U.S. Department of Transportation
Federal Railroad Administration

Account Structure Assessment and Recommendations in Accordance with Section 11201 of the FAST Act of 2015

June 2018

Prepared for:

Committee on Commerce, Science, and Transportation of the Senate, and the Committee on Transportation and Infrastructure of the House of Representatives

U.S. Department of Transportation
Federal Railroad Administration

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1 EXECUTIVE SUMMARY

The Federal Railroad Administration (FRA), on behalf of the Secretary of Transportation (Secretary) and in collaboration with Amtrak, established an account and reporting structure (Account Structure) in May 2016, in accordance with Section 11201 of the Fixing America's Surface Transportation (FAST) Act. This report provides FRA's assessment of the Account Structure, which supplements Amtrak's assessment delivered to the Secretary on December 4, 2017.

FRA and Amtrak have adhered to the original principles developed to guide this process, and have advanced statutory goals for the Account Structure. The Account Structure has improved FRA's capacity for oversight and enhanced the transparency of Amtrak's financial accounting. Additional work is needed to improve the quality of financial information in the Account Structure reports and make the reports more accessible and useful to all stakeholders.

Evaluation Framework

Joint FRA-Amtrak Principles for Implementation	Status	Section
Account for all of Amtrak's activities with clarity and consistency	**In Progress** *Address areas of inconsistent reporting; update capital allocation methodology*	3.1
Maximize efficiency of implementation by leveraging existing resources	**Achieved** *Ongoing improvements identified*	3.2
Provide understandable information to investors, customers, and Amtrak to make fully informed business decisions	**In Progress** *Standardize reporting; engage with and collect feedback from stakeholders*	3.3
Request the right amount of information, but no more	**Achieved** *Ongoing improvements identified*	3.4
Fully integrate the objectives of Title XI of the FAST Act, support planning and internal controls	**Achieved** *Ongoing improvements identified*	3.5
Statutory Goals	**Status**	**Section**
Promote the Effective Use of Amtrak's Revenues	**Achieved** *Ongoing improvements identified*	4.1
Enhance the Transparency of Financial Accounting	**Achieved** *Ongoing improvements identified*	4.2

Recommendations and Next Steps

The report recommendations are organized into near-term and long-term improvements. Near-term improvements focus on fully integrating the Account Structure with Amtrak's corporate structure, including further alignment with Amtrak's organization, reporting, and internal controls processes. A priority for Amtrak and FRA is refining the current capital allocation methodology. Long-term improvements include updating Amtrak's financial systems to better support the Account Structure.

FRA will continue to work with Amtrak to improve the Account Structure and reports, as needed. The initial implementation has been successful, despite significant challenges for Amtrak. The next phases will allow FRA and Amtrak to build on an already strong foundation.

U.S. Department of Transportation
Federal Railroad Administration

2 INTRODUCTION

Section 11201 of the Fixing America's Surface Transportation (FAST) Act (P.L. 114-94, enacted December 4, 2015) directs the Secretary of Transportation (Secretary), in consultation with Amtrak, to "define an account structure and improvements to accounting methodologies, as necessary, to support, at a minimum, the Northeast Corridor and the National Network." The provisions of Section 11201 are codified at 49 U.S.C. § 24317.

The Federal Railroad Administration (FRA), on behalf of the Secretary, and in collaboration with Amtrak, established an account and reporting structure (Account Structure) in May 2016.[1] Section 11201(h) requires Amtrak to assess the Account Structure and provide recommendations for further action two years after its establishment, and mandates that the Secretary submit a supplement to Amtrak's report within 180 days thereafter. This report provides FRA's assessment of the Account Structure, which supplements Amtrak's assessment, delivered to the Secretary on December 4, 2017.[2]

