. As of May 2005, the board continued to have these five committees. Finally, Amtrak's bylaws permit the corporation to conduct periodic shareholder meetings as necessary. Following enactment of the Amtrak Improvement Act of 1981, which abolished election of members of the board of directors by the common shareholders, Amtrak has not held a shareholders' meeting.

Oversight of Amtrak's activities, other than through the board, is provided by a number of means. Congress plays a role through the authorization and appropriations process. The Amtrak Reform and Accountability Act of 1997 authorized federal appropriations for Amtrak through September 30, 2002.[18] Although a new authorization had not been enacted as of July 2005, the authorization process permits Congress to review Amtrak's previous and planned use of federal resources. The appropriations process provides

[17]The president of Amtrak is a member of the board but is not a voting member.

[18]Amtrak continued to receive funds in fiscal years 2003 to 2005 through annual appropriations.

Congress with the opportunity to oversee Amtrak's stewardship of federal funds on an annual basis. Starting with Amtrak's fiscal year 2003 appropriations legislation, Congress adopted measures to increase the Secretary of Transportation's responsibility for providing oversight and accountability for the federal funds used for intercity passenger rail service. Among other things, these measures require that Amtrak transmit a business plan to the Secretary of Transportation and Congress, supplemented by monthly reports describing work completed, changes to the business plan, and reasons for the changes. The business plan is to describe the work to be funded with federal funds. Consistent with requirements begun in the fiscal year 2003 appropriations act, Amtrak and FRA have entered into grant agreements for the use of fiscal years 2003, 2004, and 2005 federal funds. FRA determines Amtrak's compliance with these grant agreements.

Amtrak's activities are also subject to review by the Inspector General's offices within Amtrak and the Department of Transportation (DOT), as well as review by GAO. The Amtrak Office of the Inspector General (Amtrak OIG) was established by the Inspector General Act Amendments of 1988 to provide independent audits and investigations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse in Amtrak programs and operations.[19] The Department of Transportation Inspector General also plays a role in assessing Amtrak's financial performance and is charged with assessing Amtrak's financial performance and needs for every year after 1998 in which Amtrak requests federal financial assistance. GAO has the authority to review Amtrak activities and transactions. Over the years, we have issued numerous reports and testimonies on Amtrak's financial performance and the need for federal financial assistance.

Objectives, Scope, and Methodology

The overall objective for our work was to determine whether Amtrak is using its federal resources in the most efficient and cost-effective manner. Our specific objectives were to determine (1) Amtrak's strategic planning process and the extent to which Amtrak has implemented a performance-based approach; (2) Amtrak's financial reporting and internal control practices and how well they support management and accountability of the corporation; (3) Amtrak's costs and cost containment strategies, including

[19] GAO, *Activities of the Amtrak Inspector General*, GAO-05-306R (Washington, D.C.: Mar. 4, 2005).

the existence and use of metrics to identify and understand the nature of the corporation's costs; (4) Amtrak's acquisition of goods and services, including organizational alignment and strategic focus, compliance with procurement policies and procedures, and information management; and (5) the overall accountability and oversight of the corporation. We focused on these five objectives since these are key elements to addressing the efficiency and cost-effectiveness with which federal resources are used by Amtrak. We did not explicitly review information technology and human capital issues—which are two additional elements of a management and accountability framework used in leading organizations to successfully manage resources. We also did not review revenue issues, such as Amtrak's strategies and controls for setting fares or projecting revenue estimates. Our scope was primarily limited to Amtrak's policies and procedures from fiscal years 2002 to 2004. However, we collected data prior to this time period to provide context and to ascertain what trends, if any, exist.

To address strategic planning and performance-based issues, we reviewed documents describing Amtrak's management tools; strategic planning process; and the process for preparing budgets, goals, and objectives. We reviewed minutes of Amtrak board meetings and interviewed Amtrak and FRA officials and members of Amtrak's board to understand the corporation's strategic planning process and interviewed Amtrak officials on the extent to which a performance-based management framework had been implemented. We used this information to analyze the nature of Amtrak's strategic planning process, identify whether Amtrak had established a clear statement of its mission, and determine whether this mission was linked to measurable goals and objectives. We also reviewed and analyzed Amtrak's monthly performance reports and the department quarterly reports for the transportation, mechanical, and engineering departments to assess performance information generated by Amtrak. We interviewed commuter and freight railroad officials and VIA Rail Canada (VIA Rail)[20] officials to determine industry strategic planning practices. We used relevant GAO reports and widely used standards and best practices, as applicable, to determine criteria for assessing Amtrak's management structure as well as to suggest best practices to Amtrak.

To assess Amtrak's financial reporting and management practices, we gained an understanding of control activities related to financial reporting, the design of internal control practices over the expenses related to food

[20]VIA Rail Canada is Canada's intercity passenger rail provider.

and beverage operations and employee benefits, and efforts to strengthen management practices. We also reviewed selected workpapers for fiscal years 2002 and 2003 that were relied on by an independent public accountant (IPA) firm to issue an opinion on the Amtrak consolidated financial statements, IPA letters that considered internal control practices over financial reporting, and reports by the Amtrak OIG. We observed control practices over certain key areas of expense and analyzed interim financial information for areas such as train route performance, food and beverage operations, and employee benefit expense. To test the reliability of the financial data provided by Amtrak officials, when practical, we compared such information with amounts reported in Amtrak's audited financial statements for fiscal years 2002 and 2003. We interviewed officials from various Amtrak departments and the Amtrak OIG as well as officials from FRA, Amtrak's IPA, and the food and beverage contractor. In addition, we interviewed and collected information from officials from several freight and commuter railroads. This information was used in conjunction with GAO's *Standards for Internal Control in the Federal Government*, to assess how well Amtrak's financial reporting and management practices support the management and external stakeholders' efforts.

To address cost and cost containment issues, we reviewed Amtrak financial reports and obtained data on Amtrak's operating costs. We also interviewed Amtrak, FRA, freight and commuter railroads, and VIA Rail officials about cost control practices. The freight railroads were selected on the basis of their size in terms of operating revenue and track mileage and carloads originated, and, in the case of commuter railroads, both the volume of ridership in 2002 and the size of capital and operating budgets, among other factors. VIA Rail was selected because it is a large (in terms of route miles operated) intercity passenger railroad and has characteristics similar to Amtrak in that VIA Rail operates both long- and short-distance intercity passenger service and relies on government support to maintain operations. We used Amtrak documents and interviews with Amtrak officials to assess Amtrak's cost containment strategy and the company's knowledge of its costs. In performing our analysis, we used information from Amtrak's audited financial statements for fiscal years 2002 and 2003. We also used information from Amtrak's preliminary financial statements for fiscal year 2004. These statements were in the process of being audited during our review. Amtrak released its audited financial statements in August 2005 after our audit work was completed. However, to test the reliability of the preliminary information we used, where practical, we compared data from the preliminary statements with the audited statements. We found no major differences.

To address acquisition issues, we reviewed Amtrak's procurement policies and procedures; drafts of Amtrak's procurement manual; and other documentation, such as organization charts and department goals. We also reviewed reports prepared by the Amtrak OIG on procurement issues. We observed how procurement requests are handled and processed and discussed Amtrak's acquisition practices with officials from the procurement department. We reviewed data on expenditures made for advertising, sales promotion, professional services, and consulting and reviewed a nonprobability sample of 61 contract files associated with these services to assess compliance with Amtrak's procurement policies and procedures.[21] (See app. I for our contract selection methodology.) We also (1) reviewed expenditure data related to Amtrak's use of outside legal services and the law department's guidelines applicable to outside legal services and (2) discussed the law department's practices for acquiring outside legal services with law department officials—including specific examples of how they acquire those services. In addition, we discussed procurement practices with officials in other departments, such as the finance, marketing and sales, engineering, and mechanical departments. To obtain an understanding of acquisition practices in other railroads, we discussed procurement practices with officials at four freight railroads and five commuter railroads as well as with procurement officials at VIA Rail.

To assess the reliability of the procurement data Amtrak provided, we compared them with Amtrak audited financial statement data for fiscal years 2002 and 2003 for the accounts we reviewed. (The expenditure data came from a different database.) We then asked Amtrak to reconcile differences that we identified between the two sets of accounts. Because Amtrak officials said this reconciliation had to be done manually and would take substantial time, data were reconciled for only one account—sales promotion. Consequently, we used the procurement expenditure data only to select a nonprobability sample of procurement contracts to review. Similarly, we could not reconcile expenditure data for Amtrak's outside legal services—taken from the law department's case management system—with audited financial data. As a result, these data were only used to identify selected matters to discuss with law department officials about how outside legal services are acquired. Finally, we used information on payments of invoices for outside legal services from Amtrak's accounts

[21]Results from nonprobability samples cannot be used to make inferences about a population, because in a nonprobability sample some elements of the population being studied have no chance or an unknown chance of being selected as part of the sample.

payable system. Again, because we could not reconcile the accounts payable information with the audited financial data, these data were used solely to select a nonprobability sample of 10 invoices to assist us in understanding the controls over payments for outside legal services.

To address overall accountability and oversight issues, we reviewed legislation relevant to the management and governance of Amtrak, Amtrak's articles of incorporation and bylaws, and recent grant agreements between Amtrak and FRA. We also reviewed various proposals to reform both intercity passenger rail and Amtrak operations put forth by the administration and Amtrak's board and management. Finally, we discussed oversight and accountability issues with Amtrak, board, and FRA officials and reviewed previous GAO reports on Amtrak's financial condition and operations. We used this information to identify the type and degree of oversight and accountability that has been exercised by various Amtrak stakeholders and the potential role that reform efforts might play in future oversight and accountability of Amtrak or other intercity passenger rail operators.

In performing our work, we reviewed and considered best practices described in documents from leading organizations in each of our five areas. These documents included various GAO reports and guides issued over the years on strategic plans and planning processes, financial management and internal controls, the implementation of GPRA requirements, acquisition practices, and the components of a framework for analyzing federal investments. These documents helped us to compare Amtrak's management practices with those of leading organizations.

We conducted our work from April 2004 to July 2005 in accordance with generally accepted government auditing standards.

Amtrak Lacks a Comprehensive Strategic Plan and a Performance-Based Approach to Better Ensure Cost-effective Results

Although Amtrak has improved its management approach in recent years, it still lacks a comprehensive strategic planning process and performance-based framework characteristic of leading organizations. Leading organizations we have studied use strategic planning to articulate a mission and goals for all levels of the organization, measure progress toward those goals, and ensure accountability for results. Amtrak, however, has not developed a comprehensive strategic plan that includes a mission statement and corporatewide goals to articulate what it is trying to accomplish. In the absence of a clear statement of its overall mission, Amtrak developed a capital plan (titled by Amtrak a "strategic plan"), which focuses mainly on one goal—restoring the company's infrastructure to a state of good repair. Although this plan provides guidance for its capital funding, Amtrak lacks a meaningful strategic plan that articulates measurable corporatewide goals, strategies, and outcomes. Similarly, while the five management tools instituted by Amtrak's president provide a framework for determining annual goals and budgets, they do not provide an approach that sufficiently focuses on outcomes (such as service and on-time performance) rather than outputs (such as units of production). The departments within Amtrak have developed their own department-specific goals, but without a mission or corporatewide goals, Amtrak cannot ensure that its department-specific goals support or improve overall corporate performance. Further, many department goals were set without a sufficient understanding of current baselines or what was achievable.

Evidence of a robust, corporatewide performance management framework is also absent. Key departments within the company—the engineering, mechanical, transportation, and marketing and sales departments—could benefit from a performance-based approach to achieving goals—that is, developing and documenting strategies or action plans to achieve goals; using an incentive-based system to help ensure clear responsibility and accountability for supporting corporate performance; and generating key data for monitoring, evaluating, and reporting on performance.

In April 2005, Amtrak's board and management released a set of strategic reform initiatives that includes a vision for Amtrak and suggests that Amtrak, among other things, plan and report by lines of business—but challenges exist to fully implementing these initiatives. Specifically, Amtrak officials noted such challenges as the need for legislative action and the ability to keep its employees focused on long-term change. These challenges, along with the uncertainty of Amtrak's future, may all affect whether Amtrak's initiatives are adopted and implemented.

Leading Organizations Manage by Focusing on Missions and Goals Spelled Out in a Strategic Plan

Leading organizations we have studied—both public and private—use strategic planning as the foundation for their activities.[1] For these organizations, the strategic plan articulates a mission and goals for all levels of the organization that are tied to the strategies that will be used to achieve those goals. The strategic plan provides a foundation for strategic management initiatives, such as organizational realignment; performance planning, measurement, and reporting; accountability for results; and improvements to the capacity of the organization to achieve its goals. The strategic planning process facilitates communication within the organization as well as with external clients and allows oversight bodies to assess overall performance. For example, in the federal arena, GPRA established a strategic planning process as a way to demonstrate and communicate performance and focus federal agencies on the results of their activities (outcomes) as opposed to the activities themselves. Publicly traded, private companies—such as the freight railroads whose officials we interviewed—said they rely on strategic planning to establish, assess, and communicate company goals, resources, and strategies for the next 3 to 5 years.

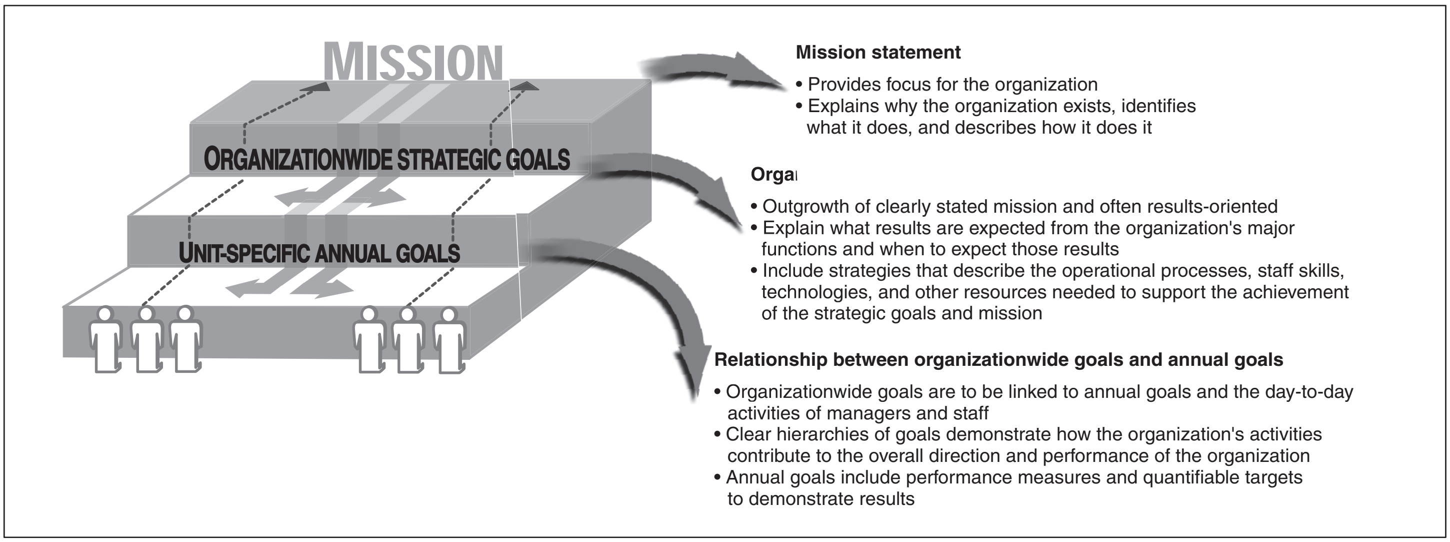
Strategic plans developed by the leading organizations we studied include the basic elements outlined in figure 7. One of these elements is a clear linkage between the overall organizational mission, organizationwide strategic goals, and the activities of all organizational units. The first step in the process involves developing a comprehensive mission statement that employees, clients, customers, partners, and other stakeholders understand and find compelling.[2] The leading organizations we studied then seek to establish clear hierarchies for performance goals and measures by linking the performance goals and measures for each organizational level to successive levels and ultimately to the corporatewide goals and mission. Annual goals provide a connection between the corporatewide strategic goals and the day-to-day activities of managers and staff and provide measures of progress toward achieving the

[1]GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: December 1998). In this executive guide, criteria were developed to select a mixture of private and public organizations, including, but not limited to, the Mobil Corporation, General Electric, Washington State, and Minnesota.

[2]GAO, *Comptroller General's Forum: Highlights of a GAO Forum on High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment*, GAO-04-343SP (Washington, D.C.: Feb. 13, 2004).

corporatewide mission. Without clear, hierarchically linked performance measures, managers and staff throughout the organization lack straightforward road maps showing how their daily activities can contribute to attaining corporatewide goals and mission.

Figure 7: Key Elements of a Strategic Plan



Source: GAO.

In addition, a performance-based framework is essential for ensuring that all activities and individuals within the organization are working toward goals and achieving results. Within this framework, organizations identify strategies and resources to achieve their goals; hold individuals accountable for contributing to those goals; and use performance data to monitor, evaluate, and report on progress toward goals. Once these organizations develop fact-based understandings of how their activities contribute to accomplishing their mission and broader results, they evaluate and adjust their efforts, if necessary, to optimize their contributions to corporate results.

Amtrak Lacks a Strategic Plan That Includes Key Elements Necessary to Comprehensively Manage the Corporation

Amtrak has not developed a comprehensive strategic plan that articulates a mission, corporatewide goals that are tied to the mission, strategies that will be employed to achieve those goals, and outcomes for efforts needed to run all the components of its operations—both capital and operating. Amtrak developed a capital plan—which it calls a strategic plan—that covers capital projects, ties to the capital budget, and supports the state of good repair goal, but Amtrak does not have a documented plan that includes measurable or comprehensive corporatewide goals or strategies for other aspects of the company's operations. Units within Amtrak have developed department-specific goals, but without a strategic plan, Amtrak cannot ensure that these goals support corporatewide performance.

Amtrak Lacks a Comprehensive Statement of Its Overall Mission

Amtrak does not have a comprehensive statement of its overall mission to provide and communicate a clear focus for the company. One Amtrak official noted that the issue of Amtrak's mission is at the heart of the Amtrak debate. Amtrak's president has not established a comprehensive mission for Amtrak. Instead, he has focused on repairing and improving the railroad and believes that policy makers—such as the administration and Congress—are responsible for determining Amtrak's role. However, federal statute already articulates a purpose for the company—to operate a national rail passenger transportation system.[3] To bring focus, Amtrak, like any public or private organization, is responsible for taking that broad purpose and establishing a clearly defined mission that describes specifically what the organization plans to do and how it plans to do it.

Amtrak's board of directors has a role in defining this mission, but until recently, the board has not been active in doing so. The chairman of Amtrak's board agreed that the board is responsible for establishing a mission for Amtrak, but the Amtrak board meeting minutes between February 2002 and August 2004 did not contain any written documentation of the board discussing a vision or mission for Amtrak. The board chairman said the absence of a full complement of board members has limited the board's ability to develop a mission for the company.[4]

[3] 49 U.S.C. § 24701.

[4] Over the period of October 2003 to June 2004, the board only had two voting members, exclusive of the Secretary of Transportation or his designee.

Amtrak's Corporatewide Goal and Strategies Encompass Only Part of Its Operations

Since April 2003, Amtrak's president focused the company's efforts on returning the railroad to a state of good repair—that is, to improve the condition of its equipment and infrastructure. In testimony before the Senate Committee on Commerce, Science, and Transportation in 2003, Amtrak's president noted that repairing and improving the railroad is in "everyone's interest" because regardless of Amtrak's future structure, Amtrak's infrastructure will have to be in a state of good repair to provide intercity passenger rail service. As we reported in April 2003, Amtrak had developed a substantial deferred capital backlog (about $6 billion—$3.8 billion of which was attributable to the Northeast Corridor),[5] and in reports dating back to 1995, we noted that this issue needed to be addressed soon.[6] Amtrak officials have noted that, in the past, the absence of a focus on a state of good repair had resulted in such things as deteriorating bridges, increased trip times, and decline in overall ride quality.

Amtrak's goal of a state of good repair addresses infrastructure deficiencies. However, the company's focus on this one issue leads to an unbalanced approach to the management of its business. For example, Amtrak's goal of a state of good repair addresses the company's capital program, including the repair or replacement of rails, bridges, and locomotives, but does not encompass important elements of Amtrak's operations—such as human capital and customer service—and lines of business—such as commuter rail and reimbursable services.[7] Focusing on one priority at the expense of others may skew the company's overall performance and keep managers and oversight bodies from seeing the whole picture. In the subsequent chapters, we explain how Amtrak has significant challenges in a number of areas, such as an increasing operating loss and the procurement of goods and services. Not broadening its focus to include the myriad of other challenges and critical areas at Amtrak could continue to jeopardize the future viability of the company and undermine efforts to control the required level of federal subsidies and ensure federal dollars are efficiently and effectively spent.

[5] GAO-03-712T.

[6] GAO, *Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability*, GAO/RCED-95-71 (Washington, D.C.: Feb. 6, 1995); *Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures*, GAO/RCED-96-144 (Washington, D.C.: June 27, 1996); and GAO/RCED-00-138.

[7] Amtrak operates six commuter rail services under contract and provides mechanical and engineering services for third parties.

Amtrak does not have a meaningful strategic plan but rather has developed a detailed 5-year capital plan to support its corporatewide goal of a state of good repair. Amtrak titled this document a “strategic plan,” but Amtrak’s president and board chairman both acknowledge that this plan is essentially a capital plan that covers capital projects and ties to the capital budget. The capital goals in Amtrak’s plan translate to capital production goals for certain departments, such as the mechanical and engineering departments, and link to achieving the goal of a state of good repair. For example, the engineering department had a performance goal to install 155,760 concrete ties in fiscal year 2004. By completing this goal, the engineering department is supporting Amtrak’s goal of achieving a state of good repair, although without a strategic plan, it is unclear how important this performance goal is toward achieving a state of good repair or to what extent achieving this goal will remedy the infrastructure deficiency.

Although Amtrak has a detailed capital plan, Amtrak lacks a strategic plan that articulates a comprehensive mission, measurable corporatewide goals, strategies, and outcomes for the efforts needed to run all the components of its operations—both capital and operating. For example, Amtrak does not have a documented plan that states measurable corporatewide goals or strategies for controlling or reducing costs, managing on-time performance, increasing the productivity of the workforce, or reducing dependence on federal funding in its strategic plan. Amtrak’s capital plan for fiscal years 2005 through 2009 includes information on Amtrak’s operating loss—noting that its operating loss will increase over the next several years. To offset this increase, the plan proposes implementing “additional service, crew, and equipment efficiencies.” This plan, however, does not include measurable targets or strategies to achieving these efficiencies. Amtrak’s president maintains that the operating budget provides guidance for these initiatives. Although the operating budget provides financial targets for the departments, it does not, however, articulate measurable goals, strategies, or outcomes for the corporation.

Amtrak’s president acknowledged that there was very little documentation of plans, strategies, and goals. He said that Amtrak was looking to produce results, not develop documents and written strategies during this time. He also said that staff knew what they needed to get done during the 2002 to 2005 time frame—reduce headcount and increase production. In our view, however, this is a risky approach since there is no assurance that goals and strategies are clearly communicated and understood by those responsible for carrying them out. Moreover, it is also important to establish clear, consistent goals at the organization and agency levels in order to identify the risks that could impede the efficient and effective achievement of these goals.

Unlike Amtrak, some of the railroads we contacted develop comprehensive corporatewide goals to support their missions. Figure 8 illustrates examples from these railroads. For example, one freight railroad company developed a mission statement that focuses on its three constituencies—customers, employees, and shareholders—and established six categories of business objectives to implement that mission and drive its strategic planning process. In another example, VIA Rail established a mission statement that is supported by its six corporatewide goals.

Figure 8: Examples of Missions and Goals from Other Railroads

Example from a Freight Railroad

Mission: To be a company where our customers want to do business, our employees are proud to work, and shareholder value is created.

Categories of business objectives:

- Safety
- Operations performance
- Financial performance
- Asset utilization
- Customer satisfaction
- Human resources

Example from VIA Rail Canada

Mission: Working together to consistently deliver safe, efficient, and environmentally responsible services for travelers in Canada.

Corporatewide goals:

- Safety: To ensure a safe and secure work and operating environment for colleagues, customers, and the general public who come in contact with VIA Rail's operations.
- People: Working together to create an environment that promotes a passionate commitment to VIA Rail's business success.
- Growth: To be the first choice of travelers in all markets that we serve.
- Service: To consistently provide our customers with excellent travel experiences.
- Environment: To conduct our business of meeting the needs of our customers in an environmentally sustainable and responsible manner.
- Entrepreneurship: To move toward self-sufficiency by reducing government funding for operations and applying savings toward new capital investment.

Sources: Freight railroad officials and VIA Rail Canada's strategic plan.

Without a Link to a Mission or Corporatewide Goals, Amtrak's Department-Specific Goals Do Not Demonstrate Support of Corporate Outcomes

Absent a strategic plan containing a comprehensive mission and corporatewide goals and strategies, Amtrak lacks a process for developing annual department-specific performance goals that ensures these goals support or improve corporate outcomes. Leading organizations we studied developed fact-based understandings of how their activities contribute to accomplishing their overall mission and broader results.[8] In contrast, Amtrak's capital-related goals link to its capital plan, while Amtrak's department heads generate operations-related goals that are based on the priorities and activities of their own departments and seek to align those goals with the priorities of Amtrak's president. Except for providing a standard template for stating the departments' goals, Amtrak has little companywide written guidance on how to develop department goals and objectives.

The process Amtrak uses provides no assurance that goals developed by a department contribute to improved overall company performance. Amtrak managers said some department goals, such as those related to on-time performance, safety, and ticket revenue, are self-evident. We agree that these goals are important for Amtrak's performance. However, without a strategic plan that addresses all company activities, the departments cannot (1) assess or communicate the extent to which their department-specific goals are related to the priorities of the organization or (2) contribute to Amtrak's overall performance.

In addition to the lack of a process for developing department-specific goals that relate to a mission and corporatewide goals, Amtrak's department-level targets[9] in fiscal years 2003 and 2004 were not always set with a clear understanding of current baselines or what a department could hope to achieve. This lack of clarity, according to Amtrak officials, resulted from such things as the following:

- *Limited experience or data on which to set goals and targets.* According to Amtrak officials, in previous years, goals existed in areas such as safety and on-time performance, and some departments developed their own set of goals. However, prior to fiscal year 2003,

[8]GAO-04-343SP.