2.1 Account Structure Goals and Principles

Section 11201 establishes separate accounts for the Northeast Corridor (NEC)[3] and the National Network (NN) and directs development of an Account Structure to support this framework.[4] Per Section 11201, the purpose of the Account Structure is to "promote the effective use and stewardship by Amtrak of Amtrak revenues, Federal, State, and third party investments, appropriations, grants and other forms of financial assistance, and other sources of funds; and…enhance the transparency of the assignment of revenues and costs among Amtrak's business lines while ensuring the health of the Northeast Corridor and National

[1] Federal Railroad Administration, "Account Structure Definition and Accounting Methodology Improvements to Address Section 11201 of the FAST Act of 2015," May 2016, Congressional submission.
[2] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.
[3] Section 11201(*i*) defines the NEC as "the Northeast Corridor mainline between Boston, Massachusetts and the District of Columbia, and facilities and services used to operate and maintain that line."
[4] See Section 11201(b)-(c). In addition to the creation of separate NEC and NN accounts, Section 11101 of the FAST Act authorizes separate appropriations to Amtrak for activities associated with the NEC and the NN. Before enactment of the FAST Act, Congress provided Amtrak's annual funding through an operating grant and a capital/debt grant that did not distinguish between the NEC or NN. Following enactment of the FAST Act, Congress has appropriated separate amounts for Amtrak activities associated with the NEC and the NN.

Network." During the initial stages of defining the Account Structure, FRA and Amtrak jointly agreed on goals for the Account Structure and defined principles to be followed in pursuit of these goals.[5]

Goals	Principles
• *Promote the effective use and stewardship by Amtrak of Amtrak revenues, Federal, State, and third party investments, appropriations, grants and other forms of financial assistance, and other sources of funds* • *Enhance the transparency of the assignment of revenues and costs among Amtrak business lines while ensuring the health of the Northeast Corridor and National Network*	• *Account for all of Amtrak's activities and assets with clarity and consistency* • *Maximize efficiency of implementation by leveraging existing resources* • *Provide understandable information to investors, customers and Amtrak to make fully informed business decisions* • *Request the right amount of information, but no more* • *Fully integrate the objectives of Title XI of the FAST Act and support the planning and internal control requirements for Sections 11201, 11202 and 11203 of the FAST Act*

To assess the current status of the Account Structure, FRA evaluates in this report whether the process has adhered to these principles and, whether implementation to date has advanced or met these goals. FRA also responds to the recommendations Amtrak submitted in its December 2017 assessment and provides additional recommendations for improvement.

2.2 Account Structure Implementation

Section 11201 includes deadlines to establish the Account Structure (June 1, 2016), implement the Account Structure (December 4, 2016), and produce deliverables for reporting financial information under the Account Structure (January 4, 2017 and monthly thereafter).

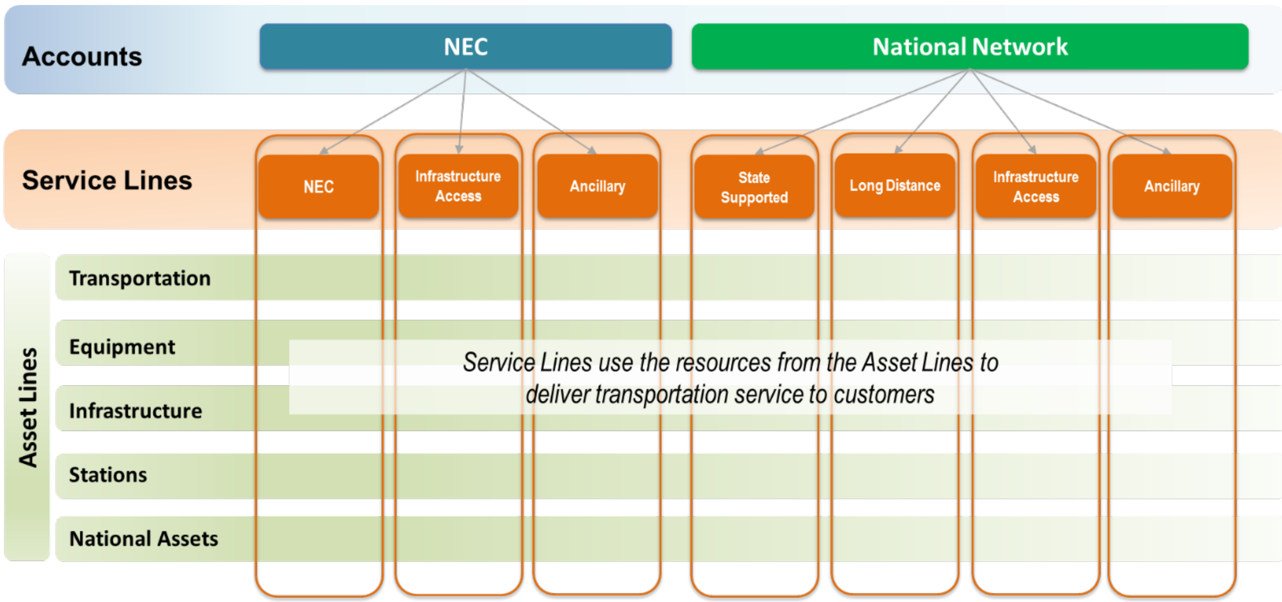
FRA, working in coordination with Amtrak, established the Account Structure in May 2016. FRA sent to Congress a letter that provides additional detail, including definitions and a discussion of mapping the Service Lines[6] to the NEC and NN accounts.[7] The conceptual design of the Account Structure is shown in Figure 1.

[5] The principles listed in the table are the same as in the "Account Structure Definition and Accounting Methodology Improvements to Address Section 11201 of the FAST Act of 2015," but arranged in a different order for the purposes of this evaluation.

[6] Section 11203 identifies four Business Lines (Northeast Corridor train services; State Supported routes operated by Amtrak; Long-distance routes operated by Amtrak and Ancillary services operated by Amtrak) and four Asset Categories (Infrastructure, Passenger Rail Equipment, Stations, National Assets) that are also cross-referenced in Section 11201(e). FRA and Amtrak later determined that the term Service Lines better reflects the purpose and activities performed by the components of the corporation that Congress identified as Business Lines. Similarly, Amtrak determined that the term Asset Lines is a better representation of what Congress identified as Asset Categories. FRA uses the terms Service Lines and Asset Lines in place of statutory language throughout this document.

[7] Federal Railroad Administration, "Account Structure Definition and Accounting Methodology Improvements to Address Section 11201 of the FAST Act of 2015," May 2016, Congressional submission.

Figure 1. Amtrak Conceptual Account Structure



Amtrak and FRA finalized Account Structure reporting protocols in December 2016, which consists of a series of reporting tables that display Amtrak's revenues and expenditures in varying levels of detail (Account Structure reports). The most detailed table of the Account Structure reports is the Consolidated Sources and Uses Statement;[8] the two other tables present summarized information. After the reporting protocols were finalized, Amtrak began submitting preliminary Account Structure reports to FRA in January 2017.[9]

Later that month, Amtrak underwent a staff reorganization, hired a new CEO, and altered management's roles and responsibilities. In light of this corporate reorganization, Amtrak requested that the preliminary Account Structure reports be reviewed only by FRA so that they could be further revised pending additional changes or adjustments from Amtrak's new management team. Amtrak submitted these preliminary reports to FRA until Amtrak's organizational structure was finalized on June 2, 2017, at which point the Account Structure reports were considered final. Currently, Amtrak provides FRA with monthly Account Structure reports and also posts summary information on their public website.[10]

Implementation of the Account Structure is tied to additional planning requirements as prescribed in the FAST Act. Amtrak's 5-Year Service and Asset Line Plans[11] (described in Section 11203 of the FAST Act, codified at 49 U.S.C. § 24320) are organized consistent with the Account Structure framework and use the Account Structure to report 5-year financial projections. The plans are fiscally-constrained statements of Amtrak's objectives, goals, and service plan for each of the five Service Lines. Amtrak submitted the most recent Service Line Plans for FY19-23 on February 16, 2018.