[9]According to the Office of Management and Budget, a "target" is defined as a quantifiable or otherwise measurable characteristic that tells how well a program must accomplish a performance measure.

departments were not required to develop goals as a basis for Amtrak's budgets. As a result, some department-level targets in fiscal years 2003 and 2004 were based on assumptions, not an analysis of data, because data did not exist. An Amtrak official acknowledged that in fiscal years 2003 and 2004, there was no hard link between goal setting and data analysis. For example, the target for the transportation department's injury goal[10] in fiscal years 2003 and 2004 was based on the previous year's target since, according to an official in the transportation department, the department did not achieve its goal of a 3.8 injury ratio in the previous fiscal years. The engineering department established a delay minute target for fiscal year 2003 but missed the target by over 60,000 minutes because, according to the chief engineer, the department set the goal without an understanding of the impact of the company's increased capital activities.[11] Without data, goals have also been set by making incremental improvements to historical trends. For example, the engineering department established an absenteeism target to reduce absenteeism by 10 percent over the fiscal year 2003 results. Amtrak officials said that, in some cases, Amtrak's goals are an expression of "aspiration" rather than a realistic target. For example, Amtrak's on-time performance has averaged about 75 percent from fiscal years 1990 to 2003, yet the transportation department set its fiscal year 2004 on-time performance at 85 percent.

- *Organizational restructuring*. According to officials, Amtrak's organizational restructuring effort also affected the departments' ability to establish and achieve goals. For example, officials in the mechanical department noted that although the department established goals in fiscal years 2003 and 2004, officials were more focused on the restructuring effort than on achieving department goals and maintain that organizing the department's structure, policy, and standards are critical components required to meet the departments' goals.

[10]The injury ratio is determined by the number of injuries per 200,000 work-hours, which is an industry standard in reporting employee injury rates.

[11]In fiscal year 2003, the engineering department's target for reducing the number of delay minutes caused by capital work was 111,212 delay minutes. Amtrak's chief engineer noted that fiscal year 2003 was the first time an effort had been made to set a goal for delay minutes due to capital investment activities. He stated that the fiscal year 2003 capital program was a major increase in capital activities over the prior years and foreseeing the combined impact of these activities was beyond the department's capabilities in fiscal year 2003. However, he stated, in fiscal year 2005, these delays are being forecasted and measured and thoughtful goals are being established.

Amtrak officials recognize that goal development at Amtrak is a work in progress and believe that the departments are more focused in setting more strategic and measurable goals. For example, in a review of the marketing and sales department's ticket revenue goals for fiscal years 2003, 2004, and 2005, we found that the department had established more specific targets for its 2005 goal than for its 2003 goal. However, without a mission statement or corporatewide goals, Amtrak cannot demonstrate or ensure that its departments' activities contribute to accomplishing corporate results.

Amtrak's Five Tools Support Short-term Results but Not the Long-term Management of the Corporation

Amtrak's five management tools provide a process for identifying Amtrak's need and use for resources on an annual basis and produced some results. As noted in chapter 1, Amtrak's president instituted five management tools—the organization chart, operating budget, capital program (communicated through a document that Amtrak calls a strategic plan), goals and objectives, and monthly performance reports. These tools are used to manage the corporation, control costs, and address the challenges that existed when Amtrak's president arrived at Amtrak. Annually, each department is required to develop budgets that are based on activity levels and clear, specific, measurable goals. Amtrak's president stated that because of these tools, Amtrak has seen results, including decreased headcount and increased production activities, from what Amtrak characterized as "a program that had been all but eliminated by fiscal year 2002" to a production line approach with tangible results.

Although Amtrak's tools provide a framework for developing annual goals and budgets, these tools do not provide a long-term, integrated approach for managing the corporation and focus on outputs (units of production), not outcomes (results, such as better service or on-time performance). One important internal control standard is risk assessment, and a precondition to risk assessment is the establishment of clear, consistent goals and objectives both at the entity level and the activity (program or mission) level.[12]

Without a strategic plan to guide all business activities, Amtrak does not have a process for integrating the efforts across the organization or for assessing and addressing company risks. Moreover, without a strategic

[12]GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

plan, Amtrak does not have overall corporate performance measures and cannot establish a clear understanding of what it is trying to accomplish with its resources and company activities.

Amtrak's Planning Process Could Benefit from Increased Use of a Performance-Based Framework to Achieve Its Goals

While Amtrak's key departments—the mechanical, engineering, transportation, and marketing and sales departments—have made some progress in setting goals, they will likely continue to struggle in achieving those goals without incorporating elements of a performance-based framework. These elements include

- developing strategies or action plans that describe the processes, methods, and resources necessary to achieve the goals;
- linking unit goals to individual responsibilities to hold individuals accountable for contributing to the achievement of the goals; and
- using reliable performance data to monitor, evaluate, and report performance results and determine how well activities and programs contribute to achieving goals and improving performance.

Amtrak's Key Departments Do Not Consistently Develop Comprehensive Strategies to Achieve Department Goals

Amtrak's key departments do not consistently develop comprehensive strategies or action plans for achieving their key goals. For example, the marketing and sales department articulated specific objectives or actions for achieving its ticket revenue goal in fiscal years 2003 and 2004. In contrast, the transportation department is still in the process of implementing a plan to address train delays caused by passengers boarding the train, but the department did not develop documented strategies or action plans for other elements that affect on-time performance, such as freight or commuter train interference. An official in Amtrak's transportation department noted that some goals lack action plans because some goals and objectives lend themselves to action plans better than others and that "aspirational goals" often come down to "just work harder."

Without action plans, Amtrak lacks clearly stated strategies for how it intends to achieve its goals. For example, the mechanical department established a goal in fiscal year 2004 to create a "national" mechanical department but did not develop a specific action plan to achieve that goal. Although Amtrak's president acknowledged that Amtrak did not have a written action plan for establishing the national mechanical department, he maintains that he and his staff knew what needed to be done to establish the national department. Officials in the mechanical department stated that organizational charts were used to detail the position requirements and equipment assignments by location, and that standard work scopes were also developed. However, without a documented action plan, Amtrak cannot ensure that critical actions and milestones are established and accurately communicated to those involved in the transition or monitor progress toward the transition.[13]

An Incentive-Based Performance Management System Could Strengthen Accountability for Achieving Goals

To hold the department heads accountable for goals and budgets, Amtrak's president holds quarterly and periodic reviews with department heads, who are required to sign off on financial and headcount information in the company's monthly performance reports. For example, the department heads within the operations department—including the engineering, mechanical, and transportation departments—review the status of their budgets and goals every quarter in a meeting with Amtrak's president and senior vice president of operations. Departments outside of the operations department, such as the marketing and sales department, meet with Amtrak's president on a periodic basis to review the department's budget and discuss the status of some department goals.

Although Amtrak managers told us that they hold their managers accountable for achieving department goals and the results of the goals are factored into annual personnel evaluations, Amtrak does not have a pay-for-performance management system to provide incentive for achieving goals. That is, individual performance is not directly tied to compensation. Leading organizations we have studied seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. Amtrak officials noted that management has considered implementing a performance-based compensation system and has discussed a plan with Amtrak's board of directors. However, because of other concerns being addressed by the board, Amtrak management's pay-for-performance plan has not been on the

[13]In our December 2004 report, we found that Amtrak did not develop an implementation plan for addressing the key challenges related to the settlement between Amtrak and the Consortium of Bombardier and Alstom. We also reported in February 2004 that Amtrak's lack of comprehensive project management for the Northeast High-Speed Rail Improvement Project contributed to its inability to achieve project goals.

board's agenda as of March 2005, and, according to an official, Amtrak does not plan to implement such a plan this fiscal year.

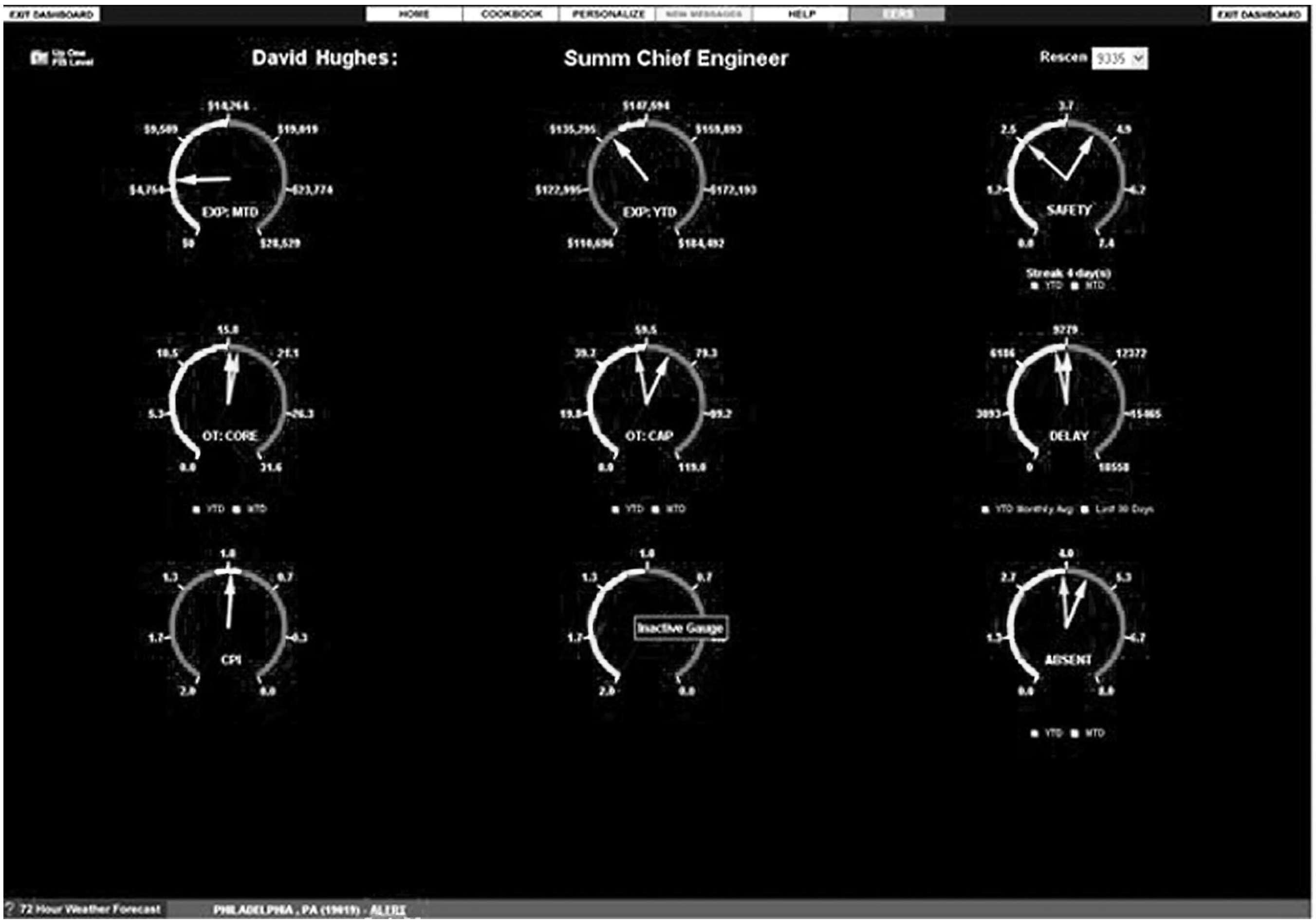
According to an Amtrak official, the board has been working with management to resolve their concerns about the pay-for-performance system, such as which management positions would be eligible and the operational and financial metrics to make merit pay and bonus decisions. Another Amtrak official noted that the current performance evaluations do not have much impact on performance because there is no satisfactory or unsatisfactory rating and no tie to compensation. An Amtrak official from the strategic planning department noted that a pay-for-performance system is critical to successfully implementing Amtrak's strategic reform initiatives. This type of system, he stated, is essential for Amtrak to act more like a private entity. However, it would be difficult for Amtrak to implement a pay-for-performance system without first establishing organizationwide goals that provide the basis for aligning daily activities with broader results.

Amtrak's Data Systems and Processes Limit Its Ability to Monitor, Evaluate, and Report on Performance

A common theme we found in numerous areas we reviewed involved Amtrak's limited ability to effectively monitor, evaluate, and report on performance due to the shortcomings of some of its data systems and reporting processes. These shortcomings were manifested in several ways. First, we found numerous instances where key reports were missing relevant information or where information was of questionable reliability. As discussed in more detail in chapter 3, we found that Amtrak's monthly performance reports, a key document used by managers and stakeholders alike, did not contain information that would enhance their relevance to users. For example, information on Amtrak's food and beverage service did not include gross profit analysis, revenues, cost of meals, and other basic metrics. Second, as discussed in detail in chapter 4, Amtrak lacks certain key cost metrics, such as cost-per-revenue passenger mile and cost-per-locomotive overhaul that would allow managers to better measure performance, assess whether resources are being used efficiently, and identify potential cost-saving areas. Finally, as discussed in detail in chapter 5, Amtrak's procurement and financial databases are limited such that management does not have detailed, reliable, and comprehensive data on total spending for the estimated $500 million it spends annually on goods and services. The absence of such information, which is due, in part, to limitations in Amtrak's computer systems and lax controls over data reliability, makes it difficult to identify strategic sourcing opportunities, leverage Amtrak's buying power, and reduce procurement costs.

One department we reviewed had made progress. That is, Amtrak's engineering department has developed a data system that allows the department's managers to monitor performance in a real-time basis. The department developed a computer "dashboard" system that is updated every day and requires the department's 45 managers to review the status of their goals on a daily basis after they log into their computers. See figure 9 for a snapshot of the dashboard. For example, one "dial" on the dashboard shows the real-time status of the department's safety goal compared with the year-to-date and month-to-date targets. The chief engineer said that if these data show a variance in a goal, he can "drill" into the data to determine the unit within the department that is experiencing problems and the person responsible for that unit. He then contacts the head of the specific division to discuss the cause and the actions taken to address the problem. Although this system does not monitor all of the department's goals, it allows managers to monitor, analyze, and quickly respond to changes in performance goals on the basis of real-time information.

Figure 9: Snapshot of the Engineering Department's Dashboard System



Source: Amtrak.

Despite positive developments in some areas, Amtrak's overall reporting processes lack management controls, which can lead to an incomplete and inaccurate picture of performance. Leading organizations we have studied prepare annual performance reports that document the results the organization achieved compared with the goals they established. To be useful for oversight and accountability results, these reports, among other things, clearly communicate performance results. In contrast, although an Amtrak official noted that all departments are encouraged to report on their goals through the monthly performance reports, Amtrak's key departments do not consistently report on all their goals through an established process, such as quarterly reviews or the monthly performance reports. For example:

- Although the transportation, engineering, and mechanical departments report on budgets and goals in a quarterly review process with Amtrak's president and senior vice president of operations, they do not report on all of their goals in these reports. For example, the transportation department did not report on three of its eight goals at the end of fiscal year 2004—including goals on reducing road vehicle equipment expenses and meeting public health and Food and Drug Administration standards relating to food handling, water point inspection, and facility comprehensive plans. According to one official, these goals are not included in these reports because they have less emphasis for the department than safety and on-time performance goals and involve only $1.5 million of the department's $1 billion budget. He noted that the managers within the transportation department report on these goals to the vice president of transportation. Without a formal process for reporting on these goals, it is unclear whether these goals were achieved.

- Similarly, officials in the marketing and sales department stated that they work with the finance department to determine which goals to report in the monthly performance reports. Through the monthly performance report, the marketing and sales department reported on its ticket revenue, ridership, and safety targets but did not report on the status of its targets relating to developing and implementing service and product improvements. Officials in the marketing and sales department noted that the department monitors the progress of its goals and updates the progress on a quarterly basis.

Amtrak officials told us that the departments report on "key" department goals through the monthly performance reports and monitor other goals within their departments. This selective reporting does not provide the complete transparency needed to provide management and key stakeholders with a complete and accurate picture of each department's performance and the performance of Amtrak as a whole. Also, presumably all established goals, while perhaps not all equal in terms of importance to the department, are relevant and important or they would not have been established. Reporting on only certain goals is counter to a systematic performance-based approach and may ultimately impede stakeholders from knowing the complete information from which to judge overall performance.

Amtrak's Proposed Strategic Reform Initiatives Face Significant Implementation Challenges

In April 2005, the board, in conjunction with Amtrak management, released its proposed strategic reform initiatives, which included a proposed vision for the future of intercity passenger rail service[14] and Amtrak's role in this vision. [15] (See fig. 10.)

Figure 10: Amtrak's Vision and Strategic Reform Initiatives

Amtrak's vision for its role in an intercity passenger rail system

- **Deliver superior service** - including continued excellence in operational safety and security, and infrastructure/asset management, while becoming more market- and customer-oriented
- **Serve as a catalyst for change** - helping the nation's intercity passenger rail system achieve the long-term objectives described above
- **Evolve into one of a number of competitors** for passenger rail services and routes, all positioned on equal competitive footing

Amtrak's strategic reform initiatives for advancing its vision for intercity passenger rail

- **Amtrak's structural initiatives**
  Establish and reinforce management controls
  Organize planning and reporting by business lines
  Advance competition and privatization
- **Amtrak's operating initiatives**
  Enhance financial performance
  Improve customer service and on-time performance
  Transition operating and capital funding responsibilities
- **Legislative initiatives**
  Establish adequate, reliable long-term federal funding for intercity passenger rail
  Initiate state leadership in developing and managing rail corridors
  Establish federal legislation to promote competition

Sources: Amtrak Strategic Reform Initiatives and FY06 Grant Request, April 2005.

[14]This vision for an intercity passenger rail system is outlined through four objectives: (1) development of passenger rail corridors based on a federal-state capital matching program, with states serving as the developers and "purchasers" of competitively bid corridor services; (2) return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming financial responsibility for their proportionate share of operating and capital needs; (3) continuation and possible addition/elimination of certain national long-distance routes based on established performance thresholds; and (4) emergence of markets for competition and private commercial participation in all passenger rail functions and services.

[15]Amtrak Strategic Reform Initiatives and FY06 Grant Request, April 2005.

Unlike in prior years, the proposal notes that the strategic plan for fiscal years 2006 through 2010 will contain business plans for each line of business, along with operating and capital investment plans to meet the objectives—driven by milestones, goals, and timetables. According to an official in Amtrak's strategic planning group, Amtrak intends to develop a strategic plan for fiscal year 2006 that would include a company mission statement and goals that would tie to the mission and goals of each line of business, and Amtrak's department goals would be based on the mission and goals for Amtrak's lines of business. In addition, the proposal states that Amtrak will (1) provide regular reports on its progress toward this plan, as well as continued monthly performance and financial reports, along with future annual assessments of lessons learned at each phase, and (2) will propose any adjustments to the plan details or overall objectives as necessary. Amtrak proposes to complete the implementation planning process during the summer of 2005 and release the plan in the fall of 2005.

If fully implemented, these proposed changes in planning and reporting could potentially provide Amtrak with a more comprehensive management approach and guidance for the various components of its business, including its capital program, and provide better information both internally and externally on Amtrak's overall performance. However, challenges exist to fully implementing these initiatives. First, as Amtrak's board chairman noted, legislative action is required to implement many aspects of the plan. These legislative actions include, among other things, the federal government either assuming Amtrak's annual debt service payments or eliminating Amtrak's debt burden (about $3.8 billion in short- and long-term debt at the end of fiscal year 2004) and transitioning Amtrak out of the railroad retirement system. Second, Amtrak officials noted that major challenges within Amtrak exist in implementing this new planning process, including the time and effort needed to implement these initiatives and the ability to keep people focused on long-term change, even with the uncertainty of Amtrak's future.

As of May 2005, the missions and goals for the lines of business were in the process of being developed and should be completed within the next couple of months, according to an Amtrak official. In addition, the departments were developing their goals for fiscal year 2006, using the same process from the past 3 fiscal years. With the goal development process already under way, this official noted that Amtrak decided that the departments would continue to develop their goals while the mission and goals for the lines of business were also being developed. Once the mission and goals for the lines of business are determined, Amtrak officials will assess whether the departments' goals conflict with the goals established for each line of business and, if so, adjust the goals accordingly. Amtrak officials also told us that the departments met in June 2005 to discuss goals and ensure coordination and support between departments.

Conclusions

Amtrak's management tools have allowed the company to operate with a more structured process. Among other things, these tools provide Amtrak with a clearer organizational structure, a mindset of managing to goals and objectives, and a means of reporting progress. These tools represent a good first step. In a number of respects, however, these tools present a limited framework when compared with other organizations that have progressed further in their strategic planning efforts. It is clear that Amtrak will need to continue moving aggressively in this area, because current efforts have not been sufficient to provide all elements of the organization with a clear mission, an understanding of how to set and accomplish goals that contribute to this mission, or sufficient information on the progress being made toward a mission. This action will be needed in spite of what may happen with regard to Amtrak's proposed changes to its structure and its role in intercity passenger rail. To address the multitude of challenges facing Amtrak and provide useful performance information to Congress, Amtrak needs to build the capability to define goals, set priorities, ensure follow-through, and monitor progress.

Recommendations for Executive Action

To build on the strategic planning efforts already under way at Amtrak, we recommend that Amtrak's president take the following four steps to create a strategic planning and performance-based management approach:

- prepare *a comprehensive strategic plan* with a clearly defined mission, organizational goals and objectives that encompass all of Amtrak's activities, and strategies or action plans to achieve those goals;
- establish *annual performance goals* that tie to the mission and corporate goals;
- develop an incentive-based *performance management system* that ensures responsibility for goals is clearly articulated at all levels of the organization; and

- assess and develop the *data systems and processes* necessary to monitor, evaluate, and report—both internally and externally—on progress toward Amtrak's mission and strategic and annual performance goals.

Financial Management Practices Could Better Support Amtrak's Decision Making

Improvements are needed to ensure that Amtrak's management and stakeholders are provided with useful financial information, and that financial management practices are sufficient. We examined three aspects of Amtrak's financial management: (1) the usefulness of financial information provided to management and external stakeholders, (2) the design of internal control over selected areas of expense, and (3) Amtrak's efforts to strengthen management practices. While progress has been made, all three areas are in need of further improvement.

First, although Amtrak has made progress in establishing a more systematic process to provide financial information to management and external stakeholders, much of the financial information it uses for day-to-day management purposes lacks certain relevant information or is of questionable reliability. Second, our review of the design of internal control practices in two areas—employee benefit expenses and food and beverage service—identified a number of weaknesses. For example, not considering certain accrued employee benefit expenses resulted in an understatement of more than $100 million in employee benefit expenses and a potential lost revenue of $12 million under reimbursable agreements, and poor enforcement of contract provisions may have contributed to Amtrak's spending $2 for every $1 in revenue from on-board food and beverage service. Third, although progress has been made in responding to other internal control weaknesses identified by Amtrak's IPA in recent reports, the progress has come mainly through the implementation of manual after-the-fact detective controls that do not prevent errors from entering the system. In addition, Amtrak missed opportunities to increase the usefulness and transparency of financial information by restricting public reporting of work performed by its IPA.

Financial Reports Lacked Certain Relevant Information and Contained Significant Errors

In recent years, Amtrak has placed increased emphasis on improving the financial information used to manage the company. However, although Amtrak has made progress in improving its financial information, we found that this information could be more useful. After reviewing 29 monthly performance reports and three year-end addenda[1] issued from May 2002 through September 2004, we found that the reports' shortcomings limited their usefulness to management and external stakeholders. They lacked certain relevant information and contained significant errors. Since these

[1]Two of these addenda were for fiscal year 2002, and the third was for fiscal year 2003. The year-end addendum for fiscal year 2004 was not available at the time of our analysis.

reports were issued, Amtrak has made further progress, but more remains to be done.

Certain Relevant Information Was Not Included in Monthly Performance Reports

Our past work has shown that one common component of strategies adopted by leading organizations in the area of financial management is providing meaningful information to managers and external stakeholders. Amtrak has taken steps in this area by creating monthly performance reports containing a variety of financial information, including financial information for specific train routes, called route performance information (RPI). According to Amtrak officials, these reports are now one of Amtrak's key management tools. We view the reports as a positive step: they represent a significant contribution toward establishing a systematic process to provide financial information to internal and external stakeholders.

Although the monthly performance reports are an improvement, we found that practices were not in place to ensure the monthly reports contained information that would enhance the relevance to management and external stakeholders. The information available in the reports included preliminary financial statements and budget reports. Amtrak officials view the monthly reports as summary documents and believe a sufficient amount of information is being provided. We agree the monthly reports are summary documents. Missing, however, was information that could enhance management decision making and stakeholder input, such as information about food and beverage service activities, employee benefits, and core business operations (see fig. 11). For example, enhanced food and beverage-related information would include gross profit analysis, revenue information (including separate amounts for food and beverage sales), information on the cost of meals, and other metrics basic to a food service operation. The absence of this information hinders the assignment of accountability for performance internally or externally by key stakeholders.

Figure 11: Examples of Relevant Information Not Included in Amtrak's Monthly Performance Reports

Food and beverage service

Revenue and expense information specific to Amtrak's food and beverage service, an area with significant financial challenges. Despite food and beverage-related financial losses totaling about $160 million for fiscal years 2002 and 2003, the monthly performance reports we reviewed did not separately report any information on food and beverage revenue or expense, but instead combined these amounts with other reporting line item amounts.

Employee benefits

Employee benefit cost trends, changes in the components of benefit costs, and initiatives to manage these costs were not included in the monthly reports. While the monthly reports include a comparison of actual employee benefit expenses to budgeted amounts, additional information related to these significant costs, which totaled over $1.5 billion in the 3 fiscal years ended September 30, 2004, or about 16 percent of Amtrak's total operating expenses, was not provided.

Lines of business

For core business operations (rail passenger service) and each noncore line of business (commuter rail operations, reimbursable agreements, and commercial activities): (1) components of key expenses (i.e., salaries and benefits) and (2) trends in key expense categories and differences in actual versus budgeted results.

Source: GAO analysis of Amtrak monthly performance reports.

The RPI included in the monthly performance reports also lacked certain relevant information, as follows:

- First, the financial information was at a summary level that did not allow detailed analysis of individual train routes. Only aggregate amounts were provided for total revenue, expense, and net profit or loss for each of the approximately 45 train routes that are Amtrak's core business line (rail passenger transportation) as well as for its noncore business lines (principally, commuter rail operations and reimbursements for equipment and right-of-way maintenance services). Not available, for example, were specific amounts for such expense components as salaries, employee benefits, and overhead for each train route and noncore business line. Also absent was comparative expense information, such as month-to-month and year-to-year changes in expenses. Such information could be useful in addressing issues raised in congressional testimony by Amtrak's board chairman on April 19, 2005. In this testimony, the chairman outlined a need to focus on providing reporting of financial activity and performance along Amtrak's business lines.[2]

[2]Testimony of David M. Laney, Esq., chairman of Amtrak's board of directors, before the Subcommittee on Surface Transportation and Merchant Marine, Senate Committee on Commerce, Science, and Transportation, on Tuesday, April 19, 2005.