[8] Section 11201(e) requires Amtrak, in consultation with the Secretary, to produce profit and loss statements for each of the Service Lines and as appropriate, each of the Asset Lines. However, as the legislation directs Amtrak to include appropriations in the profit and loss statements and this does not align with what is commonly included in a profit and loss statement, Amtrak recommended renaming these statements Sources and Uses Statements. FRA agreed to this recommendation.
[9] See *Amtrak Letter to FRA*, December 5, 2016, in Appendix B.
[10] Access Amtrak's Monthly Performance Reports at: https://www.amtrak.com/reports-documents
[11] Per Section 11203, Service Line Plans were initially due February 15, 2017, and required to be updated annually thereafter. Asset Line Plans are first due by February 15, 2019.

By implementing the Account Structure, producing monthly Sources and Uses Statements, and developing 5-Year Plans using the financial information from the Account Structure reports, Amtrak has complied with the requirements set out in Section 11201.

3 ADHERENCE TO ACCOUNT STRUCTURE PRINCIPLES

To assess the effectiveness of the Account Structure, FRA has reviewed whether the implementation of the Account Structure, the production of monthly Sources and Uses Statements, and the development of the 5-Year Plans adhere to the original principles outlined in Section 2.1, developed by FRA and Amtrak.

3.1 Account for all of Amtrak's Activities and Assets with Clarity and Consistency

The Account Structure accounts for all of Amtrak's activities and assets clearly. The Account Structure reporting format established by FRA and Amtrak contains financial data for all of Amtrak's activities, including the NEC, State-Supported and Long Distance train services and Amtrak's Ancillary (non-core) businesses that were identified in the FAST Act. During the initial Account Structure definition process, FRA and Amtrak determined it was necessary to add two additional lines of reporting: the Infrastructure Access Service Line and the Train Operations Asset Line to fully reflect the whole of Amtrak's business. Infrastructure Access captures revenues and expenses related to Amtrak's provision of access to its right-of-way.[12] The Train Operations Asset Line captures costs associated with operating and moving trains, in addition to the statutorily identified Asset Lines of Equipment, Infrastructure, Stations, and National Assets. The Train Operations Asset Line was subsequently changed at Amtrak's request to Transportation in March 2018 to be consistent with the differing roles of Amtrak's Operations and Commercial groups.

The reporting format includes all financial sources and uses, for operating, capital, and debt service activities. From Amtrak's perspective, "the account structure is intended to provide a comprehensive view of Amtrak's financial information"[13] and FRA's analysis of the Account Structure reports confirms this approach.

However, the Account Structure lacks consistency in reporting financial information. FRA has documented where some amounts are recorded as accruals while others are recorded on a cash basis within the same report.[14] FRA has also documented instances of capital projects being allocated inconsistently to Service Lines. FRA recommends Amtrak establish a clearer methodology and an automated process for allocating capital costs. Amtrak concurs with this recommendation (see Section 5.2).

Though Amtrak had developed extensive procedures and processes for allocating *operating* costs across its business activities prior to enactment of the FAST Act,[15] for the first time the Account Structure required allocation of *capital* sources and uses across business activities. Amtrak created a standalone methodology using a spreadsheet-based tool to sort and allocate capital project-level data. This new capital methodology provides an adequate approach to allocating capital sources and uses, but this primarily

[12] The Infrastructure Access Service Line seeks to safely and efficiently plan for, develop, manage, and provide access to Amtrak-owned or controlled infrastructure and facilities, consistent with Amtrak's statutory obligations. Its primary customers include rail operators, such as commuter and freight rail, that currently use, or plan to use, Amtrak-owned assets.

[13] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.

[14] For example, operating payments are recorded as accrued amounts while financing proceeds received are reported as cash payments.

[15] See *Update on the Methodology for Amtrak Cost Accounting Amtrak Performance Tracking (APT)*, April 22, 2016. Available online at: https://www.fra.dot.gov/Elib/Document/15780.

manual process is resource-intensive and requires significant post-processing of financial information. Amtrak, in coordination with FRA and staff at the Volpe National Transportation Systems Center, is currently integrating the methodology into the Amtrak Performance Tracking (APT) system to automate and further refine the capital allocation process.

3.2 Maximize Efficiency of Implementation by Leveraging Existing Resources

Amtrak leveraged existing resources to implement the Account Structure, but doing so was not time efficient because existing resources were not well aligned with the Account Structure. Amtrak implemented Account Structure reporting using existing financial systems and resources. Financial information from Amtrak's general ledger accounting system, SAP Enterprise Resource Planning System (SAP ERP), populates the reporting tables for operating sources and uses. Amtrak uses the allocation methodology from the existing APT system to report operating financial performance. As described above, Amtrak developed a new process for allocating capital sources and uses, though the financial information is derived from existing databases and did not require procurement of additional systems or software.

While leveraging existing systems avoided additional information technology costs, implementing the Account Structure was a resource-intensive process for Amtrak. The implementation process took longer than expected, in part because "the complex allocation rules for operating and capital [sources and uses] take resources, time, and understanding."[16] Additional steps to format the Sources and Uses Statements required a post-processing effort, though this has been streamlined over time. Amtrak also noted that implementing the Account Structure led to "a clean-up effort" associated with their operating data and resulted in necessary corrections and adjustments in accounting.

Full implementation (e.g., producing final/non-preliminary reports) also took longer than expected due to key personnel changes during the process, including executive and senior management leadership. Aligning the Account Structure to organizational changes in a dynamic business enterprise has proven to be challenging. Amtrak's current leadership has signaled their support of the Account Structure; FRA and Amtrak will continue to improve the processes for reporting financial information to reflect how Amtrak manages its business.

3.3 Provide Understandable Information to Investors, Customers, and Amtrak to Make Fully Informed Business Decisions

The Account Structure reports are used by various stakeholders, both within and outside Amtrak's organization. For Amtrak's internal use, the reports provide a useful understanding of the financial performance of each Service Line. The reports have "resulted in improved decision-making" and have "enabled internal management to easily identify…the profitability of each Service Line."[17] However, as noted above, this reporting structure did not initially align with Amtrak's organizational structure and business, which potentially limited how Service Line managers used the Account Structure reports. It has also taken longer than anticipated for the Account Structure to become an accepted concept within the organization, as the reported information is used to different extents and for different purposes by the Service Line managers. Amtrak managers continue to use other internal reports, like the Route Performance Report and Monthly Performance Report, to report financial information, requiring Amtrak Finance to develop "crosswalks" to explain variances between reports.

[16] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.
[17] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.

Amtrak's reorganization of staff responsibilities integrated the Service and Asset Lines as fundamental principles, making the Account Structure reports more useful for supporting business decisions. FRA recommends modifying Account Structure reports as needed to enhance Amtrak's business management; line items within the established Service and Asset Lines should be adapted to reflect Amtrak's organization, pending consultation and agreement with FRA.

It is too early to tell whether the Account Structure reports to date have provided external stakeholders with valuable financial information. The reports, viewed as preliminary versions until June 2017, have not been widely distributed or publicly shared, in part, to limit confusion until they were finalized. Amtrak has recently committed to including Account Structure summary information with their Monthly Performance Reports on Amtrak's website. It is not clear whether any investors have reviewed the Account Structure reports, or their impact on external parties.