- Second, even the summary information for each train route and business line did not include depreciation expense. This expense, which totaled $606 million in 2003 and $479 million in 2002, was not allocated by train route or by business line. Amtrak did not include the allocation of depreciation expense, because management believes allocating such a large noncash item is not helpful in determining the operational result of a route. For example, Amtrak told us that total depreciation expense includes depreciation of the capitalized costs of certain sale and leaseback transactions, the required accounting for which Amtrak believes inflates the "true" capitalized costs of these assets and, thus, the related depreciation expense. However, not allocating these significant expenses had the effect of understating reported expenses for core and noncore business lines by 19 percent and 15 percent, respectively. For a capital-intensive business, this information is critical to assessing performance and making business choices about individual train routes and noncore business line activities, such as commuter rail operations.

Information in Monthly Performance Reports Was of Questionable Reliability

A third limitation of the information in the monthly performance reports was that it was of questionable reliability. We identified several problems related to reliability, as follows:

- *Financial information was incorrect and had to undergo subsequent adjustments.* Information in the monthly reports was generated from data that subsequently required significant adjustments to correct errors in amounts before audited financial statements could be issued. As a result, the reliability of the information provided to managers and stakeholders during the fiscal year was questionable. For example, according to Amtrak, after the close of the fiscal year, corrections made to the Amtrak financial information included management entries and audit adjustments, with the latter being made only after receiving sign-off from the external auditor (the fiscal year 2002 opinion was dated March 31, 2003 and the fiscal year 2003 opinion was dated February 25, 2004).[3] These adjustments, which totaled hundreds of millions of dollars

[3]In its technical comments on a draft of this report, Amtrak told us that releasing unaudited data on a monthly basis and then releasing final audited data after sign-off by independent auditors is the norm for all corporations. We agree; however, because of the magnitude of the misstatements in Amtrak's unaudited monthly data and the time required after the end of the year before the information is corrected, the information used for decision making during the year is not reliable and, therefore, is not useful.

for fiscal years 2002 and 2003 and required 197 separate entries to correct the books and records, were not reflected in the monthly reports and the RPI data until 7 months after the end of the fiscal year. The magnitude of these misstatements might have been detected had Amtrak performed a comprehensive risk assessment to identify the core causes of these vulnerabilities in accounting and financial reporting controls that adversely impacted the usefulness of the monthly performance reports and RPI data. Amtrak has noted that financial audit adjustments, one of the types of corrections made at year-end, have decreased significantly from fiscal years 2002 through 2004, which would have a positive effect on the reliability of interim financial information provided to stakeholders. However, a risk assessment would be particularly important to identifying the need for and designing practices to improve the reliability of information in monthly performance reports by reducing all types of adjustments at year-end. In our discussions with Amtrak officials, we were told that no such risk assessment had been performed.

- *Changes to methods for allocating costs to individual train routes were insufficiently documented.* Amtrak officials could not provide us with documentation to support any of the changes made to how expenses were allocated for any of the reports we reviewed. For example, Amtrak did not document who authorized the changes, the reason for or effect of the changes, or even the number of changes that were made. Further, without documentation to support changes made to how expenses were allocated, it was not practical for us to independently replicate the amount of expenses charged to individual train routes. As a result, we were unable to determine the effect of the changes we identified on the quality of information provided to stakeholders. In addition, officials advised us that since the beginning of RPI publication in 1993, no comprehensive review had been performed of the allocation methods to assess the reasonableness, consistency, and reliability of results.[4] In providing technical comments on a draft of this report, Amtrak officials told us on September 2, 2005, that many areas, such as fuel and insurance expenses, have been reviewed through special studies over the years and that allocation methodologies are

[4]Amtrak officials told us that at the start of fiscal year 2004, Amtrak began documenting some of the changes to allocation rules. This effort could be a positive change in controls. However, our limited review of certain supporting documentation generated from this practice identified inconsistencies in the amount and nature of the support. In addition, we could not ensure that all changes to the allocation rules were documented.

reviewed continuously, eliminating the necessity for a comprehensive review. We were not provided with evidence of such reviews and, as previously noted, we found that changes to how expenses were allocated were not documented.

- *Overreliance on allocation of cost.* It is generally preferable to directly identify as many costs as practical to cost centers or activities such as train routes and to indirectly allocate the remainder on some reasonable and consistent basis.[5] However, Amtrak relied heavily on indirect cost allocation methods in assigning costs to individual routes. In all, for fiscal years 2002 and 2003, Amtrak allocated about $4.3 billion of costs using cost allocation methods and directly assigned only about $357 million, or about 8 percent. This practice impacts the reliability of the RPI being presented to key stakeholders. Amtrak officials told us that a significantly higher percentage of costs is, in effect, direct. That is, certain costs pertain only to a single route and are accordingly allocated fully to that route, producing the same result as direct assignment. However, we were not provided with evidence to support the assertion that a percentage significantly higher than 8 percent of costs is directly assigned.

- *Sufficient support for reported amounts was not available.* Amtrak did not generate sufficient support for amounts reported as reconciling items of the RPI to the grand total of expenses reported in Amtrak's statement of operations. For example, we requested support for $2 billion of expenses reported as RPI reconciling amounts in fiscal years 2003 and 2002. We sought this supporting information to assess the reliability of the total expense amounts allocated to the individual train routes. However, an Amtrak official said that the information was not readily available and would need to be developed for our purpose, and that such a reconciliation was considered redundant and unnecessary. When we received some of the information that we requested for 2003, we found errors affecting the reliability and credibility of the RPI. For example, approximately $11 million of employee benefit expense had been improperly included with the expenses for noncore lines of business and was not, as should have occurred, allocated in an equitable manner to all business lines. As a result, we estimated that the information in the RPI for the expenses of core business lines (intercity rail passenger transportation) was understated by an estimated $9.5

[5] Statement of Federal Financial Accounting Standards, Number 4.

million; the expenses for commuter rail operations and other noncore business lines were overstated by the same amount.

In addition, we found that depreciation expense in the amount of $479.3 million was reported in the RPI for fiscal year 2002 at $44.3 million, an understatement of $435 million. A corresponding overstatement of $435 million was reported in the RPI for the expense of noncore business lines. Amtrak officials have suggested this instance was an insignificant "typographical error"; however, we view it as the product of inadequate control procedures over the generation of the RPI. We also found that an amount of $19.8 million, which was identified as prior period adjustments, was not consistent with the audited financial statements for 2003, which reflected no prior period adjustments. In total, expenses per the RPI agreed with total expenses per the audited financial statements. However, given the specific errors identified, this situation could only occur with offsetting differences of like amounts in other RPI-reported amounts. Thus, the RPI also included misstatements in one or more other areas to adjust the report for these errors.

Internal Control Weaknesses Existed in the Two Areas GAO Reviewed

A sound, entitywide system of internal control is an integral part of effective management. Internal control helps to ensure effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Managers need to continually assess and evaluate their internal control practices to ensure that they are well-designed and well-operated, are appropriately updated to meet changing conditions, and provide reasonable assurance that organizational objectives are being met.

We reviewed the internal control practices in two key areas of Amtrak's business and found weaknesses in both areas.[6] The two areas we reviewed, selected because of their size and importance, were the following:

[6]We conducted our review using the principles underlying GAO's *Standards for Internal Control in the Federal Government.* We applied these principles as our standard because of the significance of the federal role in Amtrak's operations and the importance of Amtrak's responsibility to account for its stewardship of the billions of dollars of government resources provided to it. These principles are consistent with the internal control principles established by the American Institute of Certified Public Accountants and are used in audits of nongovernmental entities.

- *Employee benefit expenses*. These expenses totaled more than $1.5 billion over the 3-year period ending September 30, 2004, and represent approximately 16 percent of the total operating expenses over that period.

- *Food and beverage service*. Food and beverage service expenses totaled more than $324 million over the 2-year period ending September 30, 2003, and represent approximately 5 percent of the total operations expenses over that period. In addition, food and beverage service is critical from a financial standpoint because, as our analyses show, Amtrak loses substantial sums of money on food and beverage service.

The weaknesses we found adversely affected the quality of financial information provided to management and external stakeholders. In the employee benefit area, for example, control weaknesses resulted in a misstatement of expenses among lines of business of nearly $105 million and in potential lost revenue from third-party reimbursements totaling $12 million for the 3-year period we reviewed. In the food and beverage area, although Amtrak incurred $2 in expense for every $1 in revenue, it did not ensure compliance with key contractual provisions that would have enhanced the quality of the information available for management purposes.

Internal Control over Employee Benefit Expenses Needs Further Improvements

During our review of the 3-year period ending September 30, 2004, we noted improvements in Amtrak's monitoring of actual and allocated employee benefit costs; however, control weaknesses exist in the benefits programs for both Amtrak's employees and its senior executives. The weaknesses in the larger program relate primarily to how benefit costs are allocated and adjusted, while the weaknesses in the senior executive program relate primarily to establishing the basis for performance award amounts.

Costs of Providing Benefits Were Understated and Not Fully Recovered

Amtrak did not allocate accrued postretirement health benefit expenses among its lines of business; instead, it allocated only the company's estimated cash contributions to fund health benefit expenses for current retirees.[7] As a result, the cost information provided to stakeholders on the different lines of business was incomplete and understated. Amtrak's practice of allocating only the estimated cash contributions is also different from the practice used by Class I freight railroads in developing shipping rates.[8] In setting their rates, these railroads identify and include as a basis for setting rates the full costs of these benefits, whereas Amtrak identifies and recovers only the cash basis costs for services performed for third parties.

In addition, for fiscal years 2002 through 2004, Amtrak used standard rates that did not result in the allocation of the actual amount of benefit expenses to all of its different lines of businesses, including reimbursable work performed for other entities in return for a fee, which resulted in potentially lost revenue totaling $12 million. Amtrak established standard benefit expense rates at the beginning of each year and applied the rates to actual labor expenses as they were incurred throughout the year. However, it was not until fiscal year 2003 that Amtrak began to periodically adjust its benefit expense rates to reflect actual experience. We noted that the amount of the misstatements decreased in 2004 when compared with the earlier years we reviewed. Also, because the following year's benefit expense rates are established before Amtrak issues its audited financial statements, the company would need to adjust the rates used for the effect of prior year-end adjustments—a practice it first employed in 2004.

The net effect of these weaknesses was an understatement of benefit expenses among Amtrak's lines of business totaling nearly $105 million and potentially lost revenue totaling $12 million. (See table 2.) The largest understated amount—$76.9 million—resulted from the difference between the amount Amtrak allocated using estimated cash contributions ($25.8

[7]The cash basis method of accounting reflects revenues when received and expenses when paid rather than at the time the revenue is earned or the expense is incurred, which applies to accrual accounting.

[8]These methods are governed by applicable law and related regulations issued by the Surface Transportation Board (STB). The STB developed a standardized costing model for the freight railroads that is used for, among other things, developing variable expenses the STB needs to evaluate the reasonableness of maximum shipping rates during dispute proceedings. We recognize that Amtrak is not required to comply with requirements imposed on the freight railroads, but the practices of the freight railroads offer an interesting illustrative comparison to those of Amtrak. Class I railroads are the nation's largest railroads.

million) and the total accrued postretirement expenses ($102.7 million). Also, by not adjusting standard benefit rates to reflect higher actual amounts, Amtrak understated expenses among its lines of business by another $28 million.

Table 2: Summary of Effects of Understatements and Potentially Lost Revenue for the 3-year Period Ending September 30, 2004

Dollars in millions

Issue	Understatement	Potentially lost revenue
Not allocating full accrued costs of employee benefits	$76.9	$7.5
Not adjusting standard benefit rates to actual amounts	28.0	4.5
Total	**$104.9**	**$12.0**

Source: GAO analysis of Amtrak data.

By not including accrued postretirement expenses in billings to outside parties, Amtrak may potentially lose revenue; it also risks not collecting all accrued benefit expenses should commuter or reimbursable contracts be terminated. When we brought this issue to the attention of Amtrak officials, they said that outside parties might be resistant to reimbursing Amtrak for an allocable share of these expenses. However, we reviewed examples of commuter and reimbursable contracts and found that a reasonable interpretation of the contractual provisions supports the use of full accrual expenses as the basis for amounts charged under these agreements consistent with how such amounts are determined under Amtrak's overall method of accounting.

Control Practices over Supplemental Executive Retirement Plan Awards Were Weak

Control practices over Amtrak's Supplemental Executive Retirement Plan (SERP) were weak.[9] In February 2000 and January 2004, $551,765 was granted in 34 separate SERP awards. Five awards totaling $147,580 were given to the two individuals who served as Amtrak's president and chief executive officer during this period; the remaining awards went to 25 other persons. We identified three main weaknesses with the way in which these awards were made:

- *Criteria to evaluate performance were absent.* The employment contract for Amtrak's current president provides that the board will authorize payment of a SERP award after a review of performance, based on criteria or goals set forth in a separate document as a guide. After we inquired about these criteria, an Amtrak official told us that no separate document existed setting forth the criteria that the board should use in evaluating performance. Board minutes approving the awards did not identify any specific performance goals that were achieved. For example, the board approved an award to a former president on the basis of Amtrak's performance in fiscal year 1999 and the positive outlook for fiscal year 2000. However, Amtrak reported losses of $846 million, $840 million, and $877 million for fiscal years 1998, 1999, and 2000 (ending September 30, 1998, 1999, and 2000, respectively).

- *Key terms needed to implement the process effectively were not defined.* The SERP document contains important terms that are not adequately defined and, in some cases, are inconsistent with language found in board minutes and resolutions that implemented the plan. (See table 3 for examples.) The most important term that is not defined in the SERP is the "target" that must be met before the board will approve an award. Two terms included in the SERP—"financial targets" and "corporate plan targets"—can mean different things. For example, the latter term may include nonfinancial performance measures. Amtrak's management informed us that these terms had not been expressly

[9]Amtrak's board passed a resolution in September 1999 approving the implementation of a SERP. The board also accepted management's proposal that, "contingent on Amtrak meeting its annual Corporate Plan targets and subject to board approvals, the SERP would provide an additional contribution of up to 10 percent of management committee members' pay into individual non-qualified deferred compensation accounts that will be 100 percent vested at the time contribution is made.

defined.[10] Such ambiguity leaves open the possibility that the board could apply inconsistent definitions, adversely affecting the credibility of award decisions.

- *Awards were granted before financial results were finalized.* The board granted awards in February 2000 and January 2004; the awards granted in 2004 were given before the company had issued its audited financial statements. This practice may not be prudent, given Amtrak's history of significant changes to reported operating results upon audit.

Table 3: Examples of Key SERP Terms That Were Not Defined

Term used in SERP document	Term used in board resolution	Potential effects
Financial targets	Corporate plan targets	No consistency in basis for award
Management committee member; senior staff employee	Management committee member	Lack of clarity as to who is eligible; when asked, management could not provide a definitive list
Compensation	Pay	Inconsistency in how amount of award is determined

Source: GAO analysis of Amtrak data.

Adequate control practices over activities involving the SERP are necessary for Amtrak to fulfill its responsibilities to be accountable for stewardship of its resources, including federal subsidies.

On-board Food and Beverage Service Control Practices Need Strengthening

During fiscal years 2002 and 2003, Amtrak incurred $2 in expense for every $1 in revenue from its on-board food and beverage service. The total loss for these 2 years was over $160 million. This loss must be funded by other revenue sources, including federal subsidies; reduction in expenses; or some combination of the two. Amtrak's control practices over its on-board food and beverage service need strengthening. We found that, although this

[10]For the January 2004 awards, the board's resolution stated the reasons for the awards were that "Amtrak achieved significant reductions in spending and managed to complete the year under budget, meeting its financial goals for FY03." However, it is not clear what aspects of the budget the board was referring to in its resolution. Amtrak's management could not tell us whether the board's reference to the budget meant revenue, expenses, net income, or some or all of these. The board did not expressly approve in advance the financial targets that would serve as performance measures for any subsequent SERP awards.

activity has significant inherent risk, Amtrak did not ensure compliance with key provisions of its contract[11] or adequately monitor contractor activity.

Contract Provisions Were Not Enforced

Amtrak has not enforced key contract provisions, which has negated its ability to prevent and detect improper payments for food and beverage service. We identified three key provisions that were not enforced.

- *Providing an annual report.* The contract requires the contractor to provide an independently audited annual report within 120 days following the end of each contract year. This report was to be certified by contractor officials. Within the annual report, the contractor was to provide (1) actual and budgeted amounts for key line items and (2) a narrative explanation for any actual to budget variance greater than 1 percent in the aggregate for all commissaries.[12] However, Amtrak has not required the contractor to provide this annual report for any of the 5 years the contract has been in place. Amtrak was unable to provide documentation regarding why this key contract provision was not enforced. Amtrak officials told us that they relied on contractor-provided monthly operating statements and on reports from the Amtrak OIG instead of the annual report.

  These mechanisms, while useful, would not meet fundamental control purposes. We found that the monthly operating statements lacked critical information that was to be included in the annual report and, importantly, lacked independence because they were prepared by the party seeking reimbursement and were not audited. In contrast, the contractually required annual report was to have been certified by contractor officials and audited by a certified IPA. The Amtrak OIG reports, while providing management with information on some aspects of Amtrak's food and beverage service activities, should not be viewed as a substitute for a comprehensive internal control program. Internal control should be a continuous built-in component of

[11] In January 1999, Amtrak entered into a contract with Dobbs International (now called Gate Gourmet International (Gate Gourmet)). This contract expires on September 30, 2006. Under the terms of the contract, Gate Gourmet supplies substantially all food and beverage service items for on-board sales by Amtrak employees. The contract includes one 5-year extension option.

[12] Amtrak owns 11 commissaries nationwide. Gate Gourmet operates these commissaries for Amtrak.

operations that, among other things, considers the results of audits and ensures prompt resolution. This component is especially critical in an operational area where Amtrak is losing considerable money. In addition, upon reviewing the Amtrak OIG's work, we found that certain scope limitations existed. For example, the Amtrak OIG noted in a report on the food and beverage contract to Amtrak management that its work in this area had been limited due to the contractor's failure to provide certain requested information and documentation.

- *Determining whether discounts and rebates were adequately passed along*. Under the contract with Gate Gourmet, Amtrak is permitted to receive discounts and rebates on food and beverage purchases by the supplier. However, Amtrak has not implemented processes to ensure that rebates and discounts received directly from suppliers or indirectly through its contractor are accurate and complete. The contract allowed Amtrak to audit the contractor's allocations of trade and quantity discounts received from purchases of food and beverages. However, Amtrak has neither requested an audit of the discounts credited to it over the 5 years the contract has existed, nor requested that the contractor certify that all discounts due to Amtrak had been credited to its account. Again, Amtrak was unable to provide us with written documentation supporting its decision or its consideration of this issue. Contractor representatives told us that many discounts are immediately reflected in the prices billed and, therefore, directly provided to Amtrak. They said that other supplier-offered discounts are paid or credited to the contractor retroactively, which are then allocated to individual accounts of the contractor (like Amtrak) on the basis of the percentage of aggregate purchases of the discounted items. Amtrak officials advised us that discounts and rebates totaling $278,385 and $278,073 for fiscal years 2003 and 2002, respectively, had been received on gross purchases subject to discounts and rebates of $3.6 million and $2.9 million, respectively.[13] Amtrak officials also explained that the majority of rebates are received directly from suppliers and reviewed. However, no formal procedures have been established to review and verify the accuracy of the amount of rebates and discounts actually received from the suppliers. Because Amtrak did not require an independent audit or

[13]Total purchases by the contractor for Amtrak exceeded $90 million for the 2-year period, roughly 13 times the amount of purchases the contractor reported as being subject to discounts and rebates.

otherwise analyze the trade and quantity discounts received, it has limited assurance that such amounts were reasonable and complete.

- *Measuring contractor performance*. The contract called for performance standards and measures to assist Amtrak in monitoring and evaluating contractor performance. These standards and measures have not been established in accordance with the provisions of the contract. Amtrak officials explained that these standards are addressed elsewhere in the contract. However, we believe that preparation of formal standards and measures, as called for in the contract, would have facilitated increased oversight. Under the contract, these standards include timeliness and completeness of deliveries, adherence to product specifications, food safety and sanitization practices, proper accounting for stock, and compliance with laws and regulations. Performance measurements could be used to evaluate performance against established performance standards, with the appropriate incentives and penalties applied on the basis of performance. In addition, appropriately used performance standards would be a mitigating control to partially address the risk associated with relying on contractor-produced monthly reports as the basis for payment to the same contractor.

Contractor Purchases Need More Monitoring

While Amtrak performs several activities to monitor food and beverage purchases by the contractor, these activities could be bolstered. We found that items were purchased at amounts that varied significantly without sufficient explanation or documentation of the variances. Amtrak officials said that they monitored contractor purchases using daily reports that listed quantity, unit size, cost, and the last prior purchase of the previous day's purchases. Also, Amtrak staff at its various commissaries sign off on a daily summary of invoices paid by its contractor and randomly verify the consistence of supplier invoices and receiving documentation. Further, Amtrak makes available to all employees via its intranet, various revenue reports that capture information by train, car type, location, dates, and usage reports that allow the review of stock issued to trains. However, Amtrak has not formally established internal control procedures, which would include ensuring that (1) all reviews are conducted in a timely and consistent manner, (2) identified errors or other issues are documented and tracked, and (3) corrective actions taken are documented to ensure completion. During fiscal years 2002 and 2003, Amtrak's data showed that it incurred $2 in expense for every $1 in food and beverage revenue, which resulted in a 2-year loss of over $160 million.

We used forensic auditing techniques, including data mining,[14] to selectively review over $80 million of *purchase order information* for fiscal years 2002 and 2003. Our review found that the contractor was generating purchase orders with significant variances in unit order prices during both fiscal years 2002 and 2003. For example, the order prices of a 12-ounce Heineken beer ranged from $0.43 to $1.04 per bottle in 2003, the order prices of a 4-ounce beef tenderloin ranged from $3.37 to $7.19, and the order prices of a 10-ounce strip steak ranged from $3.02 to $7.58. In 2002, the Heineken beer order prices ranged from $0.63 to $3.93 per bottle, the beef tenderloin ranged from $0.30 to $6.60, and the strip steak ranged from $3.52 to $16.35 per portion.

Amtrak officials told us that purchase order information did not always reflect actual amounts paid—either in total or per unit. For example, Amtrak officials said a price change may have occurred between the time an item was ordered and when it was delivered. They also said record-keeping errors may have occurred, and unit prices in the inventory system may, for example, be based on a different pack size than that received or from that used for the last purchase. However, given the importance of purchase orders in a food and beverage operation, it is important that internal control practices include processes to systematically analyze and monitor purchase order information. No such procedures were established by Amtrak.

To determine whether order prices reflected actual amounts paid, we nonstatistically selected 37 payment transactions and reviewed the *underlying supporting documentation* provided by Amtrak, including purchase orders, receiving records, vendor invoices, and evidence of payments. The supporting documentation provided for these transactions identified significant variances in certain unit prices paid during fiscal years 2002 and 2003. For instance, our review of the supporting documentation provided for the 37 payment transactions found payments for the Heineken beer ranged from $0.43 to $1.04 per bottle, payments for the beef tenderloin ranged from $3.05 to $6.59 per portion, and payments

[14]Data mining applies a search process to a data set, analyzing for trends, relationships, and interesting associations. For instance, data mining can be used to efficiently query transaction data for characteristics that may indicate potentially improper activity.

for the strip steak ranged from $4.70 to $5.28 per portion.[15] Amtrak officials stated that the strip steak examples were "emergency purchases." However, following our request for documentation to support this claim, the Amtrak senior director of food and beverage service told us on June 29, 2005, that documentation to support the assertion that these were emergency purchases did not exist. The establishment of internal control procedures that require the documentation of the (1) identification and correction of errors and (2) approval for emergency purchases would ensure that adequate documentation is readily available for review by internal and external parties.

We also found that, Amtrak, on the basis of amounts reported by the contractor, paid the contractor each month for the cost of food and beverages purchased for Amtrak, as well as for commissary and associated labor expenses and other expenses incurred—the contract is a reimbursable contract. The contractor was also paid a fee based on the cost of on-board stock. However, Amtrak did not establish adequate internal control to address the potential risk of paying the contractor on the basis of contractor-reported amounts that did not include adequate supporting documentation. During fiscal years 2002 and 2003, contractor-prepared monthly operating statements were the basis for amounts paid by Amtrak totaling over $138 million to the contractor for goods and services provided. However, because proof of actual contractor payments made to suppliers was not required, and because of the other significant internal control weaknesses we previously listed, Amtrak had limited assurance that the amounts paid to the contractor were valid.

[15]In our June 2005 testimony on Amtrak's food and beverage service (GAO-05-761T), we stated that in 2002 Amtrak purchased Heineken beer, in 12-ounce bottles, at a price as high as $3.93 per bottle. This information was based on the documents provided to us by Amtrak. However, based on additional documents that Amtrak provided us on June 29, 2005, it appears that this purchase was for 10 half-kegs of beer, not 10 cases as indicated on the documents Amtrak previously provided.

Amtrak Has Made Progress in Improving Financial Management Practices, but More Work Remains

For fiscal years 2002 and 2003, Amtrak's IPA reported multiple areas of significant internal control weaknesses as part of an annual audit of Amtrak's financial statement.[16] However, for fiscal year 2004, the IPA reported that much progress had been made and only one significant weakness involving accounting for capital assets remained.[17] Amtrak's progress in addressing its control weaknesses is an important achievement. In general, however, its efforts have been achieved primarily through the implementation of manual detective controls instead of preventive controls. Thus, improvements made by the end of fiscal year 2004 enable the production of useful financial information after the fact—typically, 5 to 6 months after the end of the year. However, until effective controls are established that prevent errors in financial information and address their underlying causes, Amtrak's ability to produce relevant and reliable financial information for management and stakeholders to use for decision making will be hampered.

Progress Was Made in Addressing Internal Control Weaknesses

In audits for fiscal years 2002 and 2003, Amtrak's IPA noted that the company had made progress in addressing internal control weaknesses that previously had been reported to Amtrak's board of directors. Further, based on its audit of Amtrak's fiscal year 2004 financial statements, the IPA reported that much progress had been made and that only one significant weakness—involving accounting for capital assets—remained. However, the IPA noted that improvement had been achieved primarily from the implementation of manual detective controls compared with preventative

[16]As of June 27, 2005, Amtrak's IPA had not issued its report on the audit of Amtrak's financial statements for the fiscal year ending September 30, 2004—approximately 9 months earlier; however, on this same day, Amtrak management provided us with a copy of the internal control report from the IPA based on its work on the audit of the fiscal year 2004 financial statements. Our comments on fiscal year 2004 are based solely on the contents of this internal control report.