Even if they are shared, the reports may not yet be a useful tool for key financial partners, particularly states with cost-sharing arrangements subject to Sections 209 and 212 of the Passenger Rail Investment and Improvement Act (PRIIA) of 2008. As Amtrak recognizes, Section 209 and 212 cost allocation methodologies differ from the Account Structure, due to various policy decisions or contract terms that were agreed upon prior to the enactment of the FAST Act and implementation of the Account Structure.[18] Amtrak and FRA will continue to understand and explain structural differences to these stakeholders and make the reports more useful to these customers.

The FAST Act required Amtrak to produce profit and loss statements for each of the Service Lines. The Sources and Uses Statements is a hybrid report agreed upon by the FRA and Amtrak that does not include non-cash expenses generally found in profit and loss statements, such as depreciation, amortization, and interest. To reconcile the differences, Amtrak produces a monthly "crosswalk" document for FRA to show the adjustments made by Amtrak on its profit and loss statement to arrive at the operating portion of the Source and Uses Statement. There may be other ways to adapt Account Structure reports to align to other financial statements, such as a cash flow statement, that could provide another assessment of Service Line financial performance and provide better information to internal and external stakeholders. FRA will continue to work with Amtrak to analyze or adopt these types of improvements.

3.4 Request the Right Amount of Information, but No More

The Account Structure provides a sufficient level of information to analyze Amtrak's profitability and track financial performance of the NEC and NN accounts. Through implementing the Account Structure, Amtrak and FRA staff have worked closely to develop and analyze the reports. It has been an iterative process aimed at being as efficient as possible and complying with the mandates of Section 11215 of the FAST Act (codified at 49 USC § 24320 note) to eliminate duplicative reporting.[19] FRA and Amtrak are working to assure the process continues to result in improved coordination at the staff and executive leadership levels through quarterly meetings on the Account Structure and Service/Asset Line planning.

[18] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.

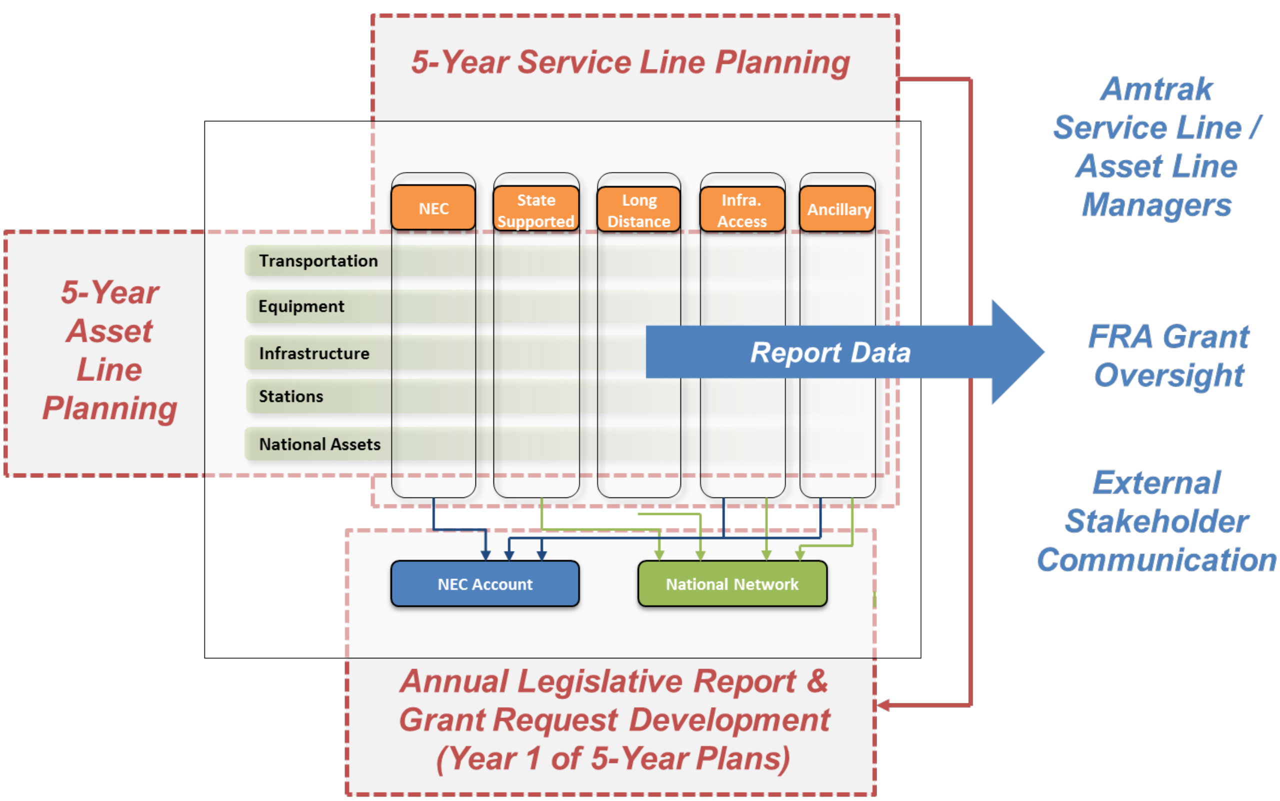
[19] FRA and Amtrak have agreed to eliminate one reporting requirement (Operating Summary Performance report, VaVh) as the Account Structure reports provide sufficiently similar information.

Within FRA, implementing the Account Structure has improved internal coordination among FRA staff and enhanced oversight of Amtrak-related activities. Within Amtrak, developing the Account Structure has "led to more communication among accounting, finance, and the field groups."[20] From FRA's perspective, implementing the Account Structure has been largely a finance-driven effort. FRA recommends further coordination between Amtrak Finance and other Amtrak divisions (such as Engineering, Planning, and Service Line Management) to break down institutional silos, and foster knowledge sharing across the organization.

3.5 Fully Integrate the Objectives of Title XI of the FAST Act, Support Planning and Internal Controls

The Account Structure fully integrates the objectives of Title XI of the FAST Act. The Account Structure reports provide financial information for Amtrak's 5-Year Service Line Plans. The first version of these annual plans for FY17-21 were published in June 2017 and presented financial data and forecasts for each of the Service Lines using the Account Structure reporting formats. The current version of the 5-year Service Line Plans (FY19-23, published February 16, 2018) also uses the Account Structure format. Amtrak and FRA meet quarterly to review plan content and development, which are developed from Account Structure reports. Five-year plans for Asset Lines are due on February 15, 2019, and it is understood that financial data in these plans will also follow the Account Structure reporting format. The relationship with other FAST Act reporting and planning requirements is shown in Figure 2.

Figure 2. Account Structure Relationship with Other FAST Act Requirements



[20] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.

Amtrak has updated existing internal controls to reflect the Account Structure, primarily to "ensure Amtrak's costs, revenues, and other compensation are appropriately allocated to the Northeast Corridor, including train services or infrastructure, or the National Network, including the proportional shares of common and fixed costs," per Section 11202 of the FAST Act, codified at 49 U.S.C.§ 24318. FRA reviewed the internal controls process for the Account Structure and recommends Amtrak continue to further refine and expand the testing to include both financial allocations and the reporting process.

4 ADVANCING THE STATUTORY PRINCIPLES OF THE FAST ACT

As discussed above, the FAST Act directs FRA and Amtrak to develop the Account Structure to promote the effective use of Amtrak's revenues and other sources of funds, and to enhance the transparency of financial accounting. FRA has evaluated whether those goals have been met or advanced.