[17]Amtrak's IPA reported one material weakness in this internal control report. A material weakness, under standards established by the American Institute of Certified Public Accountants, is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements may occur and be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are matters coming to the IPA's attention that, in its judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

controls. Such detective, or "back-end," controls take place after transactions have been recorded and then corrected for misstatements after the fact. These controls are subject to human error, and a loss of key individuals could result in control breakdowns. In addition, it is relatively labor-intensive to ensure that such controls are operating effectively.

We reviewed Amtrak's response to the IPAs findings in fiscal years 2002 to 2003 with respect to internal control weaknesses regarding capital assets and found that Amtrak's response could be improved. We selected this area because of its size and significance—depreciation and amortization represented approximately 20 percent of Amtrak's total operating expenses for fiscal year 2003, and Amtrak's capital assets represent more than 83 percent of its total assets. Amtrak's IPA had identified ongoing problems in this area in fiscal year 2001 audits. Similar to what the IPA observed, we found that Amtrak's response was limited mainly to back-end control procedures—that is, Amtrak looks at transactions after they had been recorded and corrects for misstatements after the fact. Such back-end procedures do not identify core causes of accounting mistakes and prevent the errors from entering the system.[18] In contrast, front-end prevention control practices should, if fully and properly implemented, among other things, improve the usefulness of Amtrak's internal financial information. Importantly, without the appropriate front-end procedures to prevent errors from entering the system, information used by management and external stakeholders for decision making may not be reliable. Potential front-end procedures could include such things as monthly or more frequent reviews for accuracy and appropriateness by management of (1) capital expenditures incurred to date, (2) expected costs to complete against initial and revised project budgets, and (3) all proposed manual journal entries.

[18]We discussed with Amtrak's IPA the approach Amtrak had taken. Representatives of the IPA told us their work did not extend to considering the appropriateness of the strategy Amtrak employed or whether the approach would be sufficient for interim financial reporting, such as the preparation of monthly reports that are to be provided to management and external stakeholders.

Other Opportunities to Increase the Usefulness and Transparency of Financial Information Have Been Missed

Amtrak management missed several other opportunities to use its IPA's work to increase the usefulness and transparency of its financial information. These opportunities relate to making all audit reports available to the public and expanding the work that the IPA conducts.

Report on Internal Control and Compliance Was Not Made Public

Amtrak's IPA is engaged to report on the results of the audit of the consolidated financial statements of Amtrak. The IPA reports on the results of the audit of the consolidated financial statements, conducting this work in accordance with *Generally Accepted Auditing Standards* issued by the American Institute of Certified Public Accountants. This set of standards is typically used for audits of publicly and privately owned organizations. Amtrak's IPA is also separately charged with reporting in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. These standards, which are designed to meet the needs of users of government audits, prescribe two additional reporting requirements—reporting on internal control and reporting on compliance with laws, regulations, and provisions of contracts or grant agreements.

The public sees the results of only one of these efforts. Amtrak tasked its IPA with issuing two reports, but the only report that is publicly available is the report that provides an opinion on the results of the audit of Amtrak's financial statements. The second report, which covers internal control and compliance with laws, regulations, contracts, and grants, is restricted to the use of Amtrak's management and the board of directors. DOT officials told us that they also receive the second report. Many other entities with significant federal ties (through direct subsidies, loan guarantees, or other direct and indirect relationships) receive and make publicly available reports by their IPAs that are in accordance with generally accepted government auditing standards. These entities include the United States Postal Service, Pension Benefit Guaranty Corporation, and Railroad Retirement Board. Amtrak officials were not able to provide us with a distribution list for this second report, and, according to these officials, they had no recollection of these reports being requested by or sent to any external parties.

The concept of accountability for public resources is important in our nation's governing processes. Legislators, government officials, and the public want to know, among other things, whether (1) government resources, such as the over $29 billion in subsidies provided to Amtrak, are managed properly and used in compliance with laws and regulations and (2) services are being provided efficiently, economically, and effectively. The desirability of transparency with respect to audit information on Amtrak's internal control and compliance with laws and regulations is, in our view, high given Amtrak's public mission and the large federal subsidies involved.

Increasing IPA Role Could Help Improve Information

Amtrak's financial information could also be improved by using additional expertise available from the IPA—some of this expertise is already called for by contract but not utilized. The contract between Amtrak and its IPA called for work addressing compliance with certain federal regulations concerning overhead rates developed and applied to recover indirect costs associated with work performed for outside parties.[19] While the contract contemplated this type of work, Amtrak did not engage the IPA to perform the work. Amtrak could also use the IPA's experience and knowledge by engaging the auditor for additional work related to making its financial information more useful to management. For example, engaging the IPA to review financial statements on an interim basis may have identified opportunities for improvement in the reliability and timeliness of data provided to stakeholders. Further, Amtrak could benefit from engaging an IPA to perform work specific to enhancing the timeliness and reliability of financial information used in monthly reports and for day-to-day decision making by management and external stakeholders. While this increased role by the IPA would not be without cost, the IPA is in a good position to efficiently identify the core causes of errors in financial information and other issues and develop controls and processes to prevent these errors.

Conclusions

Although Amtrak has made progress in providing financial information for management purposes, the current information lacks the relevance and reliability needed to support managers and external stakeholders in exercising stewardship over the agency's operations, including federal subsidies. The current information is incomplete, in terms of both what is included and how specifically Amtrak's various train routes and lines of businesses can be evaluated. This information also contains significant errors. These deficiencies point not only to a need to improve financial reporting practices, but also to a deep-seated set of concerns: that is, the

[19] 48 C.F.R. Parts 140 and 646 and 48 C.F.R. Part 31.

types of internal control practices that are needed to help ensure the reliability of financial reporting are not in place. Amtrak's management may be able to correct a number of these issues on its own, but the company is likely to need outside help in developing a comprehensive approach to address internal control weaknesses and improve the financial information for management and external stakeholders.

Recommendations for Executive Action

To ensure that Amtrak's financial reporting and financial management practices support sound business decisions and the efficient and effective use of federal funds provided to Amtrak, we recommend that the Secretary of Transportation direct the Federal Railroad Administrator to take the following three actions:

- require Amtrak to submit a plan, which includes specific actions to be taken, anticipated outcomes (consistent with the recommendations outlined below), and completion dates, to improve its financial reporting and financial management practices;
- review and provide Amtrak with feedback and direction, as necessary, on this plan to ensure that the most effective approach(s) to improving financial reporting and financial management practices are implemented; and
- monitor Amtrak's performance under the plan and report, at least annually, to Congress on progress being made by Amtrak regarding improvements of its financial reporting and financial management practices—this report should identify any specific actions either Amtrak or Congress should take to facilitate such improvements.

To improve Amtrak's efforts in addressing financial management challenges and better support management decision making, we recommend that the president of Amtrak take the following eight actions discussed in table 4:

Table 4: Specific Recommendations—Financial Reporting and Financial Management Practices

Issue	Recommendation
Improve usefulness of financial reporting	
Include relevant information in monthly performance reports	Add the following information to monthly performance reports: • Food and beverage services: separate revenue and expense information, gross profit analysis, information on the cost of meals, and other metrics basic to a food service operation. • Employee benefits: cost trends, changes in the components of benefit costs, and initiatives to manage these costs. • Each line of business: components of key expense line items and functional activities (such as salaries and benefits), trends in key expense components, differences in actual versus budgeted results, and appropriate performance metrics (such as revenue per passenger mile and expense per passenger mile). • Each train route in the route performance information (RPI): comparative expense and net profitability or loss, amounts for depreciation expense, and amounts for other components of expenses (such as salaries and benefits).
Increase reliability of information in monthly performance reports	Perform a comprehensive risk assessment of financial reporting processes that support preparation of monthly performance reports and the RPI, to include determining areas of vulnerability, implementing appropriate compensating and mitigating internal controls, and ongoing monitoring to ensure compliance.
Make allocation policies and procedures more transparent	Document policies and procedures related to controlling the information in the monthly performance reports, including the RPI. The policies and procedures should cover how expenses are allocated to Amtrak's routes, as well as specific guidance on documenting the justification and authorization of changes made to allocation methods.
Improve financial management practices	
Ensure benefit costs are complete and can be recovered in billings to outside parties	Allocate accrued postretirement health benefit expenses among Amtrak's lines of business and reflect accrued costs in billings for employee benefits under reimbursable agreements with outside entities. Adjust standard benefit expenses rate on a timely basis.
Make compensation decisions more transparent	Modify existing controls: • Clearly define all significant terms used in Supplemental Executive Retirement Plan (SERP) determinations (such terms include management committee member, senior staff employee, compensation, financial targets, and performance goals) so that they can be consistently applied throughout the process. • Reconsider the timing of management proposals for SERP awards to ensure that decisions are based on information from audited financial statements.
Develop internal control enhancements	Develop a comprehensive action plan for immediately implementing preventive controls to enhance the reliability of financial data and address the reportable condition over accounting for capital assets in the most recent reports and letters of comment from the independent public accountant.
Seek assistance in strengthening procedures	Engage an independent public accountant to provide • special services as necessary to provide assurance over compliance with federal regulations concerning overhead rates developed and applied to recover indirect costs associated with work performed for outside parties and • review-level attestation work on Amtrak's quarterly financial statements.

(Continued From Previous Page)

Issue	Recommendation
Enhance accountability and transparency	Continue to have annual audits of its financial statements performed under *U.S. generally accepted government auditing standards (GAGAS)* and, effective beginning with its fiscal year 2004 financial statement audit, make publicly available the auditor reports prepared under GAGAS reporting standards for financial audits, including those on internal control and compliance with laws, regulations, and provisions of contracts and grants.

Source: GAO.

Recommendations on the findings pertaining to Amtrak's food and beverage service are contained in a separate report issued in August 2005.[20]

[20]GAO, *Amtrak: Improved Management and Controls over Food and Beverage Service Needed*, GAO-05-867 (Washington, D.C.: Aug. 24, 2005).

Despite Increasing Operating Losses and Federal Subsidies, Amtrak Has Not Developed a Comprehensive Cost Control Strategy

Although its operating losses and federal subsidy have been increasing, Amtrak has not developed a comprehensive cost control strategy. While Amtrak's operating expenses have decreased over the past 3 fiscal years, its operating losses have grown each year and are now over $1 billion[1] annually. These losses are projected to increase by about 40 percent over the next 4 years. Amtrak's cost-cutting focus has been on creating and monitoring its yearly operating budget and managing headcount levels, with its various departments deciding how much emphasis, if any, to place on any other cost control actions. However, such cost control actions have not been integrated into a comprehensive cost control strategy. Without a comprehensive strategy for containing costs, Amtrak will likely miss opportunities to reduce its operating losses. Furthermore, Amtrak does not have complete and reliable cost data that would support a comprehensive strategy. Without these data, Amtrak has limited ability to understand its corporate and unit costs and to identify where potential cuts might be most effective. Finally, Amtrak needs to continue to employ widely used industry cost reduction practices—such as benchmarking, outsourcing, and efficiency reviews—to help decrease its operating costs.

[1]All dollar figures in this chapter are adjusted to constant 2004 dollars, unless otherwise noted.

Amtrak's Annual Operating Loss Has Grown to over $1 Billion and Is Projected to Increase to over $1.4 Billion, While Federal Subsidies Have Increased

Although Amtrak's operating expenses have decreased, Amtrak's annual operating loss (total revenues minus operating expenses) has grown to over $1 billion each year over the last 3 fiscal years. During this same period, Amtrak's federal operating subsidy[2] increased over 200 percent, from about $200 million in fiscal year 2002[3] to over $700 million in fiscal year 2005.[4] Amtrak is projecting that its federal operating subsidy will remain stable from fiscal years 2006 to 2009, but that its operating losses will increase about 40 percent to over $1.4 billion by fiscal year 2009.[5] (See fig. 12.)

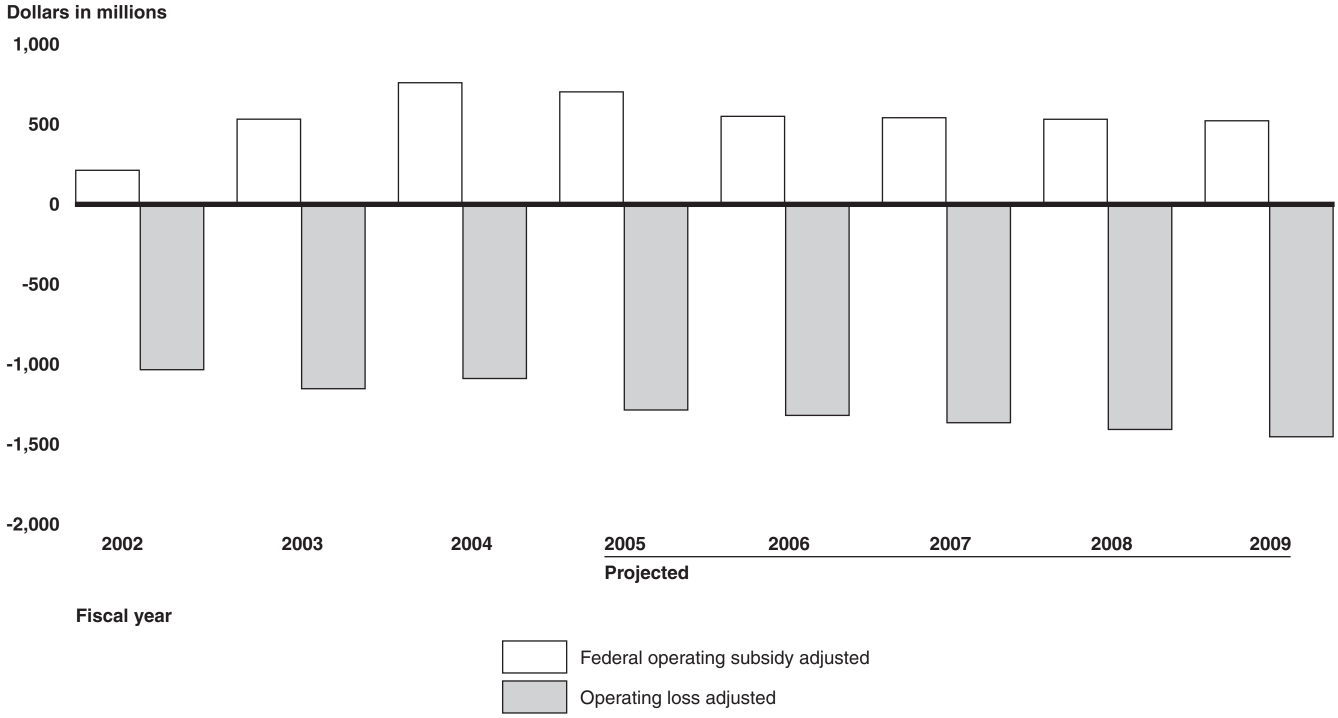
[2]Amtrak's federal subsidy—separated as operating and capital subsidies—is distributed as a grant from FRA. Operating subsidies generally support Amtrak's day-to-day operations, including operating and maintaining rolling stock (locomotives and passenger or other cars), tracks, and stations. Amtrak's capital subsidy is designed for the acquisition or improvement of the railroad's rolling stock and infrastructure.

[3]The amount for Amtrak's operating support in fiscal year 2002 does not include the following: $230 million in capital for maintenance, which, according to Amtrak officials, Amtrak considers an operating expense; $105 million appropriated for various security and life safety improvements; or FRA's fiscal year 2002 $100 million emergency loan to Amtrak.

[4]As shown in chapter 1, Amtrak's total federal subsidy since 1971 has been variable—ranging from about $9 million in fiscal year 1973 to over $1.7 billion in fiscal year 1999.

[5]For this report, we focused on Amtrak's expenditures, rather than revenues.

Figure 12: Amtrak's Constant Dollar Operating Losses and Federal Operating Subsidy, Fiscal Years 2002 to 2009



Source: GAO analysis of Amtrak and Federal Railroad Administration data.

Note: Amounts are in constant 2004 dollars. Fiscal years 2005 to 2009 figures for operating loss and federal subsidy are Amtrak projections. Operating losses from fiscal year 2002 to 2004 and projected losses from fiscal years 2005 to 2009 do not include interest expenses.

Amtrak's operating loss projections may be understated, however, since they do not include interest expenses[6] and rely on $377 million in operating efficiencies that Amtrak estimates it could achieve as a result of operating efficiencies and benefits from capital investments in its Fiscal Year 2005 to 2009 Strategic Plan. In its April 2005 Strategic Reform Initiatives proposal, Amtrak estimates that it can achieve operating savings of nearly $550 million by fiscal year 2011. To achieve these savings, however, all of the elements in the reform proposal must be implemented, including the following: receiving an 80 percent federal capital match for state intercity passenger rail funds, realizing increased revenues from passengers,

[6] Amtrak's interest expenses (net of interest income) averaged over $140 million between fiscal years 2002 and 2004 (in constant 2004 dollars).

obtaining additional state operating contributions for corridor trains, and eliminating all of its legacy debt by the federal government. (See table 5.)

Table 5: Assumptions in Amtrak's Strategic Reform Initiative for Fiscal Year 2011 Operating Savings

Dollars in millions

Assumptions	Proposed savings
Revenue enhancements	
Cumulative benefit from gas price increases	$80
Customer service enhancement benefit	100
Proportionate share access payment increase from Northeast Corridor commuter agencies	30
Additional state operating contributions from fully allocated costing on all corridor trains	115
Additional state operating contributions from fully allocated costing on all long-distance trains	15
Subtotal	**$340**
Cost reductions	
Outsourcing	$90
Productivity	60
Phase-out of Railroad Retirement Tax	55
Subtotal	**$205**
Total	**$545**

Source: GAO analysis of Amtrak data.

Note: This table does not include the financial impact of a working capital infusion or other assumptions, such as no restructuring charges, from fiscal years 2006 to 2011.

These projections also do not take into account the removal in April 2005 of Amtrak's Acela trainsets from service for an undetermined period due to brake-related problems. The absence of Acela trains could have a significant impact on Amtrak's fiscal year 2005 revenues.[7]

Both Amtrak's revenues and total expenses decreased between fiscal years 2002 and 2004. Amtrak's revenues decreased by over 16 percent, and its

[7]Amtrak's senior vice president of operations recently stated that Amtrak is losing over $1 million each week the Acela trainsets are out of service. According to Amtrak's May 2005 monthly performance report, between April 15 and May 31, 2005, Amtrak lost $17.5 million in revenue as a result of the Acela trainsets being out of service.

total expenses decreased by over 9 percent.[8] Amtrak's revenues decreased more than its expenses by over $50 million. (See table 6.) The relationship between these decreases in both revenues and expenses can be reflected by the change in Amtrak's operating ratio, which shows that for every $1.00 in revenue, Amtrak spent $1.51 in fiscal year 2002. In fiscal year 2004, this increased to $1.63. As of July 2005, this number for the fiscal year to date decreased slightly to $1.61.

Table 6: Amtrak's Real Total Revenues, Operating Expenses, Total Expenses, and Operating Ratios, Fiscal Years 2002 to 2004

Dollars in thousands

	Fiscal year[a]			
Description	**2002**	**2003**	**2004**	**Change from fiscal years 2002 to 2004[b]**
Total revenues[c]	$2, 313,642	$2,117,908	$1,931,512	$(382,130)
Operating expenses[d]	2,849,451	2,652,004	2,450,472	(398,979)
Operating ratio[e]	**1.23**	**1.25**	**1.27**	**0.04**
Total expenses[f]	$3,488,917	$3,417,610	$3,158,016	$(330,901)
Total revenue to total expense ratio	**1.51**	**1.61**	**1.63**	**0.13**

Source: GAO analysis of Amtrak data.

[a]Amounts for fiscal years 2002, 2003, and 2004 include mail and express revenues and expenses. For fiscal year 2004, operating expenses and total expenses do not include $82.4 million in noncash special charges for discontinuance of mail and express service.

[b]Amounts may not equal due to rounding.

[c] Total revenues exclude federal operating subsidies.

[d]The operating ratio is calculated as operating expenses divided by total revenues. Operating ratios more than 1 indicate total operating expenses are higher than total revenues.

[e]Total operating expenses do not include interest or depreciation expenses.

[f]Total expenses include interest and depreciation expenses.

The reasons for decreasing revenues and expenses include the following:

- *Revenues*: The termination of the Massachusetts Bay Transportation Authority (MBTA) commuter rail contract resulted in a $150 million revenue loss in fiscal year 2004, or about 40 percent of the total

[8]Fiscal year 2004 total expenses include depreciation and net interest expenses but do not include a one-time special charge of $82.4 million in noncash expenses Amtrak took as a result of termination of its mail and express business.

reduction in Amtrak's revenue. Revenues also decreased in part because Amtrak phased out its mail and express freight line of business in fiscal year 2004.[9]

- *Operating expenses*: Decreases occurred in most of Amtrak's major expense categories. Labor costs, Amtrak's largest single expenditure category, accounted for about $200 million, or over 60 percent, of the overall decrease in expenses. Amtrak reduced its overall labor costs alone by almost 12 percent from fiscal years 2002 to 2004. This reduction was mainly achieved by reducing employees by about 3,500 over the same time period; about 1,500 of this reduction was due to the termination of the MBTA contract.[10]

Amtrak will likely face challenges to reduce its operating costs through reductions in labor costs in the future. Amtrak's labor costs account for almost 50 percent of its total expenditures in fiscal year 2004. The labor force is about 85 percent unionized; therefore, attempts to reduce labor costs for much of Amtrak's labor force must be negotiated with the unions. According to Amtrak officials, by April 2005, Amtrak had signed contracts with 3 of its 15 unions, representing about 37 percent of Amtrak's union workforce. If the pattern from these three agreements extends to the agreements with the other unions, Amtrak officials estimate that wage costs could increase by almost 10 percent over the 5-year life of the agreements. Amtrak officials expect that each labor union settlement will include this same level of wage increase, since Amtrak has extended this level of wage increase to every union as part of its initial offer in the current bargaining round. Amtrak's labor relations officials are negotiating changes to work rules to increase productivity and lower headcount, which could lower labor costs. However, since Amtrak does not keep formal track of labor productivity savings or have labor productivity measures for its workforce, it is unclear how Amtrak will know if these savings are actually being achieved. As union labor wages increase and other labor cost reductions are uncertain, Amtrak may be pressured to reduce other costs in order to achieve significant reduction in its operating costs.

[9]Part of the revenue decrease between fiscal years 2003 and 2004 can also be attributed to a one-time $30 million sale of assets in fiscal year 2003.

[10]Amtrak operated MBTA's trains and maintained their equipment and infrastructure under a contract that ended on June 30, 2003.

According to Amtrak officials, Amtrak may be able to offset other cost increases, such as health care costs, by introducing employee contributions toward health insurance premiums. Prior to the current round of labor negotiations, union employees did not contribute toward their health insurance costs, which constituted about 18 percent of Amtrak's total labor costs in fiscal year 2004. Amtrak officials stated that Amtrak has successfully implemented employee contributions in the three agreements it has already signed, and that these contributions are a part of Amtrak's initial negotiation offer to each of its unions.[11] However, since both work rule changes and employee health care contributions are subject to negotiation with each labor union, it is uncertain if Amtrak will be able to implement them across its workforce.

Amtrak Has Not Developed a Comprehensive Cost Control Strategy

Amtrak has not developed a comprehensive cost control strategy that uses performance or cost information to most effectively direct its cost control efforts. In our work on GPRA, we noted that leading organizations in the public and private sector—in their efforts to improve performance while reducing costs—use performance information as a basis for allocating scarce resources and for assessing which of their processes are in the greatest need of improvement in terms of cost, quality, and timeliness. In particular, we found that no picture of how taxpayers' money is being spent is complete without adequate cost and performance information. By analyzing the gap between where they are and where they need to be in order to achieve desired outcomes, management in leading organizations can target those processes that are in the most need of improvement, set realistic improvement goals, and select appropriate improvement techniques.[12]

We found examples of comprehensive cost strategies at several of the railroads we studied. One freight railroad, for example, adopted a corporatewide review of its entire cost structure to identify less incremental and more strategic cost saving opportunities. Railroad officials said this effort, under its chief financial officer, resulted in $90 million to $100 million in cost savings per year. VIA Rail, Canada's intercity passenger

[11]In the three agreements signed, employees are ultimately expected to contribute $75 per month toward their health insurance premiums.

[12]GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

rail company, also has had a focused corporatewide effort to reduce costs since its government funding decreased in the early 1990s. Since that time, according to VIA Rail officials, VIA Rail has maintained its corporatewide cost reduction efforts in large part due to its fixed subsidy level from the Canadian government. Because VIA Rail's management knows that it will receive a set amount every year in government subsidy and no more, it has a clear incentive to contain its costs below its revenues and subsidy amount. VIA Rail is further incentivized to reduce costs because any amount of the federal subsidy not spent can be set-aside by the railroad for future use.

Amtrak's efforts to develop a cost control strategy or to obtain the information necessary to do so have been unsuccessful. For example, Amtrak's chief financial officer announced a department goal for fiscal year 2003 "to develop system-wide costs and standards for major activities," which would "provide a better understanding of its cost structure, leading to better [cost] control." However, Amtrak's former chief financial officer stated that this goal "did not take off," leaving no effective corporatewide impetus or action plan to ensure it was implemented. Amtrak's controller cited two reasons why Amtrak has not created a corporatewide cost containment strategy. First, Amtrak does not have any detailed benchmarks (i.e., information or standards) available that could be used in its efforts to create corporatewide cost information. Amtrak has not developed reliable and accurate unit cost information or standards to construct benchmarks because it has no reliable cost information on which to base them. Second, Amtrak does not have an integrated, reliable, or timely way to track and collect cost information across all departments. Amtrak's controller told us that Amtrak's current financial software was not designed to capture cost information from different departments across the country. The software currently in use has been implemented piecemeal over time, making it difficult for different versions to interact and share data.

Amtrak's acquisition function is a good example of the company's difficulties in identifying costs and cost saving opportunities. Although Amtrak officials told us that they analyzed procurement spending, we subsequently found that they were unable to conduct an enterprisewide spend analysis[13] to develop a picture of what the company is spending on goods and services and to identify those cost areas for strategic sourcing[14] and potentially substantial savings opportunities. When we asked Amtrak for examples of a spend analysis, it took company officials several months to provide such examples, and what was provided was primarily a compilation of savings that had been achieved through various procurement department initiatives. On the basis of data provided, we could not determine how much, if any, of these savings had been achieved through an analysis of spending. Procurement officials subsequently explained that no specific individual or group within the department is responsible for conducting a spend analysis, and there is no systematic process for conducting such analyses. Rather, Amtrak officials told us that all procurement department staff are responsible for identifying cost savings opportunities. Moreover, while not disagreeing with the value of a spend analysis, procurement department officials indicated that such analyses would be extremely difficult without a system that accurately produced the necessary data—a system that does not currently exist at Amtrak.

Setting up a spend analysis program can be challenging, according to our prior research on leading companies that have used this tool to reengineer their approach to procurement and produce billions of dollars in savings.[15] Like Amtrak, companies have had problems accumulating sufficient data from internal systems that (1) do not capture all of what a company buys or (2) are being used by different parts of the company but are not connected. What private companies and federal agencies are doing to overcome the data challenges could serve as a guide to improving Amtrak's ability to conduct a spend analysis to strategically reduce procurement costs. Private

[13] A "spend analysis" is a tool that provides companies with knowledge about how goods and services are being acquired, about the amount spent, and about who is doing the buying and supplying. Conducting a spend analysis also provides opportunities to leverage buying power and reduce costs for commonly purchased goods and services.

[14] "Strategic sourcing" is a process used by leading commercial companies and a small number of federal agencies to establish an organizationwide approach to leveraging the organization's buying power and fostering new ways of doing business.

[15] GAO, *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*, GAO-04-870 (Washington, D.C.: Sept. 16, 2004); *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, GAO-03-661 (Washington, D.C.: June 9, 2003); and *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: Jan. 18, 2002).

companies have developed formal, centralized spend analysis programs through the use of five spend analysis key processes—automating, extracting, supplementing, organizing, and analyzing data.[16] Companies that use a spend analysis find that they are buying similar products and services from numerous providers, often at greatly varying prices. For example, one company conducted a spend analysis of the telecommunications services it used and reduced the number of vendors from three to one, thereby saving $3.2 million in the first 8 months of the new contract.[17]

Similarly, other railroads confirmed the value of spend analyses as well as the need to have consolidated, organized, and reliable procurement data to conduct such an analysis. For example, officials at VIA Rail indicated that they have not yet conducted a central, comprehensive analysis of their spending because they have not had the necessary information systems. However, they have worked to improve their systems to a level that will permit this type of formal, centralized spend analysis. An official at another freight railroad indicated that the railroad has a department specifically dedicated to conducting spend analyses and identifying ways to maximize the cost-effectiveness of certain procurements. While this department does not analyze the railroad's procurement spending across the board, it can identify companywide areas for coordinated purchasing and potential cost savings. Like the commercial best practices identified in our prior work, members of this cross-functional group are drawn from other departments, such as the finance department and a user department (a department that needs acquisition services), to work on special projects and analyze spending in given areas and to work closely with the procurement department.[18] This department found that they could save $4.9 million in 1 year by paying for prep work services (maintenance or repair services) for freight cars on a per car basis, rather than by the hour. This new approach provides an incentive for the service provider to work more efficiently.

[16]GAO-04-870, pp. 5-9.

[17]GAO-02-230, p. 10.

[18]GAO-02-230, GAO-03-661, and GAO-04-870.

Amtrak's Management Tools Do Not Constitute a Comprehensive Cost Control Strategy

Amtrak currently seeks to control costs through the use of five management tools,[19] which Amtrak's president has used to manage and try to stabilize Amtrak's financial situation. For example, according to Amtrak officials, Amtrak's management uses its annual budget to focus on the structure and size of Amtrak's labor force, which has facilitated Amtrak's making labor force reductions—resulting in lower labor costs. However, even though they are implemented across the company, these tools alone do not constitute a corporatewide cost control strategy. These tools are not a part of a corporatewide plan that identifies cost goals, identifies how these goals are to be achieved, and provides for the continuous improvement on those goals. For example, Amtrak's monthly performance reports, while providing information about past performance, does not provide any explicit cost reduction goals or identify ways to reduce costs.

In the absence of a corporatewide cost containment strategy, Amtrak's cost control efforts, outside of using its five management tools, have been largely unfocused and inconsistently applied throughout the company. According to Amtrak finance officials, Amtrak's focus has been on producing and monitoring its annual operating budget, among other things, which has taken emphasis away from a more strategic view of its cost structure. Amtrak's executive management provides verbal guidance on department goals each year, but each department then individually chooses what costs to focus on when creating their goals. Consequently, each department's management decides how much focus (if any) to place on cost containment. This practice may lead to a narrow focus on specific costs or lead to conflicting cost containment efforts among departments. For example, Amtrak's chief engineer said that, without strategic coordination and planning, a goal to reduce overtime in the engineering department could lead to an increase in repair times for signals on the Northeast Corridor, which in turn could lead to significantly increased train delays. This situation could adversely affect the transportation and other departments.

[19] As discussed in chapter 1, Amtrak's five management tools include the following: clear goals and objectives, defined organization charts, zero-based operating budget, capital program, and monthly performance reports.

Lack of Cost Data Limits Amtrak's Ability to Identify Areas to Efficiently Reduce Costs or to Measure the Results of Cost Control Actions

In our work on effectively implementing GPRA, we found that in establishing unit cost information, an organization can

- demonstrate the cost-effectiveness and productivity to stakeholders,
- link levels of performance with budget expenditures,
- provide baseline and trend data for stakeholders to compare performance, and
- provide a basis for focusing an organization's efforts and resources to improve its performance.[20]

The railroad industry is an asset-intensive business, and the efficient performance of those assets is critical to the financial performance of any railroad. For example, unit cost metrics, such as cost-per-passenger revenue mile, cost-per-locomotive overhaul, or cost-per-mile of rail replaced, could show the cost performance of each of Amtrak's core functions (e.g., transportation, maintenance of equipment, and maintenance of track and infrastructure). However, Amtrak has not fully developed unit cost and asset performance metrics like these that could demonstrate the efficient use of its resources and help to identify and reduce costs.

Most of the freight railroads we contacted, as well as VIA Rail, used unit cost and performance metrics to inform their business decisions in key areas, such as transportation, maintenance of equipment, and maintenance of infrastructure. As one railroad executive stated, unit cost and performance metrics are "predictive tools to understand how improvement translates into increased revenue, lower expenses, and/or higher profits." In addition, the Association of American Railroads has developed a set of asset performance metrics for the freight railroad industry, such as ton-miles per employee, ton-miles per locomotive, and ton-miles per dollar of operating expense, to show how efficiently that industry uses its assets and spends its money relative to output.

In 2000, we reported on the importance of these measures for Amtrak because these measures indicate the efficiency with which Amtrak's

[20]GAO/GGD-96-118.

resources, such as labor, are being utilized.[21] We said that without productivity metrics, Amtrak can neither demonstrate nor manage the efficiency of its individual resources. For example, Amtrak uses production statistics like overall ridership, number of overhauls completed, or miles of rail replaced to demonstrate production in its core activities. Amtrak believes that recent increased production in these core activities, when combined with its recent decrease in employees, show that it is "doing more with less." However, as we previously noted, a significant portion of the reduction in Amtrak's headcount came from the termination of MBTA and mail and express freight services—not necessarily from finding efficiencies while offering the same level of service. Without unit cost or asset performance metrics, it is unclear how well Amtrak is performing per unit of production, how well it is utilizing any specific asset, or where it could most effectively target its cost reduction efforts.

Some of Amtrak's departments are now beginning to develop some unit cost metrics for selected maintenance of equipment and infrastructure functions, such as cost per car or locomotive overhauled. These efforts, which involve creating new metrics and data systems, have not yet been coordinated across the company and have proven to be challenging. One obstacle encountered so far is the lack of detailed data. For example, Amtrak's chief mechanical officer stated that the mechanical department had to first redesign the way information was gathered in their maintenance facilities to create meaningful unit cost statistics per car or locomotive overhauled, inspected, or repaired. Current cost benchmarks for labor and material costs were developed when the mechanical department's system was first implemented but have not been updated with new labor rates or material prices—making estimation and benchmarking for these costs unreliable until new information is gathered.

Labor cost figures are also unreliable, since there is no link between Amtrak's payroll system and the mechanical department's system. Department officials stated that they plan to add links to Amtrak's payroll and add material cost and ordering capabilities to their current system once it is stabilized. A department official stated that testing of the link to Amtrak's payroll system has started, and the department is planning to fully implement the link by the end of fiscal year 2006. In addition, a mechanical department official stated that there are no production statistics available prior to fiscal year 2003, thereby forcing the department to construct new

[21] GAO/RCED-00-138.

baseline production statistics for each maintenance facility. Department officials attributed this lack of data to several recent reorganizations, the storage of data in several unconnected computers, and the departure of several key department staff. Department officials also stated that because Amtrak's approach to equipment maintenance has changed since fiscal year 2002, any production statistics that were available would not be directly comparable.

According to Amtrak's chief engineer, the engineering department is also currently designing an Internet-based system using Global Positioning System devices in maintenance vehicles to help gather data about how much time maintenance crews spend on maintenance tasks. The department plans to use these data in developing unit cost information. Prior to implementing this project, the department did not have a mechanism for gathering accurate cost data. Further, the department has just started to set productivity benchmarks and will soon begin an infrastructure inventory. According to the chief engineer, this system will take about a year to implement and to begin gathering data. This information will be used to begin establishing cost and productivity benchmarks. Using the information gathered by this new system, the engineering department hopes to achieve 3 to 4 percent productivity gains each year for the next 5 years.

A lack of detailed data also prevents Amtrak from creating more comprehensive corporatewide efficiency metrics. Amtrak does have some corporatewide efficiency metrics that demonstrate overall corporate revenue and expense performance. These metrics include ticket and passenger revenue per passenger mile and total and core revenues and operating expenses per seat mile.[22] However, these metrics do not demonstrate asset performance, such as output per unit of labor or per gallon of fuel consumed. The latter data would give insight into how efficiently Amtrak is utilizing its assets. When we tried to emulate some of Association of American Railroad's corporate performance metrics for Amtrak, we found that Amtrak could not provide comparable output or asset data to allow for the creation of some of the measures. For example, we could not create a clear revenue-per-passenger-mile-per-employee measure. Although Amtrak could provide the number of revenue passenger miles for its core intercity passenger business, it could not provide the

[22] "Core revenues and operating expenses" refer to those revenues and expenses for Amtrak intercity passenger rail train operations. They do not include commuter rail service.

number of employees broken out between its different lines of business. An Amtrak official stated that because some employees work across its different lines of business, this breakout could not be completed.

Amtrak Should Continue to Use Common Rail Industry Practices in Focusing on Its Cost Control Efforts

Amtrak has implemented some commonly used rail industry practices—such as benchmarking, outsourcing, and efficiency reviews of operations—to contribute to its cost control efforts. Amtrak could also identify more opportunities to use these practices. Doing so would allow Amtrak to compare its practices with those of more efficient railroads and other transportation sector businesses to help decrease Amtrak's operating costs. Examples of actions Amtrak could take in this area include the following:

- *Benchmarking*: Officials at most of the freight railroads we spoke with stated that they compared their cost containment strategies against their competitors in the industry. Such comparisons may be beneficial to share best practices within the industry. While some Amtrak departments have used benchmarking to improve their safety and other practices, other departments could use the same techniques to learn best practices and benchmark themselves against the best railroads and other organizations to improve performance. DOT officials also believed that Amtrak needs to do a better job at developing benchmarks for assessing performance, and that such benchmarks should be based on other passenger transportation providers, such as airlines.

- *Outsourcing*: Officials at some of the railroads we interviewed told us that they have outsourced some of their noncore functions to reduce their operating costs. For example, all of the freight railroads we contacted have contracted out some of their functions, such as car and locomotive maintenance services or legal representation, to outside contractors. Amtrak officials stated that they have been very aggressive in their use of outsourcing. They said Amtrak has outsourced half of its engineering functions; most of its information technology work; and some of its mechanical function, including locomotive painting and some wreck repairs. Amtrak officials stated that they are looking to outsource more locomotive repair activities in the future, including overhauls of its Acela trainsets. Recently, Amtrak has tentatively identified other noncore functions that it could outsource to outside contractors, such as janitorial/cleaning and food service functions. In addition, Amtrak's April 2005 Strategic Reform Initiatives noted that accurate cost statistics for those functions would have to be created in order to compare Amtrak's cost performance against any prospective contractor's cost performance.

- *Efficiency reviews*: One railroad official with whom we spoke said that his railroad had hired operational and process engineers to study the railroad's internal processes, route schedules, and yard operations to find out how to improve these functions and reduce their operating costs. Another railroad had internal cross-functional teams—comprising departments such as train operations, engineering, finance, and others—that continually analyzed up to seven different areas of operating costs, implemented ways to reduce costs, and tracked the resulting savings. An outside consulting firm studied Amtrak's operations and organization in fiscal year 2001. This review recommended several changes to reduce or control costs, including, among other things, increasing employee productivity, reducing crew sizes and overtime expenditures, and reducing food and beverage costs. However, not all of these findings were implemented nor were any resulting savings tracked because changes in Amtrak's leadership, and its subsequent reorganization, changed Amtrak's focus, according to Amtrak officials.

Conclusions

With operating losses having reached $1 billion and projected to increase even more, Amtrak's cost reduction efforts need to have as much impact as possible. Cost containment efforts are of particular interest for the federal government because without significant progress in reducing operating losses, substantial and continued federal subsidies will likely be needed to keep the company solvent. Our review of Amtrak's cost containment efforts indicates that Amtrak has opportunities for a more corporatewide approach for containing costs—for example, it can ensure that all relevant departments are taking meaningful steps to examine such issues as ways to reduce injuries or overtime. While Amtrak has looked to outsource functions to reduce costs, there are also indications that it can learn from other railroads' efforts in this regard as well as from these railroads' efforts to benchmark performance and conduct efficiency reviews. However, developing a successful strategy will be challenging, if not impossible, unless Amtrak can develop comprehensive and reliable cost data. A lack of cost standards and benchmarks, coupled with the lack of corporatewide integrated data collection software, will continue to prevent Amtrak from obtaining the detailed information it needs to understand its cost structure and to develop a sound strategy for attacking costs.

Recommendations for Executive Action

To ensure that Amtrak can better meet the challenge of increasing its efficiency and reducing its operating costs, we recommend that the president of Amtrak take the following four actions:

- comprehensively assess Amtrak's cost structure and the performance of its assets;
- establish efficiency and unit cost measures with clear inputs to benchmark individual asset and corporate productivity, which will demonstrate efficient use of Amtrak's resources;
- develop a cost containment strategy that uses these new cost measures and guides the cost reduction actions across all departments; and
- continue the use of and seek more opportunities to use cost containment practices that are widely used in the railroad industry, including a spend analysis of goods and services procured, benchmarking, outsourcing, and efficiency reviews.

Amtrak's Acquisition Function Is Limited in Promoting Efficiency, Cost-effectiveness, and Accountability

Amtrak's system for acquiring goods and services, which accounts for an estimated $500 million to $600 million in annual expenditures for the company, is missing critical elements necessary for efficient, cost-effective purchasing. Our past work in assessing the effectiveness of the acquisition function in leading organizations shows that several elements are key to ensuring that sound purchasing processes are being followed and to promoting efficiency, cost-effectiveness, and accountability. These elements include placing the function appropriately in the organization and backing it with organization leadership, creating and enforcing clear and consistent policies and procedures throughout the organization, and ensuring that its knowledge and information system[1] can provide meaningful and reliable data.

Amtrak's acquisition function, while improving, continues to face challenges in all three areas. First, although Amtrak has centralized and elevated its procurement function, there is still ample evidence to show that other departments have made sizable acquisitions without involving the procurement department. This practice can limit Amtrak's ability to obtain goods and services at the most economical prices or to otherwise protect the company. Second, in the past, Amtrak did not adequately communicate or enforce its procurement policies and procedures, limiting its ability to ensure that sound contracting practices are followed. Amtrak has recently taken actions that may help in this regard, including developing a procurement manual, conducting more training, and monitoring purchases more thoroughly. Finally, an inadequate knowledge and information system limits Amtrak's ability to analyze spending and identify opportunities for potential cost savings. As a result, Amtrak cannot ensure that its resources have been utilized appropriately when acquiring goods and services.

Effective Acquisition Requires Key Organizational Elements

Our body of work on acquisition best practices has identified several factors that can help organizations better ensure that their procurements

[1]An effective knowledge and information system is an enterprisewide system that integrates financial and operating data to support both management decision making and external reporting requirements.

are undertaken in an efficient and effective manner.[2] As figure 13 indicates, these factors include a company's or agency's organizational leadership and alignment, acquisition policies and procedures, and knowledge and information management system.[3]

Figure 13: Organizational Elements Critical to Effective Acquisition

Organizational leadership and alignment

The appropriate placement of the procurement function within an organization can facilitate effective management of acquisition activities, including planning and overseeing acquisitions throughout the organization. In addition, organization leaders need to create a climate that fosters good acquisition practices.

Policies and procedures

To facilitate effective planning, award, administration, and oversight of contracts, and to help ensure the best value for goods and services, the organization must have clear, consistent, and enforceable policies and procedures. Internal controls and performance and accountability measures help to ensure that policies and procedures are implemented and have the desired outcomes.

Knowledge and information management

To make informed strategic decisions aimed at reducing costs, improving service levels, measuring compliance, and managing providers, the organization must have a knowledge and information system that can produce meaningful and reliable data.

Source: GAO-04-544, p. 2.

Elevating Procurement Function in Organization Structure Has Not Yet Resulted in a More Strategic Approach to Acquisition

An effective acquisition function requires the appropriate placement within the organization, leadership's fostering of good acquisition practices, and a strategic focus toward acquisition planning and management throughout the company.[4] To its credit, Amtrak has made improvements to its procurement function, particularly related to its organizational leadership and alignment. For example, after Amtrak's current president eliminated the SBUs in 2002, the procurement units from each of the SBUs were centralized into a single procurement department, and the department head was elevated to the level of vice president, reporting directly to the

[2]GAO, *Transportation Security Administration: High-Level Attention Needed to Strengthen Acquisition Function*, GAO-04-544 (Washington, D.C.: May 28, 2004).

[3]A fourth factor identified in GAO-04-544 concerns human capital issues, which we do not address in this report.

[4]GAO, *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179 (Washington, D.C.: Mar. 29, 2005).

president.[5] In previous years, the procurement department had been part of Amtrak's finance department, which, according to the vice president of the procurement department, made it difficult to ensure the use of sound acquisition practices. He also said that elevating his position to the level of other key departments within the organization, such as operations, marketing, and finance, provided him with more authority to oversee and enforce acquisition policies throughout the company. Additionally, Amtrak adopted a new electronic system—known as eTrax—that tracks the acquisition process and allows for greater oversight. For example, this system includes controls over purchase requisitions prepared by user departments—those departments that need acquisition services—as well as controls over payment requests, a tool used for small dollar purchases.

Further, adherence to acquisition policies has taken on greater significance as a result of the grant agreement between FRA and Amtrak. As we discussed in chapter 1, the grant agreement requires Amtrak to follow procurement standards that ensure that goods and services are acquired in a cost-effective manner and in compliance with applicable federal statutes and executive orders. Although FRA is responsible for ensuring compliance with procurement standards, its oversight has been limited because of a lack of resources. FRA officials have told us that they have had to rely on Amtrak for assurance that they are in compliance with the requirements of the grant agreement. An FRA official told us that, although the grant agreement for fiscal years 2003 and 2004 included language that Amtrak comply with federal procurement standards, it was not until the fiscal year 2005 grant agreements that Amtrak, for the first time, was expected to fully comply with the procurement standards in the grant agreements. This compliance includes seeking, to the maximum extent practicable, competition in the acquisition of goods and services. The FRA official said that, in fiscal years 2003 and 2004, FRA was concerned about whether Amtrak could comply with such standards, and, therefore, the standards were not strictly enforced.

Despite these attempts to oversee and increase controls over the acquisition process, the procurement department has yet to become fully integrated into Amtrak's planning and management process, limiting the

[5] Currently, the procurement department is responsible for the acquisition of goods and services throughout Amtrak, with the exception of acquiring outside legal services, labor arbitration agreements, executive recruitment search services, electric propulsion agreements, and audit and investigative services.

extent to which good acquisition practices have spread throughout the organization. When planning spending for service acquisitions, user departments have often functioned independently of the procurement department and made spending decisions without coordinating or partnering with the procurement department. Procurement department officials told us that the extent of their involvement in user departments' planning process depends on whether user departments inform them of their plans before submitting requisitions.

Our work disclosed numerous examples of acquisitions made by user departments independent of the procurement department. For example:

- The engineering, mechanical, and marketing and sales departments frequently used payment requests to purchase services well in excess of $5,000, the maximum threshold specified by Amtrak.[6]

- In 2003, the operations planning department agreed to terms and fees with a software vendor for a pilot program, although Amtrak policies require that only the procurement department agree to terms and conditions. Documentation in the contract file indicated that the operations planning department had already authorized $8,500 in travel expenses by the time the procurement department was brought into the process. Subsequently, the vendor refused to provide the procurement department with a cost breakdown and comply with certain travel requirements because of the agreements already reached. The contract was initially valued at $60,000, and 1½ years later, its value increased by another $500,000 when Amtrak fully implemented the pilot program. When the contract manager processing the acquisition learned what the operations planning department had done, she required that it document why the travel requirements were not included in the contract.

- More recently, in fiscal year 2004, Amtrak technologies (a unit of Amtrak's finance department) issued and signed a contract modification expanding an existing software services contract without the procurement department's knowledge. This expansion increased the value of the contract by $200,000. The Amtrak OIG detected what Amtrak technologies had done during the course of an audit that the procurement requested on the contract. The Amtrak OIG recommended

[6]Amtrak increased the maximum threshold for payment requests from $2,000 to $5,000 in November 2004.

that Amtrak technologies follow established procurement policies when acquiring services.

These activities were detected after the fact; no controls existed at the time to prevent their occurrence. In the case of payment requests, the vice president of procurement has since taken on the role of approving payment requests for departments that have used them inappropriately. In the case of user departments awarding contracts and agreeing to terms and conditions independently, procurement department officials indicated that, before fiscal year 2002, very few controls were in place and departments frequently operated independent of the procurement department. Since fiscal year 2002, the vice president of procurement has been working to reign in departments that were considered to be "out of control." While procurement department officials believe that they have brought more acquisitions under control, they explained that changing the culture within Amtrak has been a gradual process, and they believe that they still have a long way to go.

The independent acquisition of services has prevented the procurement department from managing these procurements and controlling spending. Moreover, Amtrak has likely paid more for services than it would have otherwise. When user departments negotiate terms and fees on their own, they lose the opportunity to use the procurement department's expertise in negotiating terms that are in Amtrak's best interest. Further, when user departments award contracts independently, they put Amtrak at both a business and a financial risk. The procurement department's standard service contracts are written to ensure that Amtrak's interests are protected. Contracts issued outside of the department may obligate Amtrak to the prices and terms of the agreement, but may not include the language that protects Amtrak's interests.

Both in previous studies and in discussions with freight railroads, we have found that a more centralized approach can save money and provide other benefits. As we reported in 2002, leading companies have taken a more strategic approach when acquiring services by identifying opportunities to leverage their buying power, reduce costs, and better manage their suppliers.[7] For example, these companies helped business managers acquire key services and made extensive use of cross-functional teams to help better identify service needs, select providers, and manage contractor

[7]GAO-02-230.

performance. Similarly, officials from a freight railroad we contacted for this study told us that they used strategic sourcing[8] to completely restructure their acquisition function. They explained that, as a result of significant staff reductions and a need to outsource to suppliers, they changed from a department that primarily processed purchase orders to one that used cross-functional teams focused on procurement planning, sourcing, and managing suppliers. The officials indicated that this restructuring saved the railroad more than $240 million over 3 years. We also recently reported that the Department of Homeland Security had demonstrated some successes in implementing a strategic sourcing program to leverage the department's buying power. These successes involved greater collaboration among the department's various organizations and a savings of over $14 million since the program's creation.[9]

Amtrak's procurement department has recently taken additional steps to more fully integrate the procurement department into user departments' acquisition planning and management. For example, the procurement department is currently working with the human resources and labor relations departments to identify all health benefits contracts. Once these contracts have been identified, procurement department officials told us that they will develop a strategy, consolidate the contracts, and open them for competition as they come up for renewal in an effort to achieve cost savings. Additionally, the procurement department official responsible for services contracts is becoming more involved in user departments' planning activities by attending their staff meetings and developing a tracking system to alert departments when contracts are expiring or running low on funds.

[8]Strategic sourcing is a process used by leading commercial companies and a small number of federal agencies to establish an organizationwide approach to leveraging the organizations' buying power and fostering new ways of doing business.

[9]GAO-05-179.

Communication and Enforcement of Policies and Procedures Have Been Limited

Amtrak has not always adequately communicated and enforced acquisition policies and procedures for services, which limited its ability to ensure that sound contracting practices were followed. Recent steps have been more positive: that is, the procurement department has issued a manual of acquisition policies and procedures, and the department also is taking steps to ensure that existing policies, along with review and approval processes, are followed. The types of problems we identified with past procurements illustrate the importance of these steps.

Acquisition Policies and Procedures Were Not Clearly Communicated in the Past

Amtrak's acquisition policies and procedures have not always been clearly communicated to the entire organization. Leading organizations we have studied adopt clear, transparent, and consistent policies and procedures that govern the planning, award, administration, and oversight of acquisitions. These policies and procedures must also be clearly communicated to all involved in the acquisition function.[10] Although the procurement department periodically issued directives specifying policies and procedures for the acquisition of goods and services, these directives did not provide detailed guidance for procurement staff to follow when awarding contracts. Additionally, according to procurement department officials, user departments either circumvented or were unaware of existing acquisition policies and procedures set forth in these directives.

Recently, Amtrak has taken steps to address the lack of clear and comprehensive guidance. In June 2005, the procurement department issued a comprehensive procurement manual for acquisition staff. The procurement department's staff said their initial goal was to complete the manual by October 2003. However, according to a procurement department official, completion of the manual was delayed because of needed reviews by the law department and the need to incorporate FRA grant agreement language during the course of developing the manual.

Amtrak's procurement department officials also have conducted outreach efforts to inform user departments of current acquisition policies and procedures. For example, since February 2005, the vice president of the procurement department has made presentations about acquisition policies and procedures to user departments. (See table 7.) According to a procurement official, the intent was to deliver these presentations only to

[10] GAO-04-544.

major departments. However, other departments, such as the human resources and transportation departments, which are responsible for providing medical benefits and food and beverage service, were not scheduled to receive this presentation. Procurement and finance department officials have also made presentations to field offices about the various acquisition tools available. These presentations covered specific acquisition tools, such as payment requests for small purchases and the use of purchase cards for low-cost items, as well as the process for paying invoices.