4.1 Promote the Effective Use of Amtrak's Revenues and Other Sources of Funds

The Account Structure provides additional information related to Amtrak's finances, which improves FRA's oversight functions and promotes the effective use of revenue and other funds. The Account Structure has improved FRA's view of Amtrak's business and has provided more information on Amtrak's sources and uses, of which the annual Federal grant is a major component. Federal grant oversight is fundamental to FRA's mission. Prior to the FAST Act, FRA relied on a number of financial reports that showed Amtrak's monthly and cumulative capital project expenditures and the amount of grant funding used to cover operating losses. The Sources and Uses Statements serves as an additional resource to provide oversight of Amtrak's compliance with its grant agreement. In the near term, FRA seeks to strengthen the relationship between the Account Structure reports and grant reporting. In addition, the Account Structure reports identify other revenue sources (such as contractual contributions, third party investments, and other Federal grants) that were not previously reported in that level of detail.

Amtrak has adopted the Account Structure format in both its FY18 and FY19 General and Legislative Report and Grant Request to Congress. Upon the conclusion of FY18 and in future fiscal years, Amtrak, FRA, Congress, and other stakeholders will now be able to monitor the full lifecycle of Amtrak financial planning and performance in a consistent format.

Account Structure reporting has also allowed FRA to understand the financial performance of Amtrak's non-core Ancillary Service Line. FRA is using this information and working with Amtrak to determine how to leverage opportunities within the Ancillary Service Line to improve the overall financial performance of Amtrak and assure accurate reporting.

4.2 Enhance the Transparency of Financial Accounting

The Account Structure enhances the transparency of Amtrak's financial allocations, particularly in the assigning of revenues and costs, though this remains a work in progress. As stakeholders gain more information, they identify new areas for improvement. Amtrak has been receptive to continuing to refine and improve the Account Structure reports and process accordingly.

The Sources and Uses Statements have also allowed FRA to better understand how Federal funding is used by the various Service Lines. Identifying both operating and capital needs by Service Line requires Amtrak to present detailed financial planning information and prioritize investments in a more transparent manner. Through the Account Structure reports, FRA can also begin to measure the impact of cost-sharing agreements between states and Amtrak, such as Section 209 and 212 of PRIIA, on the overall levels of Federal investment.

5 ASSESSMENT AND RECOMMENDATIONS

5.1 Assessment

The Account Structure represents a significant change to Amtrak's financial reporting and business organization. Though full implementation has taken longer than expected, FRA and Amtrak have adhered to the original principles developed to guide this process, and have advanced the goals outlined in Section 11201. Both FRA, as described in Section 5.2.1, and Amtrak, as described in its December 4, 2017 report, have identified potential improvements to the Account Structure. FRA and Amtrak are committed to improving the quality of financial information in the Account Structure reports and making the reports more accessible and useful to all stakeholders.

5.2 Data and Process Recommendations

5.2.1 FRA Recommendations

As described earlier in the document, FRA recommends Amtrak continue to improve the data quality and process of generating the Account Structure reports through the following actions:

- Ensure financial information is recorded consistently in Account Structure reports, either as accruals or on a cash basis. Assess whether additional changes are needed to improve consistency with other financial statements.
- Refine the methodology and automate the process for allocating capital costs to the Service Lines.
- Review guidelines for initiating capital projects to ensure there is sufficient detail to support the Account Structure allocation process.
- Identify and adopt changes in the Account Structure to align with Amtrak's corporate organization.
- Coordinate internally with Amtrak Finance and Service Line managers to ensure financial information is accurate and that the Account Structure reports provide useful information for management and decision-making.
- Identify the need for any additional crosswalks to explain how the Account Structure reports relate to other financial statements (such as income statements or cash flow statements) or cost-sharing agreements (such as customer agreements subject to PRIIA Sections 209 and 212).
- Engage external stakeholders to collect feedback on the usefulness of Amtrak's reported financial metrics.
- Refine and expand the number of internal controls submitted for testing, to include controls on the financial allocations and the reporting process.
- Improve and streamline annual grant reporting to better align with Account Structure reporting.

Amtrak is already working to realize some of these recommendations, such as Amtrak's work to integrate the current capital allocation methodology into APT. Amtrak and FRA are coordinating on this effort and are working