Table 7: Procurement Presentations to Major Amtrak Departments in 2005

Department or unit	Date of presentation
Engineering	February 1, 2005
Finance	February 15, 2005
Law	March 3, 2005
Police and security	March 7, 2005
Amtrak technologies (unit of the finance department)	March 21, 2005
Mechanical	April 12, 2005
Environmental, health, and safety	May 2, 2005
Marketing and sales	June 20, 2005

Source: Amtrak.

Established Acquisition Policies and Procedures Have Not Been Enforced

Amtrak has not consistently enforced established policies and procedures for the acquisition of goods and services. As we recently reported, leading organizations recognize the need to ensure that their prescribed policies and procedures are being enforced so that acquisitions are made appropriately.[11] We found, however, that Amtrak was not following such policies and procedures in many instances. Our review of a nonprobability sample of 61 service contract files covering $85.3 million (75 percent) of the expenditures for professional services, consulting, marketing, and sales promotion services in fiscal years 2002 and 2003, as well as our review of expenditure data and our discussions with officials from both the

[11]GAO-04-544.

procurement department and user departments, demonstrated the following four problems:[12]

- a high frequency of noncompetitive awards,
- insufficient or no justification for many noncompetitive contract awards,
- a lack of appropriate approval for sizable increases in contract costs, and
- bypassing of the procurement department through inappropriate use of payment requests.

Frequency of Noncompetitive Contract Awards

Of the 61 contracts we examined in detail, [13] a substantial number, 36 (59 percent), of the awards were made noncompetitively.[14] As table 8 indicates, the majority of them were made before fiscal year 2003. The vice president of the procurement department generally acknowledged that the extent of Amtrak's noncompetitive procurement of services was too high and needed to be reduced. Leading organizations we have studied[15] recognize the importance of competition to better ensure that the best value is obtained in awarding contracts. In fact, Amtrak's acquisition policies and procedures

[12]Results from nonprobability samples cannot be used to make inferences about a population, because in a nonprobablity sample some elements of the population being studied have no chance or an unknown chance of being selected as part of the sample. See appendix I for the file selection methodology that we used in conducting this review. We focused on fiscal years 2002 and 2003 because they were the most recent years for which audited financial statements were available for the purpose of assessing the reliability of expenditure data.

[13]Of the 61 contracts we reviewed, Amtrak could locate no documentation for 4. They provided printouts of information from their acquisition system for these 4 contracts. These printouts contained minimal information, which allowed minimal analysis. For another contract, Amtrak was missing one of the three folders of documents prepared during the course of the contract. We analyzed this contract to the extent allowed by the available documentation.

[14]We define noncompetitive awards as those that Amtrak considered as either sole or single source. We obtained information regarding whether a contract was a sole or single source award by reviewing documentation in the contract file and, if necessary, discussing them with procurement department officials.

[15]GAO-03-661 and GAO-02-230.

require that goods and services be acquired competitively to the maximum extent practicable.

Table 8: Number of Contracts GAO Reviewed, with Expenditures in Fiscal Years 2002 and 2003, That Were Competitively and Noncompetitively Awarded

	Contracts reviewed			
Time frame awarded	Competitively awarded	Noncompetitively awarded	Undetermined	Total
Before fiscal year 2002	12	14	3	29
Fiscal year 2002	6	13	0	19
Fiscal year 2003	3	9	1	13
Total	**21**	**36**	**4**	**61**

Source: GAO analysis of Amtrak data.

Insufficient or No Justification for Noncompetitive Contracts

A significant number of the noncompetitive contracts we reviewed had either no justification or insufficient justification. Amtrak acquisition policies in force at the time these contracts were awarded required justifications spelling out the specific circumstances warranting a noncompetitive procurement for procurements valued at $100,000 or more.[16] Guidance in effect at the time identified specific circumstances that were not acceptable justifications for noncompetitive awards, such as a preference for a particular vendor by the user department. Of the 36 noncompetitively awarded contracts we reviewed, 21 were valued at $100,000 or more and thus required justifications. However, 10 of these 21 contracts did not include justifications or had justifications that did not conform to the guidance in effect at the time. As table 9 illustrates, the degree of compliance has increased since 2002, when SBUs were eliminated. Procurement department officials attributed the lack of compliance before 2002 to poor overall controls over service acquisitions.

[16]In February 2004, this threshold was reduced to $25,000.

Table 9: Extent to Which Noncompetitive Contract Awards GAO Reviewed Included Adequate Justifications

	Contracts reviewed			
Time frame awarded	Justification conformed to Amtrak requirements	No justification provided or justification did not conform to Amtrak requirements	Insufficient documentation to determine	Total
Before fiscal year 2002	1	5	2	**8**
Fiscal years 2002 or 2003	8	5	0	**13**
Total	**9**	**10**	**2**	**21**

Source: GAO analysis of Amtrak data.

Beginning in 2002, after the procurement function was centralized and continuing through 2004, the procurement department began instituting new controls, which included adherence to the justification requirement for noncompetitive procurements. Current policies allow noncompetitive procurements in circumstances such as the following:

- Only one source is known to satisfy Amtrak's requirements.
- Contractor has unique capability, expertise, or equipment.
- Emergency situations.
- Follow-on work, when awarded to another contractor, would increase cost substantially or result in unacceptable delays or risk.
- Need is of such compelling urgency that Amtrak would be seriously harmed without the acquisition.

Several procurement department officials indicated that, more recently, user department requests for noncompetitive procurements have been rejected more often, and it has become much more difficult for user departments to get approval for such contracts. To illustrate, procurement department officials provided several examples of noncompetitive requests that the vice president of procurement had rejected. For example, an August 2004 request from the mechanical department and a March 2005 request from the engineering department were both rejected because they would have likely resulted in additional noncompetitive acquisitions. The vice president of procurement also noted that the engineering department's request was based on a noncompetitive acquisition that had been obtained inappropriately through the use of a tool intended for small dollar purchases.[17]

Contract Changes Were Inappropriately Approved

Many of the contracts we reviewed—38 of the 61—included changes, some of which increased the contract's cost. In four instances, the final dollar amount was several times larger than the initial amount as a result of these changes. (See table 10.)

Table 10: Contracts with Numerous Extensions Resulted in Significant Dollar Increases

Type of contract	Number of extensions	Initial dollar amount	Final dollar amount
Frequent rider loyalty program	6	$6,118,407	$32,362,167
Software support	7	397,200	1,029,688
Software development	12	318,418	1,460,238
Signal survey services	4	45,000	764,418

Source: GAO analysis of Amtrak data.

Note: The above information was based on our review of 61 contracts for professional services and advertising, sales promotion, and consulting services. Dollar amounts in this table represent the amounts authorized in the contracts, not the expenditures actually made.

Although the cost of contracts can change over time, many of the changes to the 38 contracts were not approved in compliance with Amtrak's policies and procedures. Amtrak requires that, when a contract is changed, the person approving the extension should have approval authority equal to the new total dollar value of the contract. Of the 91 total changes in these contracts, however, at least 41 were approved by individuals who did not have the appropriate level of authority. The majority—28—occurred in fiscal year 2003 or later.[18] For example, in the software development

[17]Procurement department officials provided two other examples of denials from earlier in fiscal years 2003 and 2004. However, we found, during the course of our contract file reviews, that one of these denials was ultimately approved.

[18]Although the contracts we reviewed were awarded in fiscal years 2002 and 2003 or earlier, we reviewed all contract changes that had occurred through our review in fiscal year 2005.

contract identified in table 10, a director with an approval authority of $100,000 for noncompetitive contracts approved a series of changes that were each individually less than $100,000. However, as indicated in the table, the cumulative value of the contract exceeded his level of authority. Amtrak's vice president for procurement indicated there is debate within the procurement field about change order approval authority. In his opinion, the authority to approve changes should be based on the incremental amount of the change because having higher level officials approve small dollar changes is not an efficient use of their time. However, as evidenced by our contract file reviews, a series of small changes could result in a much larger contract.

Inappropriate Use of Payment Requests

We found many instances in which user departments were inappropriately using payment requests to purchase services. Payment requests are intended to be used for small dollar acquisitions having a maximum threshold of $5,000.[19] These requests allow user departments to acquire goods and services directly from vendors without involving the procurement department. Goods and services acquired using payment requests are not obtained competitively, and user departments lose the opportunity to use the procurement department's expertise in negotiating contract terms. Additionally, payment requests are not considered contracts and, therefore, do not protect Amtrak's rights and interests as would a contract. Using payment requests makes it impossible for the procurement department to track and oversee acquisitions because they obviate the need for purchase orders, Amtrak's primary means of monitoring contract purchases.

Because reliable expenditure data were absent, we did not quantify the extent to which payment requests were used. Nevertheless, procurement department officials acknowledged that payment requests are often used inappropriately, and we found numerous instances of their inappropriate use. Some of these requests exceeded the threshold substantially. For example:

- In fiscal year 2002, the engineering department used a payment request for inspection services from a single supplier valued at more than $72,000.

[19] The $5,000 threshold has been in effect since November 2004. Previously, the threshold was $2,000.

- In fiscal year 2004, the engineering department used two payment requests for the same vendor to acquire services valued at more than $79,000.
- In fiscal year 2004, the mechanical department used a payment request for software services from one vendor valued at almost $13,000.
- In fiscal year 2004, the marketing and sales department used a payment request for photography services from one company valued at $109,000.

We also found instances in which user departments utilized payment requests for goods and services when Amtrak also had contracts in effect. For example:

- The marketing and sales department used payment requests to pay invoices of $68,596 and $109,888 in fiscal years 2003 and 2004, even though a specific contract covering those services was already in effect.
- The mechanical department used payment requests to pay invoices of $2,500 for professional services to a vendor for 3 consecutive fiscal years, despite having contracts for similar services in effect with the same vendor.

Amtrak officials gave several reasons for the inappropriate use of payment requests. First, not all officials were aware of the procurement policies and procedures. Marketing and sales department officials said they incorrectly interpreted the policy governing the use of payment requests. For example, one department official said he incorrectly thought that involving the procurement department was required only for significant and recurring expenditures, such as those exceeding $1 million; he was not aware of the $5,000 limit for the use of payment requests. Second, procurement officials noted that user departments likely find it more convenient to use payment requests because the vendor gets paid faster. Officials in the engineering and mechanical departments confirmed this. For example, Amtrak's chief engineer said that engineering department staff had likely used payment requests out of convenience, but he acknowledged that their use was not justified. Similarly, the chief mechanical officer also said that his department probably found payment requests to be more convenient and noted that they sped up the acquisition process. Procurement officials also explained that if funding or time is running out on a purchase order, user departments will use payment requests to ensure that the vendor gets paid.

Marketing and sales, engineering, and mechanical department officials all acknowledged that their departments had used payment requests inappropriately in the past but said this situation had been corrected. The vice president of marketing and sales also indicated that she had taken corrective actions to ensure adherence to procurement policies and procedures. These actions include scheduling training for staff and bringing acquisitions previously made using payment requests under the control of the procurement department.

Procurement department officials indicated they also have been working to reduce the misuse of payment requests through several means. For example, as previously mentioned, the vice president for procurement approves all payment requests—through eTrax—from user departments, such as engineering and mechanical, that have misused these payments in the past. Information from the procurement department indicates that the vice president denied 29 payment requests totaling more than $255,000 between December 2004 and May 2005. Also, a new database has been established to better track the expiration date and remaining funds for contracts exceeding $1 million. Although smaller contracts are not included in the database, a senior director in procurement indicated that individual contract managers in the procurement department are expected to monitor them on their own. He noted, however, that user departments are ultimately responsible for monitoring their contracts.

Review of Procurement of Outside Legal Services Showed Weaknesses in Areas Exempt from Procurement Department Review

In addition to the acquisition activities under Amtrak's procurement department, we also discussed acquisition activities with officials from other departments authorized to acquire selected services independently. Amtrak's delegation of authority specifically provides selected departments with the authority to procure goods and services in five areas without the involvement of the procurement department. We reviewed one of these areas,[20] outside legal services, because of the relatively large dollar value of the legal services procured—$48 million during a 2-year period, ending

[20]The other four services acquired independently of the procurement department are electrical power for the Northeast Corridor, labor arbitration agreements, audit and investigative services, and the use of executive recruitment firms.

September 30, 2003.[21] We found several weaknesses in the processes for the procurement and payment of outside legal services that increase the risk that Amtrak is not receiving best value for these services and is making improper payments for these services. These weaknesses included (1) a lack of competition in selecting firms, (2) a lack of spend analysis on outside legal services, (3) a lack of specificity in documenting terms and conditions of the services to be provided, (4) an inconsistent review of invoices for compliance with established billing guidelines, (5) inadequate documentation supporting purchases for certain matters, and (6) a lack of segregation of key approval and payment functions.

Lack of Competition

Amtrak makes limited use of competition in acquiring outside legal services. Law department officials said they normally contract with firms they have used in the past as long as their performance has been good and their prices are reasonable. While Amtrak's procurement policy is to obtain goods and services as competitively as possible, law department officials said the only time the department would have firms compete for outside legal services is if a matter is highly sensitive or visible, or if the matter concerns a relatively new area. They explained that many matters are time-sensitive and do not allow time for competition. Other matters require specific legal expertise, including an understanding of Amtrak's history, business, and statutory and regulatory environment. Additionally, law department officials said they need to use attorneys admitted to the bar in the states in which lawsuits are filed and thus need to use attorneys throughout the country.

While selecting outside legal counsel may involve many important considerations besides price, officials of other railroads we contacted indicated that they have been successful when using competition to acquire either some or all of their outside legal services. For example, VIA Rail requires that all user departments, including their law department, obtain two or more bids before acquiring goods and services. Although VIA Rail's law department acquires its own outside legal services, it is still subject to the company's procurement policies and procedures. Officials from one freight railroad said they competitively selected a law firm to handle all of their outside legal work on intellectual property. Additionally, officials

[21] In commenting on a draft of this report, Amtrak noted that its legal costs compare favorably with Class I railroads. Since our purpose was to evaluate how Amtrak acquires legal services and related internal controls over such acquisitions, we did not compare Amtrak's costs for legal services with other railroads'.

responsible for acquiring outside legal services at three commuter railroads indicated that they periodically compete legal services to develop a list of firms that they plan to use over a period of time, such as 3 to 5 years.

In commenting on a draft of this report, Amtrak indicated that it has retained law firms based on solicitation to multiple firms with varying degrees of success. We acknowledge that the acquisition of legal services can be unique, and it can be difficult in certain circumstances to obtain competition for such services. However, we believe Amtrak can more aggressively seek competition in its acquisition of outside legal services. The examples we describe represent a variety of ways in which other railroads have tried to use competition and leverage buying power that Amtrak should consider in its efforts to more efficiently manage spending on outside legal services.

Lack of a Spend Analysis on Outside Legal Services

Amtrak's law department has not used a spend analysis[22] on outside legal services in order to determine whether it receives the best value possible in terms of service and cost. Law department officials said they have undertaken some efforts to control spending—for example, within a given practice area or for support services such as copying. However, the department has not analyzed its spending as a whole to identify opportunities to reduce spending.

One such opportunity to reduce spending could be to reduce the number of law firms used. Although law department officials said they do not have enough work to direct to a specific firm to leverage buying and obtain volume discounts, Amtrak used 149 outside law firms in fiscal year 2002 and 157 the following year. In contrast, officials at one freight railroad (that operates in multiple states similar to Amtrak) indicated that they analyzed spending on outside legal services and found that they could effectively reduce the number of firms they used. At one time, the freight railroad used about 250 outside law firms but decided to pare down this number in order to develop stronger partnerships. They believed that frequently used firms would be more familiar with the railroad's business and be in a position to serve the railroad more efficiently. Ultimately, this railroad reduced the number of firms to 8 core counsels and about 50 additional firms to be used for specific areas of expertise or to obtain geographic coverage. According to railroad officials, this action reduced costs and enhanced collaborative cooperation between the railroad and the outside law firms.

[22]Spend analysis is discussed more fully in chapter 4.

Amtrak officials advised us that in 2005 they purchased and installed legal case management software that will allow the tracking and analysis of legal fee expenses. However, an official confirmed that the new system still will not capture payment attributes, such as hourly rates, hours expended per matter, professional staff levels, and the time period the services covered.

Lack of Specificity in Documenting the Terms and Conditions of Services

Amtrak units do not specifically document the scope and terms of outside legal work to be performed. According to law department officials, the work to be done is frequently discussed with the firm by the attorney working on a matter, but there is not necessarily a record of these discussions. Outside law firms are provided with a copy of Amtrak's billing guidelines.[23] These guidelines include topics such as how bills are to be processed, allowable reimbursable costs, budgets, staffing, and conduct of litigation. However, the guidelines do not specifically outline the scope of work to be completed, outline the costs of services provided, or require acceptance of terms by authorized signature for each individual engagement. In contrast, Amtrak procurement policies generally require that contracts be signed and that they outline the scope of work to be performed and delivery dates for work products. The lack of documentation for outside legal services leaves Amtrak vulnerable to miscommunication concerning the work expected of outside law firms.

Inadequate Review of Invoices

The law department does not have a sufficient process to ensure that the outside legal firm invoices submitted for payment are compliant with Amtrak's billing guidelines, which are to be used to ensure payments are made properly. Formal protocols—such as specific review procedures to ensure compliance with the billing guidelines—do not exist, thereby limiting the effectiveness of the compliance reviews. When the law department receives an invoice for services, an attorney is expected to review it for compliance with the guidelines, in addition to verifying that the work was authorized and the time charged was reasonable based on their knowledge of the case.[24] Law department officials told us an attorney's review of invoices for compliance with billing guidelines is limited to assessing general compliance and identifying prohibited practices such as "block billing," which is the aggregation of time spent on

[23]Amtrak, *Amtrak Guidelines for Outside Counsel* (March 1998).

[24]For invoices less than $10,000, the deputy counsel of the practice group managing the matter is responsible for approving the invoices, while the Amtrak general counsel approves invoices for amounts of $10,000 or more.

different activities into one amount and billing increments other than 6 minutes—the standard increment for billing purposes. We reviewed 10 invoices from fiscal years 2002 and 2003, totaling $843,105, to gain an understanding of the attorney review process. We found that 4 of the 10 invoices, valued at $118,947, did not comply with one or more of the requirements in the billing guidelines.[25] All 4 of these invoices had insufficient detail to assess compliance, and 1 of the 4 invoices reflected billed time increments greater than the 6-minute standard billing increment.

Inadequate Documentation Requirements for Payments

For settlement agreement payments, the law department does not provide sufficient documentation to the accounts payable section of Amtrak's finance department when seeking payment. Amtrak policy requires that accounts payable receive adequate documentation to avoid making duplicate payments. However, law department officials have determined that settlement payments are confidential; therefore, they only send "disclaimer" sheets showing the firm's name, the amount of fees and expenses, a stamp of authorization from the department, and a statement that the original document is on file. Amtrak officials told us that payment requests associated with settlements receive three levels of review within the law department prior to approval and, therefore, any concerns about inappropriate payment processing is misplaced. We disagree with this conclusion. The lack of documentation ensuring adequate review has taken place by the internal group with such responsibility—accounts payable—increases the possibility of duplicate payments and payments for other than approved amounts.

Insufficient Segregation of Key Duties

The law department does not adequately segregate key duties related to authorizing, reviewing, and receiving payments for outside legal services. These key duties need to be segregated among employees to reduce the risk of error, including improper payment. Law department officials said that it was common practice to have attorneys obtain the payment on behalf of the vendors (rather than having accounts payable send the payments directly to the vendor) and then forward these payments with

[25]Due to significant weaknesses in the design of controls over the review, approval, payment, and monitoring of amounts for outside legal services and the results of our walk-through of the process, including inspection of a nonprobability sample of 10 invoices, we did not statistically sample payments for outside legal services to estimate what portion of the population of payments were appropriately reviewed and approved or to estimate if the payments represented a valid use of Amtrak's funds.

accompanying documents. Also, attorneys are allowed to create and edit the payee's name and address in addition to approving and receiving payment. This practice increases the risk that payments may be sent to unauthorized parties and to addresses other than that of the vendor. According to an Amtrak official, the practice of the accounts payable section sending payments to the law department ended sometime in fiscal year 2004, in all cases except settlement agreements. For payments related to settlement agreements, the law department still receives and determines when payment in a settlement agreement will be disbursed to vendors, because management has determined that the law department is in the best position to disburse the check. Again, the basis for not establishing sufficient procedures does not mitigate the fact that these payments are subject to a higher risk of being improper due to inadequately designed control practices.

Amtrak's Knowledge and Information System Does Not Support a More Strategic Approach to Acquisitions

Amtrak is missing the third key element of an effective acquisition process—meaningful and reliable data stemming from an organization's knowledge and information system. Amtrak's knowledge and information system currently does not produce the data needed that would enable Amtrak to identify strategic sourcing opportunities. Such data could enable Amtrak to leverage its buying power and reduce procurement costs.

In discussing the first key element of an effective acquisition function, we described how a number of leading companies have achieved significant savings by adopting a strategic approach to their procurement activities.[26] To do so, companies and a small number of federal agencies use a spend analysis, which involves automating, extracting, supplementing, organizing, and analyzing procurement data. However, Amtrak's procurement and financial databases were able to provide only limited information on specific accounts or the types of goods and services being purchased (such as professional services, advertising, and sales promotion), which precludes conducting a spend analysis. Although the vice president of procurement estimated that the company's annual expenditures for goods and services totaled $500 million to $600 million, the company was unable to provide detailed, reliable, and comprehensive data on total spending.

[26]We also discuss these efforts in more detail in GAO-04-870. See also GAO-02-230 and GAO-03-661.

Our review identified several reasons impeding Amtrak's ability to improve its knowledge of procurement spending to support a more strategic approach. These reasons include the following:

- *Amtrak's knowledge and information system is old and requires manual manipulation.* Leading companies have adopted systems that are programmed to routinely extract vendor payment and related procurement data from other financial and information systems, thereby allowing them to easily obtain needed information. In contrast, procurement department officials indicated that the Amtrak Accounting, Material and Purchasing System (AAMPS), which is used to process acquisition information and interfaces with Amtrak's financial systems, is a "batch system" that dates to the early 1980s.[27] As such, this system requires manual manipulation to retrieve data. To retrieve data, each data request must be individually programmed, by an employee who is very familiar with the complex coding inherent in the system, and then manually processed. Officials told us that it is difficult to obtain needed data because they must be requested in the precise manner necessary.

- *Amtrak cannot readily ensure that data are reliable.* We identified significant discrepancies between the procurement expenditure data we obtained and the data shown in the audited financial statements, bringing the reliability of these data into question. For example, fiscal year 2003 AAMPS expenditure data showed that Amtrak spent $34.2 million on advertising; however, the audited financial statements for the same year listed advertising expenses of $31.6 million, a difference of about 8 percent. Similarly, fiscal year 2003 AAMPS data showed expenditures of $31 million for professional services; financial statement data showed $24.4 million, a 27 percent difference. One control procedure that can ensure data reliability is to reconcile the discrepancies between AAMPS and the financial system. However, this type of reconciliation is difficult and, therefore, not part of Amtrak's normal procedures. For example, company officials recently undertook—at our request—a reconciliation between AAMPS data on sales promotion and the amounts reported in Amtrak's audited financial statements—discrepancies totaled almost $3 million in fiscal year 2002

[27]The eTrax system that we previously discussed is a user-friendly interface that feeds into AAMPS. The system is used, for example, to process purchase requisitions and payment requests.

and $165,000 in fiscal year 2003. This process took about 1 month and considerable staff time because it had to be done manually.

- *Questionable reliability of AAMPS data prevents accurate tracking of spending.* Our review disclosed two problems that resulted in inaccurate acquisition data that hinders Amtrak management's ability to accurately track spending. First, a limited review of acquisition transactions revealed charges coded to incorrect accounts. For example, payments of about $2 million to municipal and state governments between fiscal years 2002 and 2004 were incorrectly charged to the professional services and consulting accounts. Amtrak procurement officials agreed and said these payments were likely tax payments. We found several other instances of miscoding and brought these to the attention of procurement officials, who agreed that they too were incorrectly charged to wrong accounts. Other incidents of miscoding involved the cost of a dump truck ($122,000) and ballast ($150,000), both of which had been charged—in total or in part—to the professional services account. Procurement officials attributed data reliability problems to poor data entry and review procedures in user departments. Various employees in user departments often select the accounts to be charged when initiating transactions, and they may select accounts incorrectly. Although approving officials within the user departments are supposed to check to ensure that the accounts are charged correctly, they may not do so. Moreover, neither the procurement department nor the finance department reviews the coding of expenditure transactions, even on a spot-check basis. Even if errors are found, the extent to which they can be corrected is limited. Procurement and finance officials explained that AAMPS data cannot be corrected. They further explained that data in the financial systems can be corrected. However, this adjustment would correct only the dollar amounts in the account; it would not correct the information used by procurement officials to track spending on individual transactions.

  A second source of unreliable data results from the heavy use of payment requests by user departments. As previously mentioned, Amtrak's ability to track spending is constrained when payment requests are used to acquire goods and services. Payment requests are used for a variety of expenditures, such as outside legal services, utility bills, and payments to other railroads. As previously discussed, user departments have inappropriately used payment requests to acquire goods and services. In these instances, Amtrak cannot track spending on acquisitions because payment requests do not require purchase orders, which are Amtrak's primary means of monitoring contracting spending.

Conclusions

Amtrak's improvements in its acquisition function, such as elevating it to the same level as other key departments and centralizing activities, are good first steps in establishing better control over acquisitions. There are, however, several opportunities for improvement on the part of Amtrak and FRA. One opportunity relates to more fully integrating this centralized function throughout the company, so that user departments are aware of and follow established company policies and procedures concerning acquisitions and coordinate more closely with the procurement department so that it has greater opportunity to add value to the acquisition process. Another opportunity relates to ensuring that established policies and procedures are followed more closely within the procurement department, and that adequate controls are in place for acquisitions handled outside of the procurement department (such as procurement of outside legal services). Our review showed that not following policies and procedures has likely increased what Amtrak has paid for services. Addressing these issues, as well as taking steps to develop a more meaningful knowledge and information system, would allow Amtrak to track and analyze spending and thus better manage its acquisitions. Further, increased oversight by FRA could help ensure that procurements are cost-effective and in compliance with federal requirements.

Recommendations for Executive Action

To ensure that Amtrak's acquisition management practices support sound business decisions and the efficient and effective use of federal funds provided to Amtrak, we recommend that the Secretary of Transportation direct the Federal Railroad Administrator to take the following three actions:

- Increase oversight by requiring Amtrak to submit a plan, possibly as part of the company's application for grant funds, identifying the specific actions that will be taken, consistent with the recommendations outlined below, to improve its acquisition management practices.

- Review and provide comments on this plan to Amtrak and work with Amtrak management and staff to develop the most cost-effective approach(es) to improving acquisition management practices. The approach(es) developed should ensure that Amtrak, FRA, and others, as appropriate, have adequate information on which to make business decisions regarding the acquisition of goods and services and the use of federal resources provided to do so.

- Report at least annually to Congress on progress being made by Amtrak regarding improvement of its acquisition management. This report should identify any specific actions either Amtrak or Congress should take to facilitate improvement in acquisition management, particularly improvement in its knowledge and information system and the use of acquisition data in identifying opportunities for cost savings.

To help improve Amtrak's acquisition function and better promote efficiency, effectiveness, and accountability when acquiring goods and services, we recommend that Amtrak's president work with the vice president of procurement to take actions that will address the various issues raised in this chapter. These issues, along with the five specific recommendations to address them, are shown in table 11:

Table 11: Specific Recommendations—Acquisition Management

Issue	Recommendation
Distributing and promoting current procurement policies and procedures	Ensure that all departments receive information on procurement policies and procedures, similar to the presentations that have already been given to a number of departments, and ensuring that all departments are held accountable for following those policies and procedures.
Enhancing the role of the centralized procurement function	Take additional action to become more integrated into the planning of all service acquisitions, similar to the actions Amtrak's human resources and labor relations departments are taking with regard to awarding health benefits contracts.
Building greater adherence to established procurement procedures	Develop an action plan to better ensure that acquisition policies and procedures are communicated, followed, and enforced. This includes • ensuring that user departments required to procure goods and services through the procurement department cannot acquire them independently; • ensuring that services are acquired competitively to the maximum extent possible, such as enforcing the requirement to obtain justifications for noncompetitive acquisitions; • ensuring that changes increasing the cost of contracts are approved in accordance with current delegation of authority, which requires that approvals are based on the cumulative value of contracts, not the incremental value of change orders; and • ensuring the appropriate use of payment requests by enforcing the requirement that payment requests not exceed $5,000 and ensuring that they are not used when a contract and corresponding purchase order are in effect for a particular vendor.

(Continued From Previous Page)

Issue	Recommendation
Providing better control over acquisition of outside legal services	Together with the law and finance departments, develop standardized acquisition policies and procedures for acquiring outside legal services to ensure that • acquisition of outside legal services is competitive to the maximum extent possible; • spending on outside legal services is analyzed to identify opportunities to control and reduce spending; • documentation specifying the terms and conditions of the work to be prepared; • attorneys completely and consistently review invoices for compliance with Amtrak's billing guidelines; • the law department follows Amtrak policy by providing approved invoices to the accounts payable section for payment; and • key duties, such as authorizing, reviewing, and receiving payments for outside legal services, are segregated, and that attorneys not be allowed to create and edit payees' names and addresses.
Addressing knowledge and information system problems	• Create an automated, centralized spend analysis system for capturing the type of reliable and complete spending data needed to identify opportunities to leverage Amtrak's buying power and provide better management and oversight of purchasing activities and suppliers. The system should include features that would • provide data on what categories of goods and services are being acquired; how many suppliers are being used for specific categories; and how much is being spent on specific categories, in total and for each user department and with each supplier; and • ensure that data are more readily and reliably retrievable on an automated and repeatable basis.

Source: GAO.

Amtrak Does Not Have Adequate Oversight of or Accountability for Its Performance and Results

Our work demonstrates that fundamental improvement is needed in the way Amtrak measures and monitors performance, develops and maintains financial records and internal controls, controls costs, and acquires goods and services. In the preceding chapters, we have outlined recommendations to improve the policies, procedures, and practices in these areas. However, as long as Amtrak continues to focus much of its attention on capital needs, there is a serious question concerning whether the company will sufficiently address these areas. Without sufficient accountability mechanisms and oversight to ensure that needed actions are implemented, Amtrak increases the risk of its having continued ineffective use of resources; increasing federal subsidies; and, in an extreme case, facing possible bankruptcy.

Currently, Amtrak's accountability mechanisms are weak and oversight is insufficient. Two factors contribute to this situation. First, although the federal government has an interest in Amtrak's mission, Amtrak operates in an unusual situation—that is, as neither a publicly traded private corporation nor as a public entity. This means Amtrak is not subject to the accountability and oversight mechanisms by which those types of entities would have to abide. For example, unlike publicly traded private corporations, Amtrak is not accountable to stockholders or financial markets and is not subject to Securities and Exchange Commission (SEC) rules, regulations, or public disclosure requirements. Also, unlike public entities, Amtrak is not subject to GPRA, FMFIA, or to various other reporting and accountability requirements established in law or regulation. The second factor is that accountability and oversight mechanisms that are applicable, such as oversight by Amtrak's board of directors and FRA, are limited or are not being implemented effectively.

Both the administration and Amtrak have proposed reforms that would change Amtrak's basic operating structure, establish competition for intercity rail, and provide a different method for distributing federal subsidies. The effect of these changes, if implemented, on strengthening oversight and accountability mechanisms is unknown. Reaching agreement on to whom Amtrak is accountable, however, is a critical first step. Without such a step, inadequate accountability will continue, and the issues raised in this report may not receive the sustained visibility needed to resolve them. Even within the current operating framework, Amtrak's board and other key stakeholders can take actions, such as developing policies and procedures and identifying needed information for conducting oversight, to increase oversight and accountability. Congress may also want to play a stronger role in (1) establishing an accountability mechanism for Amtrak or

(2) determining the extent and parties involved in holding Amtrak accountable for its performance and results and for the efficient and effective use of federal resources.

Public-Private Nature of Amtrak Significantly Influences Oversight and Accountability Efforts

Amtrak operates as neither a public entity nor a publicly traded private organization, a factor that influences both the degree of oversight it receives and the ability to hold it accountable for results—potentially reducing both. In general, Amtrak does not receive the same type of oversight that publicly traded, for-profit companies or a government corporation might receive. Some typical accountability and oversight mechanisms from which Amtrak is exempted are discussed below:

- *Stockholder accountability.* In general, Amtrak is not subject to the oversight and accountability of the financial markets. This situation is attributable to the fact that Amtrak's stock is closely held and not publicly traded. In publicly traded companies, poor financial or operational performance and nonachievement of goals can quickly be reflected by falling stock prices, declining ratings on bonds or other forms of corporate financial instruments, and a possible change in board membership. As a result, publicly traded companies have a strong incentive to perform as efficiently and effectively as possible and to take action if performance is not up to expectations. In addition, company management has an incentive to work on behalf of its owners—stockholders—to maximize the value of the business and achieve the highest return to stockholders possible. Currently, Amtrak does not have such an explicit incentive, since stockholders do not hold Amtrak accountable for its performance and results.[1] Amtrak has common stockholders,[2] but they have not played a significant role in corporate governance since the early 1980s when the Amtrak Improvement Act of 1981 removed the authority of common stockholders to elect board

[1]This discussion is not meant to imply that Amtrak's stock should be publicly traded. Rather, it is to indicate that Amtrak is not subject to the same oversight and accountability mechanisms to which a publicly traded private business might be subject.

[2]The common stock is held by four entities: American Premier Underwriters, BNSF Railway Company, Canadian National Railway Company, and Canadian Pacific Railway Company. In general, these entities received stock at the time that Amtrak was created in exchange for equipment and services provided to allow Amtrak to begin operations. The Amtrak Reform and Accountability Act of 1997 required Amtrak to redeem the common stock by October 2002. However, as of May 2005, this stock had not been redeemed.

members. Since 1981, selection of board members has been controlled by the federal government—which holds all of Amtrak's preferred stock. The President appoints board members with the advice and consent of the Senate. The Secretary of Transportation currently has a seat on Amtrak's board. Although this is a voting membership, the degree of accountability is questionable since the Secretary represents only one of seven votes and does not appoint board members. Finally, according to FRA, it can withhold grant funding until Amtrak has complied with the specific requirements of that funding. Consequently, in this instance, Amtrak is accountable to FRA for grant compliance, not necessarily for corporate performance.

- *Financial market scrutiny.* Since Amtrak is not a publicly traded stock company, there is no stock market discipline to hold Amtrak accountable for its performance and results. The financial market does play some role in overseeing Amtrak's financial performance, since Amtrak receives credit ratings that assess the company's capacity to pay its financial obligations. For example, Amtrak receives credit ratings from Standard & Poor's and Moody's Investor Service.[3] Debt has become more of an issue for Amtrak since the corporation's total short- and long-term debt has increased in recent years—from about $1.7 billion to about $4.8 billion from fiscal years 1997 to 2002. At the end of fiscal year 2004, Amtrak's total short- and long-term debt was about $3.8 billion.[4] However, the credit market assesses Amtrak's ability to repay its debt obligations, not overall corporate performance or achievement of results. The limited market assessment of Amtrak's debt reflects Amtrak's continued and heavy reliance on federal subsidies to remain solvent.

- *Public disclosure requirements*. Although organized as a for-profit company with a substantial investment of public funds, Amtrak's stock

[3]As of March 31, 2005, Amtrak's credit rating with Standard & Poor's was BBB/Negative. This meant that Amtrak obligations had adequate protection but adverse economic conditions or changing circumstances could lead to weakened capacity to meet financial commitments. As of February 8, 2005, Amtrak's credit rating with Moody's Investor Service was A3. This meant that Amtrak's bonds had favorable investment attributes and were considered upper-medium-grade. However, elements may be present that could suggest impairment at some point in the future.

[4]This amount includes both long-term debt and capital lease obligations (about $3.7 billion) plus the current maturities of long-term debt and capital lease obligations (about $129 million).

is closely held by a limited number of stockholders, and the stock is not publicly traded. As a result, in general, Amtrak is not subject to either SEC rules and regulations or SEC public financial disclosure requirements. This includes the filing of 10-K and 8-K reports—which are designed to provide information to the public and investors on a company's financial condition and major events shareholders need to know about.[5] In publicly traded businesses, these reports serve as a form of oversight and accountability concerning financial condition and business practices. In lieu of SEC financial disclosure requirements, Amtrak does make certain information available about its business. Each year, Amtrak is required to submit to Congress by February 15th an annual operations report that identifies such things as ridership, revenues, and federal subsidies for each of its intercity routes. Amtrak also is required to annually submit to Congress a general and legislative report that discusses its operations and activities and includes a statement of revenues and expenditures for the prior fiscal year. In recent years, this report has been significantly late—repeatedly months after the close of the fiscal year and the due date of the report to Congress. Since fiscal year 2003, Amtrak also has been required to prepare and submit to the Secretary of Transportation and Congress a business plan to support its request for federal grant funds, which, according to FRA, Amtrak has done.

- *Application of certain federal laws and requirements*. Many laws and requirements that apply to federal entities do not apply to Amtrak. As discussed in chapter 1, Amtrak is not a government corporation even though it continues to rely heavily on federal support to remain financially solvent. Certain laws, such as GPRA (which is designed to ensure that programs are efficiently and effectively administered, and that agencies are held accountable for results) and FMFIA (which requires that financial systems and internal controls are in place and functioning as intended) are not applicable to Amtrak. As a result, the federal government must rely on other means, such as congressional oversight during authorization and appropriations hearings and FRA's oversight of grant agreements, to ensure that Amtrak is using federal monies wisely, and that results and expectations from federal

[5]The 10-K report is an annual report filed with SEC that provides a comprehensive overview of a company's business and financial condition and includes audited financial statements. The 8-K is a report that companies file with SEC to announce major events that shareholders should know about. These events include completion of the acquisition or disposition of assets as well as changes in corporate governance and management, among other things.

investments are achieved. These means do not necessarily provide for a systematic mechanism to ensure adequate oversight of Amtrak or ensure that Amtrak is held accountable for achieving the results it sets out for itself.[6]

Amtrak's Board of Directors Has Not Exercised Sufficient Oversight or Held Management Accountable for Results

Amtrak's board of directors and its committees have also not played a strong oversight role and held the company accountable for results. Generally, an organization's board of directors plays a key role in corporate governance through its oversight of executive management, corporate strategies, risk management and audit and assurance processes, and communications with corporate stakeholders. As we recently reported, corporate governance can be viewed as the formation and execution of collective policies and oversight mechanisms to establish and maintain a sustainable and accountable organization, while achieving its mission and demonstrating stewardship over its resources.[7] Accountability requires that an organization effectively demonstrate, internally and externally, that its resources are managed properly and used in compliance with laws and regulations, and that its programs are achieving their intended goals and outcomes and are being provided efficiently and effectively.

Amtrak's Board Has Not Been Fully Engaged in Oversight and Accountability Efforts

Although responsible for managing the affairs of the corporation and ensuring good stewardship over resources, Amtrak's board has not exercised sufficient oversight of the corporation or held management accountable for results. Three main factors have contributed to the board's ineffectiveness in this area. First, the board has not had a full complement of members over the last several years. As previously discussed in this report, Amtrak has not had a full complement of seven voting members since July 2003. Over the period of October 2003 to June 2004, the board only had two voting members, exclusive of the Secretary of Transportation or his designee. According to Amtrak's board chairman, in the absence of a full membership, the board has tried to provide adequate oversight of the

[6]This discussion is not intended to imply that Amtrak should be made a federal agency or necessarily brought under federal laws and requirements. This is also not a discussion of federal railroad safety laws that do apply to Amtrak. Rather, this discussion is to illustrate the unique environment surrounding oversight and accountability of Amtrak's performance.

[7]GAO, *Millennium Challenge Corporation: Progress Made on Key Challenges in First Year of Operations*, GAO-05-625T (Washington, D.C.: Apr. 27, 2005).

company, but he acknowledged that oversight has been difficult without a full complement of members. Further, he said that, the board has relied heavily on FRA for oversight of company operations. In his opinion, FRA has both the staff and expertise to evaluate operational-type issues, and it can "bridge the gap" on oversight until a full board is in place. DOT's General Counsel, in commenting on a draft of this report, said that the department first looks to Amtrak's board of directors to perform adequate oversight of the company and then, working through grants, performs a more limited and focused oversight of the company. The General Counsel acknowledged that lack of a full complement of members has hindered Amtrak's board from providing sufficient oversight. However, he believes that given its limited resources, the board has done the best job it can and has been proactive in getting management to address problems.

Second, board oversight has been hindered by the lack of an established process or structure for conducting oversight or for ensuring management is held accountable for achieving financial and operational goals. Although Amtrak's board is to meet monthly, there is no established process or protocol for reviewing corporate performance, and, according to the board chairman, the board has mainly focused on capital spending and capital projects. The board has deferred to Amtrak management to handle issues that arise if financial or other performance does not match established goals or budgets. The chairman noted that the board's action in this regard is to ask questions of Amtrak's president and senior vice president for operations about whether Amtrak is achieving results; however, in general, the board does not take specific actions when there are variances between expectations and performance results. Amtrak's board chairman believes that Amtrak's management is doing a good job in running the company, and that the president, in particular, has done a good job in bringing discipline to the corporation. However, he acknowledged that the board has not been as engaged in oversight of the company as it should have been.

Third, as discussed in previous chapters, good information necessary for effective oversight has been lacking. For example, Amtrak's monthly performance report—a report, deemed by Amtrak's president as "critical," that is a primary means for reporting Amtrak's financial and nonfinancial performance, both internally and externally—has significant limitations in the context of oversight and accountability. These limitations include the following:

- *Few measures of overall corporate performance exist.* For example, one of Amtrak's stated goals is to bring the railroad to a state of good repair. However, there is little in the monthly performance report indicating the corporation's overall progress toward achieving this goal or how much remains to be done to accomplish the goal. While individual pieces of information, such as the number of concrete ties laid, may indicate work accomplished, these data are not useful as an oversight mechanism if they are not set in the context of specific goals, objectives, and performance targets that must be accomplished to achieve a state of good repair. Amtrak's board chairman agreed, saying that, although the reports provided much financial information, more and better metrics on company performance are needed. He said that the availability of such information would better assist the board in its oversight role.

- *Information on the status of operating improvements is lacking.* The monthly performance report includes little information about initiatives to increase Amtrak's operational efficiency. Amtrak's June 2004 strategic plan identified nearly $380 million in proposed incremental operating improvements[8] over fiscal years 2005 to 2009. These improvements included such things as additional service, crew, and equipment efficiencies and increased ridership and revenue. While there is information on some specific initiatives, such as ridership and revenue, there is little, if any, comprehensive, consolidated information about the status of these initiatives in the monthly performance report. This may be partially attributable to the fact the strategic plan did not link the dollar value of incremental improvements to specific initiatives. Since these initiatives were integral in determining the amount of Amtrak's operating grant needed, such information is important for the oversight of actual grants as well.

- *Usefulness of financial information is limited.* As discussed in chapter 3, much of the financial information provided to management and external stakeholders lacked certain relevant and reliable information. For example, the monthly performance reports contained significant errors that were not corrected until several months after the end of the fiscal year as part of the annual audit process. This delay affects the accuracy of the information for oversight purposes. Further, the monthly performance reports we reviewed did not separately report any relevant information on food and beverage revenue or expense, despite

[8]The strategic plan identified these improvements as operating efficiencies and benefits from capital investments.

food and beverage-related financial losses totaling about $160 million in fiscal years 2002 and 2003. Finally, Amtrak's president told us that cost data for individual routes were unreliable.

Amtrak Board Committees Also Have Not Been Fully Engaged in Oversight and Accountability Efforts

Not only has the board exercised insufficient oversight, but the board's committees[9] also have not fulfilled their oversight requirements as set out in their charters. In March 2002, Amtrak revamped its board committee structure.[10] Several board committees, such as the audit, corporate affairs, and finance committees, have oversight responsibilities. However, many board committees have not met since September 2003. Under the board committee charters, the audit committee should meet at least four times annually, and the legal affairs committee should meet at least quarterly or as necessary. The corporate affairs and finance committees should meet monthly or as necessary.

Amtrak's audit committee is a good example of a board committee's not fully fulfilling its oversight responsibilities. This committee's primary functions include oversight of the corporation's accounting and financial reporting processes and the audits of Amtrak's financial statements and internal controls. Although we found that Amtrak's audit committee charter, as amended, contains audit committee duties and responsibilities that are consistent with good governance, the audit committee meets irregularly and did not fully carry out its oversight responsibilities. In fiscal year 2004, the audit committee did not meet at all. Amtrak officials told us that there were never enough members on the board in fiscal year 2004 to constitute a quorum. Further, while the committee met eight times in fiscal year 2003, it met only once in fiscal year 2002. Our review of committee minutes for fiscal years 2002 and 2003 and through August 2004 found there was no written record of the committee's reviewing and discussing auditor independence, or of management's code of ethical conduct and its compliance with such code. Further, the meeting minutes did not reflect

[9]Amtrak's board has the following committees: Audit, Compensation and Personnel, Corporate Affairs, Finance, and Legal Affairs.

[10]Prior to March 2002, Amtrak's board had the following committees: Corporate Strategy; Ad Hoc Committee on Legislative Matters; Finance, Audit, and Administration; Budget and Management Ad Hoc Committee; Legal Affairs Ad Hoc Committee; Safety, Service, and Quality; and Ad Hoc Committee on Safety. One Amtrak official noted that prior to March 2002, most of Amtrak's board committees were inactive, and that the board put little emphasis on board committees.

that any independent meetings were held by the audit committee with the IPA.

In commenting on a draft of this report, both DOT and Amtrak officials told us that given the limited number of board members, Amtrak's board had assumed the functions of the audit committee. DOT officials said these functions included meeting with Amtrak's IPA to discuss audit and internal control issues, some of these meetings were held without the presence of Amtrak management. Analysis we performed showed that the board performed some audit committee functions or oversight. For example, our review of board minutes for fiscal year 2004 indicated that the board did hold one independent meeting with the IPA in January 2004, and received periodic status reports on the IPA's audit of Amtrak's fiscal year 2003 financial statements.[11] However, the board minutes contained no written documentation of the full board performing other audit committee functions, such as reviewing and discussing auditor independence or management's code of ethical conduct and Amtrak's compliance with such a code—important audit and internal control oversight functions.

Reform Strategies May Contribute to Better Alignment of Accountability and Performance

Although the board and its committees have not been fully engaged in oversight and accountability efforts, in April 2005, Amtrak's board and management jointly issued a set of reform strategies. These strategies embodied a new vision for Amtrak, and intercity passenger rail in general, that called for a number of changes, including reinforcing management controls, organizing planning and reporting by lines of business, and cultivating competition and private commercial activity in passenger rail functions and services. The new vision anticipates developing activity-based costing capabilities, increasing the outsourcing of activities, and pricing contracts for services on a unit cost basis. In addition, the reform strategies envision better aligning management accountability with performance, both by business line and by train route. Although it is yet to be seen how these initiatives will develop, we believe better aligning

[11]We did not review the fiscal years 2002 and 2003 board minutes for specific audit committee functions because the audit committee held meetings during this time period. In its comments on a draft of this report, Amtrak noted that the board committees held regularly scheduled meetings until September 2003 when there was an insufficient number of board members to fulfill the committee functions. As previously discussed, from October 2003 to June 2004, the board only had two voting members, exclusive of the Secretary of Transportation or his designee. During this time period, the audit committee did not hold any meetings.

management accountability with performance will be an important step in both better facilitating the oversight of Amtrak and in ensuring better accountability for results.

Oversight of Amtrak's Performance by Some Key Stakeholders Has Been Limited

FRA and the Amtrak OIG, as key stakeholders in overseeing various aspects of the company's operations, have provided limited oversight of Amtrak's overall performance. Although responsible for providing billions of federal dollars to Amtrak each year in operating and capital subsidies, FRA has largely focused its efforts on Amtrak's compliance with grant agreements (about $1.2 billion in each of fiscal years 2004 and 2005) and safety regulations. Since fiscal year 2003, Congress has imposed measures to increase the Secretary of Transportation's responsibility for providing oversight of and accountability for the federal funds used for intercity passenger rail service. Among other things, these measures require that Amtrak transmit a business plan to the Secretary of Transportation and Congress, supplemented by monthly reports describing work completed, changes to the business plan, and reasons for the changes. As we reported in February 2004, these measures impacted DOT's role with respect to the expenditure of federal funds provided to Amtrak.[12] However, these measures only apply to specific years for which they are included in appropriations acts. So far, these measures have applied to appropriations for fiscal years 2003, 2004, and 2005. In response to these measures, FRA has entered into grant agreements with Amtrak, and, according to FRA officials, Amtrak has provided the requisite business plans and monthly reports.

Although measures are in place to increase FRA's oversight of Amtrak's operations through grant agreements, FRA officials said they mainly dedicate their resources to the oversight of Amtrak's implementation of and funding needs for capital projects and to Amtrak's cash flow needs. In addition, FRA officials said they have been focused on the development and implementation of new intercity passenger rail policy. There has been less emphasis on oversight of operations and operating budgets. Such oversight has mainly come through the review of budgets and budget variances. FRA officials said there also has been less emphasis on oversight of overall corporate performance or on the extent to which Amtrak is

[12]GAO, *Intercity Passenger Rail: Amtrak's Management of Northeast Corridor Improvements Demonstrates Need for Applying Best Practices*, GAO-04-94 (Washington, D.C.: Feb. 27, 2004).

making progress toward meeting goals it establishes. FRA officials noted that Amtrak has no external baseline for performance statistics presented, and that better benchmarking of data to similar industries by line of business is needed. According to FRA officials, the quality of Amtrak's reporting has been improving. They said, however, that capital spending data continue to have problems because of financial system-related problems. FRA said Amtrak is aware that it needs to start from scratch with its financial system, but funding such an overhaul has been difficult.

FRA officials said DOT has a seat on Amtrak's board and by virtue of this position is knowledgeable about Amtrak's operations and goals. However, according to FRA, historically, the agency has not forced a particular approach toward running Amtrak or specifically held Amtrak management accountable for meeting or not meeting particular goals. An FRA official told us that the agency must be careful about its involvement with management decisions since, legally, Amtrak is a private, for-profit corporation. FRA officials said the agency can withhold funds from Amtrak for grant noncompliance but, to date, no funds have been withheld. In commenting on a draft of this report, DOT officials said there are both legal and practical issues associated with withholding money from Amtrak. According to DOT, legally, FRA can withhold grant monies if Amtrak violates specific provisions of the grant agreements. DOT believes its oversight role would be more effective if it had broader explicit statutory authority to withhold funds from Amtrak as a means to encourage achievement of Amtrak's annual business plan, its financial plan, and other performance measures. Such statutory authority would permit DOT to withhold discrete specific federal funds, if needed, instead of the current situation where withholding grant funds would involve large sums and could have a severe impact on Amtrak's continued operations.

FRA also attributed the lack of resources for its limited, focused approach to overseeing Amtrak. For example, FRA officials told us that they have had to rely on Amtrak's procurement department to tell them if Amtrak is complying with procurement requirements that are in the grant. According to FRA, there has been no direct verification of this compliance. As of March 2005, FRA had about six people assigned to intercity passenger rail policy development and implementation and Amtrak oversight. Three individuals were mostly full-time with the others being part-time. This number of staff was expected to increase through the creation of a new division in March 2005 with a new division chief and two new hires designated to Amtrak oversight.[13]

Similar to FRA, the Amtrak OIG also has exercised limited oversight of Amtrak's corporate performance and accomplishment of goals. The Amtrak OIG was created by the Inspector General Act Amendments of 1988 to provide independent audits and investigations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse in Amtrak programs and operations. For fiscal year 2004, the Amtrak OIG had a staff of 88 and a $12.5 million budget. The Amtrak OIG's Office of Audits is responsible for, among other things, conducting independent reviews of Amtrak's internal controls, overseeing and assisting in audits of Amtrak's financial statements, reviewing certain procurements and materials acquisitions, and monitoring compliance with laws and regulations. Evaluations include measuring Amtrak's compliance with corporate policies. However, as we recently reported, much of the work of this office (47 percent of all audits in fiscal year 2004) was focused on specific internal matters, such as environmental issues, inventory, and ticket sales.[14] An additional 29 percent of fiscal year 2004 audits focused on procurement-related matters. In general, oversight by this office is limited and does not include broader evaluations of programmatic matters or corporate performance based on corporate goals and metrics.

Clarifying Amtrak's Role—and Its Key Overseers—Is Critical to Establishing Accountability

Clarifying Amtrak's role—and its key overseers—will be critical for establishing accountability. While stronger oversight performance by Amtrak's board and refocused efforts by Amtrak's outside overseers can potentially bring about some oversight and accountability improvements, Amtrak will continue to have difficulty being more fully accountable if its role and the range of stakeholders to which it is accountable are not clarified.

[13]According to FRA, as of June 2005, responsibility for intercity passenger rail policy analysis, board of director issues, and oversight had been consolidated into the existing program development division. According to FRA, the final staffing level of this division is being developed. The division currently has two full-time staff, with a third position being recruited. The division also has access, on a part-time basis, to staff of other divisions in FRA's Office of Railroad Development.

[14]GAO-05-306R.

As we reported over a decade ago, Amtrak and the federal government need to make important decisions about the future of intercity passenger rail service and the government's commitment to subsidize such operations.[15] We stated, at that time, our belief that continuing to operate the nationwide passenger rail system would require significantly increased resources if Amtrak were to offer quality service. Since our previous report, Amtrak has received more than $10 billion in federal subsidies (capital and operating).[16] Although ridership has increased about 27 percent over the period, other measures of service, such as on-time performance, has fluctuated and generally decreased from 79 percent in fiscal year 1999 to about 71 percent in fiscal year 2004. Amtrak's market share has also largely stabilized at about 0.5 percent of the intercity travel market. However, Amtrak's need for federal support has not abated. Amtrak indicated in its April 2005 strategic reform initiative that the company is spending at a rate of $1.4 billion per year, and that further increases in the level of capital investment will be required to minimize the risks of operational breakdown due to years of deferred maintenance.

Multiple proposals exist for what Amtrak's future should be, not only in defining what Amtrak should be doing, but in defining to whom Amtrak should be accountable. In particular, the administration's current proposal for Amtrak would move much of the focus of accountability to the regional, state, and local levels. The administration's proposal would significantly restructure the management and accountability of intercity passenger rail transportation in the United States. Modeled after the federal-state-local partnership in the federal transit program, the proposal would have regional, state, and local entities making the fundamental decisions about what intercity passenger rail services are justified and will receive public financial support. It would also make these entities responsible for planning, managing, and financing this service. The federal role would be to participate in making capital investments on a grant basis similar to the federal transit program, but not to subsidize operation of services that local entities would not subsidize themselves. The proposal would essentially split Amtrak's current responsibilities into two separate corporations. One corporation would transition train operations to a competitive basis, make Amtrak compete to operate intercity passenger service, and introduce the competitive forces of the marketplace to provide high-quality service at

[15] GAO/RCED-95-71.

[16] This amount excludes federal loan guarantees.

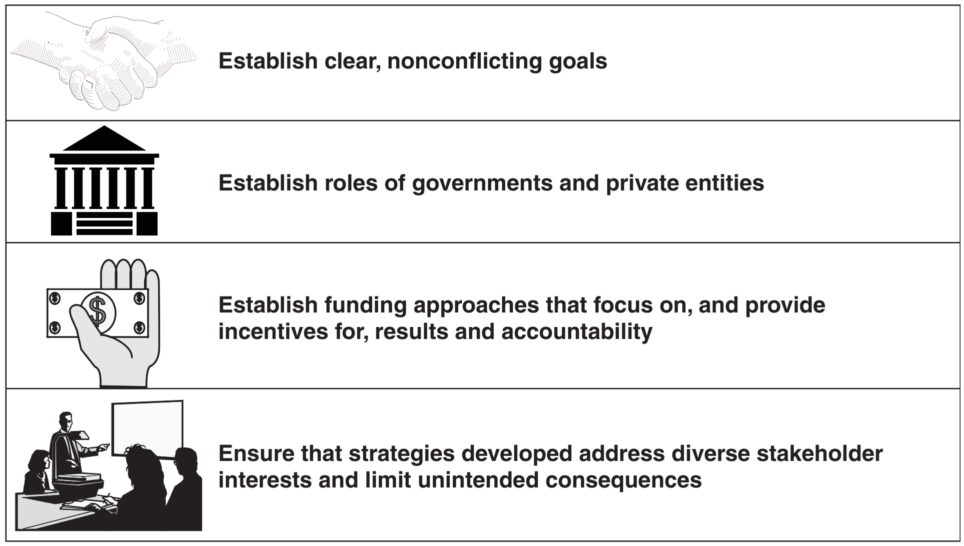
reasonable prices. The other corporation would continue, for a period of 6 years, to provide the dispatching, maintenance, and infrastructure services provided by Amtrak and carry out a multiyear infrastructure plan prepared by Amtrak. Title to Amtrak's assets, including the Northeast Corridor, would be transferred to the Secretary of Transportation. An interstate compact of eight states and the District of Columbia would manage all rail operations on the Northeast Corridor.

Amtrak has proposed a somewhat similar vision that would include a greater role for states in planning and developing passenger rail corridors. Its April 2005 strategic reform initiatives states that the current structure of intercity passenger rail service is unsustainable, and that a more aggressive approach that includes the introduction and development of competition is needed. Under both this initiative and the administration's reform proposal, it is clear that states would play an increased role in deciding what services are provided, who would provide them, who would cover operating losses, and who would oversee the results.

While there is growing agreement that the current model for providing intercity passenger rail service needs to be reexamined, there is much less agreement on what should be done. Deciding on a course of action, however, is critical. In our view, concerns about Amtrak's performance and accountability will remain unresolved as long as the current situation goes unchanged. Better resolve on Amtrak's board and management's part to hold the company accountable is not enough.

Congress has a central role in this issue. It created Amtrak and has continued to subsidize its operations over time. Amtrak's authorization expired in September 2002, and Congress is now considering what, if any, changes are needed in the structure and financing of intercity passenger rail. As part of this reauthorization, Congress will also play a role in determining the type of oversight to be provided and the accountability mechanisms to be used to ensure that desired results and outcomes are achieved. As we reported in April 2003, the key components of a framework for evaluating federal infrastructure investments include (1) establishing clear, nonconflicting goals; (2) establishing the roles of government and private entities; (3) establishing funding approaches that focus on and provide incentives for results and accountability; and (4) ensuring that the strategies developed address the diverse stakeholder interests and limit unintended consequences. (See fig. 14.) We continue to believe these components are important in evaluating and establishing federal policy toward intercity passenger rail.

Figure 14: Components of a Framework for Evaluating Federal Investments



Sources: GAO (data), Art Explosion (images).

Conclusions

It is clear that Amtrak's ability to operate efficiently and effectively is impacted by problems at several levels. At one level, Amtrak still has major challenges to overcome in strengthening its basic business systems, such as financial reporting, cost containment, and control over acquisitions. Creating effective systems in these areas is something that Amtrak, like any public or private organization, needs to address, and this is the case whether Amtrak's role changes dramatically or whether it continues in its current form and its current role. On a different level, however, Amtrak faces a unique set of problems, which is not necessarily of its own making and which is, to an extent, beyond the company's ability to resolve. These problems involve the issues that bookend this report—what is Amtrak's role, and to whom is it accountable?

Since Amtrak's reauthorization expired in September 2002, Congress now has the opportunity to decide what structure and mechanisms are best suited for the provision of intercity passenger rail service, what role intercity passenger rail is expected to play in the nation's transportation system, and how this structure will make the most efficient and effective use of federal resources. It was not the focus of this report to evaluate the merits of various reform proposals or their particular costs and feasibility.

However, it is clear that Amtrak's ability to articulate its mission, align its various enterprises, and operate a results-oriented organization would be enhanced by a clarification of its role.

Part and parcel to the debate over the future of intercity passenger rail is the issue of adequate oversight and accountability for results and outcomes. In part, the current situation is the result of how Amtrak has evolved over time in its governance and accountability—an evolution that has largely left Amtrak unaccountable to anyone in particular. These problems have been exacerbated by the limited oversight exercised by Amtrak's board, and the relatively narrow scope of review activity by other oversight bodies, such as FRA. These groups have not filled the void. The reauthorization process offers an opportunity for Congress to take a new approach in whatever structure it elects to adopt for intercity passenger rail—an approach that ensures there is a clear and transparent mechanism for oversight and accountability, and that there are consequences if desired results and outcomes are not achieved. Without a clear mechanism and consequences, an intercity passenger rail provider (whether Amtrak or some other entity) will have less incentive to ensure achievement of results and outcomes and ensure that resources made available, whether federal or nonfederal, are used in the most efficient and effective manner possible.

Matters for Congressional Consideration

As part of the deliberation about the future of Amtrak and intercity passenger rail, we believe Congress may want to consider establishing a national policy for intercity passenger rail and determining the appropriate role for Amtrak by ensuring that reauthorization or reform legislation (1) establishes clear, nonconflicting goals; (2) establishes the roles of both the federal and state governments as well as private entities; (3) establishes funding approaches that focus on and provide incentives for results and accountability; and (4) provides that the strategies developed address the diverse stakeholder interests and limit unintended consequences.

Recommendations for Executive Action

To strengthen the oversight of corporate performance and to increase the accountability of Amtrak's management for achieving the goals and objectives it establishes, and to provide the needed transparency among key internal and external stakeholders, we recommend that the chairman of Amtrak's board and the board members take the following three actions:

- develop policies related to the oversight of corporate performance and the specific procedures to be used to implement these policies;

- identify, in consultation with Amtrak's president and senior management, the type and frequency of information required to implement the policies and procedures for oversight; and

- in conjunction with Amtrak's management, assess the financial and other resources that will be required to develop the measures and information required to conduct cost-effective oversight, and prepare an action plan to implement needed changes in information and data systems to provide the reports and other documents required to meet the oversight policies and procedures adopted.

To strengthen DOT and FRA oversight of Amtrak's performance, we recommend that the Secretary of Transportation direct the Federal Railroad Administrator to take the following four actions:

- work with Amtrak's board and management to develop measures of overall corporate performance and related outcomes;

- require Amtrak to report on these measures of corporate performance and outcomes at least annually;

- identify and make known to Amtrak the range of potential consequences of not meeting, or making sufficient progress toward, a minimum level of performance on the corporate measures and outcomes; and

- report annually to Congress on the results of FRA's oversight of Amtrak's corporate performance and Amtrak's progress toward meeting minimum levels of performance and outcomes (this report should identify any specific actions Congress should consider taking to better facilitate progress on achieving specific outcomes or to identify alternative ways the outcome might be achieved).

Methodology for Selecting Procurement Contract Files for Review

In order to assess the National Railroad Passenger Corporation's (Amtrak) compliance with its acquisition policies and procedures, we reviewed a nonprobability sample of 61 service contract files[1] that covered 75 percent of the total expenditures for fiscal years 2002 and 2003 in the following accounts:[2]

- Advertising (Account 553201).
- Sales promotion (Account 553209).
- Professional services (Account 505111).
- Consulting (Account 505115).

We selected the files we reviewed from data identifying expenditures made under purchase orders during fiscal years 2002 and 2003; the results of our analysis cannot be projected to the universe. Our objective was to obtain a mix of contracts with small, medium, and large dollar expenditures during fiscal years 2002 and 2003. Because our basis for selection was expenditures, as opposed to actual contract awards, the contracts selected include those awarded before fiscal year 2002 as well as contracts awarded during fiscal years 2002 and 2003.

Specifically, we selected contracts as follows:

Amtrak provided data on expenditures made under purchase orders during fiscal years 2002 and 2003. These data were segregated by financial account and identified specific transactions. These data included information such as vendors, purchase order numbers, and expenditure amounts for each transaction. Each purchase order number—also used as the contract

[1]Results from nonprobability samples cannot be used to make inferences about a population, because in a nonprobability sample some elements of the population being studied have no chance or an unknown chance of being selected as part of the sample.

[2]We initially selected 2 additional contracts but subsequently excluded them from our analysis. One of these was a contract that had been originally awarded in 1994 and, according to a procurement department official, was to provide personnel in support of the engineering department. Work under this contract had started and stopped over the years and assessing it for compliance with Amtrak policies and procedures was not possible. The second contract we excluded from our analysis was a contract for maintenance on the Acela trainset. In this case, the consortium that had built the Acela had formed a corporation for the purposes of performing maintenance, and a purchase order had been created solely for the purposes of tracking payments to the consortium.

number—indicates whether it is a blanket purchase order (B), which allows purchases to be made over a period of time, or a standard purchase order (S), which is used for one-time purchases.[3]

To assess the reliability of the procurement data Amtrak provided, we compared it with Amtrak audited financial statement data for fiscal years 2002 and 2003 for the accounts we reviewed. (The expenditure data came from a different database.) We then asked Amtrak to reconcile differences that we identified between the two sets of accounts. Because Amtrak officials said this reconciliation had to be done manually and would take substantial time, data were reconciled for only 1 account—sales promotion. Consequently, we used the procurement expenditure data only to select a nonprobability sample of procurement contracts to review.

For each year and each account, we sorted the expenditure data by purchase order type and amount. For each account, we selected 2 to 10 purchase orders within each type of order—blanket or standard—in order to obtain a mix of large, medium, and small dollar expenditures so that we could assess compliance with acquisition policies and procedures for contracts with significant dollar values, as well as for contracts of lesser values.

We also noted that expenditures made under a given purchase order could be charged to more than one account. We only selected each contract once. However, for purposes of determining the extent of dollar coverage resulting from our selections, we included the expenditures under a given purchase order that were charged to another of the accounts within our scope (advertising, sales promotion, professional services, and consulting). According to Amtrak's expenditure data, total blanket and standard purchase order expenditures for the four accounts within our scope was $114.3 million. The expenditures for the purchase orders we selected—according to the same data—totaled $85.3 million in fiscal years 2002 and 2003, or 75 percent of the total expenditures for these accounts.

[3]The expenditure data also included construction purchase orders, which we excluded because construction contracts were outside of the scope of our review.

When we reviewed the contracts, we determined whether they were awarded competitively or noncompetitively[4] and assessed them for compliance with policies and procedures in effect at the time of the contract award, or the guidance in effect when a change to the contract was processed. For example, if a contract was awarded in 2002, we used guidance applicable at the time of the award. If a change to the contract occurred, for example, in 2003 or 2004, we applied the guidance in effect at that time.

Finally, Amtrak could not locate any documentation for 4 of the contracts we selected. Instead, they provided printouts from the acquisition system. These printouts contained minimal information about the contract, such as the vendor name, amount of the award, and whether it was a competitive or noncompetitive award. Additionally, for another contract, one folder—out of three—was missing. We analyzed these contracts on the basis of the limited information available.

[4]We define noncompetitive awards as those that Amtrak considered as either sole or single source. We obtained information as to whether a contract was a sole or single source award by review of documentation in the contract file and, if necessary, discussion with procurement department officials.

Comments from the National Railroad Passenger Corporation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002
tel 202 906.3960 fax 202 906.2850

AMTRAK

David L. Gunn
President and Chief Executive Officer

September 2, 2005

Ms. JayEtta Z. Hecker
Director, Physical Infrastructure
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Hecker:

In reference to the GAO's report to Congress titled, Amtrak Management – Systematic Problems require Action to improve Efficiency, Effectiveness and Accountability, I would like to provide a few comments and some observations to this report.

Over the last year and a half, the GAO has conducted this audit of Amtrak's management and performance procedure and has developed a set of recommendations for both the corporation and for the Congress. A considerable degree of effort was put into this report by your staff and mine, and I am sure you believe that your recommendations set forth will produce a certain set of results. I am not as convinced, and I have repeatedly made this point to you and your staff during the course of this project, including as recently as June 27, 2005. There is no silver bullet to fixing Amtrak, nor is there a certain "cookie cutter" approach that can be taken. I, and my team of managers, feel that steady incremental improvement is best. During the last thirty-six months, we have focused on maintaining liquidity, cleaning up the books, rebuilding plant equipment, and building an organization that can manage the budget and control costs. I think the results speak for themselves as you will note from the enclosed charts. We did all the work with less people and still kept our operating needs flat. We have given you this information, and I believe you have given us some credit for significant improvement.

See comment 1.

Now let me respond directly to the other more specific problems you have raised in this report, in particular, the areas of Food Service, Procurement, Strategic Planning, and Financial Controls.

As it relates to food service:

- We are reforming the way that we deliver food service. I refer you to my comments attached to your report on Amtrak's food and beverage delivery services released in July 2005. Some initiatives were phased in quickly, such as the elimination of food and beverage service on selected short-distance trains, while others are being phased in gradually, so as not to disrupt the passenger experience which would surely impact revenue.

See comment 2.

Ms. JayEtta Z. Hecker
September 2, 2005
Page 2

- We have provided our Board of Directors with a list of initiatives and pilot projects that are either already underway or will be implemented in the next few months. We have outlined these for the GAO as well over the course of this review.

- We are currently renegotiating the Gate Gourmet contract, which we expect will increase efficiencies and lower costs. In the near future, we will issue an RFI to identify providers who could offer either localized or regional service which are intended to drive down costs even further.

- Your report failed to mention, however, the cost of labor as it relates to the operation of our food and beverage service. It is by far the largest cost of the operation, as reported in the chart you presented to the House Government Reform and Oversight Committee during a recent hearing. All of the actions noted above cannot be done overnight and must be implemented with the passenger in mind.

See comment 3.

In the area of procurement management, many of the issues you have identified are ones that Amtrak has been focused on for a number of years. It is an area that has been changed greatly over the last few years to produce greater accountability and efficiency. We are in the process of completing the implementation of the changes for this area, many of which coincide with what is in your recommendations. You have been kept up to date on these changes.

See comment 4.

In the area of strategic planning, I believe that we have identified the problems, as only we can, and have developed an approach that works best for us and where tangible progress has been made. I refer you to the attachments that accompany this letter. While the path that we follow may not be the same as government agencies do, nor the one that you might recommend, our goals are the same. To me, while process is important, results are what matter.

See comment 5.

During my tenure, Amtrak's financial performance has improved dramatically. We close our books on time and report monthly results more quickly than most companies our size. Since FY02, we have reduced our material weaknesses from 5 to 0 and our reportable conditions from 12 to 1 over the same time period. Our net audit adjustments have also decreased from $109 million in FY02 to just $7 million in FY04. According to our independent auditors, KPMG, whom you have interviewed and shared with you the same results, there has been a strong emphasis on improving our controls and updating our policies and procedures. While your criticism of our labor intensive processes are valid, our lack of the latest technology in this area has not stymied our efforts to produce the results that many have sought.

AMTRAK

Ms. JayEtta Z. Hecker
September 2, 2005
Page 3

See comment 6.

I have worked in the rail industry for 40 years and understand this business. I am not infallible, and Amtrak has a lot of problems to confront, but it is on a firmer footing today than when I arrived. As I said before, I believe our overall results largely speak for themselves. At times the focus of this report seemed to be more concerned with our process for achieving results rather than with the actual results.

Finally, in the 39 months that I have been at Amtrak, there have been at least 6 GAO audits or reviews of various practices at Amtrak. I understand that as you finish this one, another one starts on our relationship with commuter authorities on the NEC. In fact, our staffs have already met to discuss the scope of this project. We will keep you apprised of our progress as it relates to the report just completed and work on the project just getting started.

I have enclosed a summary of more specific edits and comments that I would encourage you to consider prior to releasing your final report. Many of the points raised in the preliminary report appear to be inaccurate or misleading. I am sure you would agree that it is important that this document be as accurate as possible.

Thank you for your time and assistance during this engagement.

Sincerely,

David L. Gunn
President and Chief Executive Officer

Enclosures

Amtrak Capital Program

Summary of FY06 Production Estimates

Ongoing Asset Replacement

Rreplace mentassets on regular cycle, maintain infrastructure in state-of-good repair

Major Production Programs:	Production Estimates			
	FY04 Actual	FY05 Forecast	FY06 Grant Request	FY06 Budget
Interlockings renewed (each)	5	6	4	8
Interlocking turnouts (each)	27	25	33	33
Turnouts replaced (each)	115	105	80	51
Concrete ties (thousands)	152	153	150	117
Ballast renewed (track miles)	40	17	32	15
Rail installed (rail miles)	240	34	50	39
Wood ties/Timbers (thousands)	59	43	55	66
Equipment purchased (each)	12	7	55	--
Vehicles purchased (each)	55	--	60	28
Bridge ties replaced (each)	1,571	3,940	4,500	4,224
Undergrade bridges improved (each)	17	18	32	25
Fencing (thousands feet)	17	10	20	10
Stations improved (each)	4	14	35	12
Stations assessed (each)	75	60	200	125
Interlocking improved (each)	6	6	10	4
Automatic Block Signals (track miles)	63	44	136	72
Copper signal cable (miles)	11	4	2	1
Fiber communications cable (miles)	--	13	--	--
Catenary hardware (miles)	77	80	84	68
Substations Improved (each)	22	13	26	14
Poles Renewed or Replaced (each)	13	10	140	10

* Numbers may not add due to rounding

Page 1

Page 1 of 1

Amtrak Capital Program
Summary of FY06 Production Estimates

ROLLING STOCK

Equipment overhauls, remanufacturing and purchase of new equipment as well as state-of-good-repair improvements to back shops and service and inspection facilities

Major Production Programs:	Production Estimates (units)			
	FY04 Actual	FY05 Forecast	FY06 Grant Request	FY06 Budget
Passenger Equipment				
Overhauls and remanufacture of existing car fleet				
Passenger cars - overhauls / remanufacturing				
Amfleet Cars Remanufactured / Heavy Overhauled	114	129	140	103
Superliner Cars Remanufactured / Heavy Overhauled	39	54	92	139
Horizon Cars Remanufactured / Heavy Overhauled	1	28	29	20
Surfliner Cars Remanufactured / Heavy Overhauled	--	11	--	--
Viewliner Cars Remanufactured / Heavy Overhauled	--	--	2	1
Heritage Cars Remanufactured / Heavy Overhauled	--	--	--	21
Locomotives - heavy overhauls				
Electric	7	12	8	8
Diesel Locomotive heavy Overhauls	49	65	61	51

* Numbers may not add due to rounding

Page 1

Page 1 of 1

The following are GAO's comments on the National Railroad Passenger Corporation's (Amtrak) letter dated September 2, 2005.

GAO Comments

1. Amtrak believes that there is no "silver bullet" for fixing its problems and that making steady incremental improvements is the best approach. These views do not appear to be consistent with the magnitude of changes discussed in Amtrak's April 2005 strategic reform initiatives. This document—which was characterized by Amtrak as a dramatic departure from business as usual and would substantially change how Amtrak operates—outlines a number of structural, operating, and legislative changes that would, among other things, place a new focus on planning, budgeting, accounting, and reporting of financial activity and performance along Amtrak's business lines and open to competition the market for virtually all functions and services of intercity passenger rail. We believe the strategic reform initiatives clearly acknowledge the substantial systemic problems facing Amtrak, including those discussed in this report, as well as the need for reform in how intercity passenger rail service is delivered. As previously discussed in this report, we encourage Amtrak's president and management to work with the board of directors to ensure that the issues and challenges raised in the strategic reform initiatives are addressed.

2. Amtrak commented that it has recently taken a number of actions to better manage its food and beverage service, including reforming the delivery of food service and renegotiating its contract with Gate Gourmet (formerly called Dobbs International). Amtrak's comments also stated that our draft report failed to mention or recognize the cost of labor associated with the food and beverage service. We agree that Amtrak has taken actions regarding its food and beverage service, and we encourage Amtrak to continue to seek ways to improve the management and controls over this service. Both our June 2005 testimony before the Subcommittee on Railroads, House Committee on Transportation and Infrastructure, and our August 2005 report on Amtrak's food and beverage service made recommendations for

improving this control.[1] Both the testimony and report also acknowledge the labor costs associated with the food and beverage service. We agree with Amtrak that this is the single largest cost of this service. Because labor costs associated with the food and beverage service are a part of Amtrak's overall labor cost structure, it was beyond the scope of our work in this report to analyze these specific costs. However, our June 2005 testimony indicated that a recent Amtrak Inspector General report suggested a way Amtrak could address its food and beverage labor costs.

3. Amtrak commented that it was in the process of implementing changes in the procurement area, many of which coincide with our recommendations. We commend Amtrak for recognizing areas for improvement in its procurement area and for making changes. However, we found numerous systemic problems with the procurement function that still need to be addressed. The recommendations contained in this report are designed to help Amtrak address these problems.

4. Amtrak commented that it has identified the problems, "as only we can," and has developed an approach that "works best for us." Amtrak's president also commented that the strategic planning mechanisms we recommend or that government agencies adopt may not be in line with those followed by Amtrak, but the goals are the same. Further, he states that while the process is important, results are what matter. We agree results matter, but, overall, results are not improving. Our report notes that both public and private organizations have long recognized that sound strategic planning mechanisms or "processes" are vital to chart a clear direction and mission, develop road maps for cost-effective operations based on this mission, and be held accountable for results. We believe the management tools Amtrak has adopted in recent years, while helpful, are focused too narrowly and insufficient to stem the operating losses the company is experiencing. We also believe adopting a systematic and organized strategic approach is necessary to achieve the results management and the public expect.

[1]GAO, *Amtrak: Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service*, GAO-05-761T (Washington, D.C.: June 9, 2005); and *Amtrak: Improved Management and Controls over Food and Beverage Service Needed*, GAO-05-867 (Washington, D.C.: Aug. 24, 2005).

5. Amtrak commented that its financial performance has improved dramatically in recent years and that, among other things, it closes its books on time and reports monthly results faster than most other companies of its size. We agree that improvements have been made and that this is a step in the right direction. Our report recognizes these improvements. However, our work shows there continues to be substantive problems related to financial management at Amtrak. These problems include monthly performance reports that are not as useful as they could be and that contain financial data that are not reliable, and inadequate internal controls related to certain expenses. As we previously discussed, Amtrak will find it difficult to make sound business decisions and improve its efficiency and cost-effectiveness without addressing these problems.

6. Amtrak commented that, at times, our draft report seemed to be more concerned with the process for achieving results, rather than the actual results. We believe actual results are important and that the results are not satisfactory. Although improvements have been made, during the past 3 fiscal years, Amtrak's operating losses have increased to over $1 billion annually, and such losses are projected to increase about 40 percent by 2009. In addition, we found systemic problems in all five areas we reviewed, and we found that Amtrak faces major challenges in instituting and improving its basic business systems. Amtrak's recent improvements have likely quelled what would have been even higher losses, but the situation is still not under control. The recommendations contained in this report reflect sound and proven ways adopted by leading organizations to more efficiently and effectively manage Amtrak's operations. We believe that not recognizing the value of these approaches and adapting them to Amtrak's environment will continue to lead to suboptimal results.

GAO Contact and Staff Acknowledgments

GAO Contact

JayEtta Z. Hecker, Director, Physical Infrastructure Issues, (202) 512-2834, heckerj@gao.gov

Staff Acknowledgments

Acquisition and Sourcing Management Team

Carolyn Kirby

Applied Research and Methods/Center for Design, Methodology, and Analysis

SaraAnn Moessbauer

Financial Management and Assurance Team

Robert Martin, Director
Fred Evans
Irvin McMasters
Scott McNulty
Robert Owens

Office of General Counsel

Edda Emmanuelli-Perez
Bert Japikse

Physical Infrastructure Team

Randall Williamson, Assistant Director
Colin Fallon
Lynn Filla-Clark
Gregory Hanna
Richard Jorgenson
Heather Krause
Stephanie Purcell

Strategic Issues Team

Elizabeth Curda
Sarah Veale

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER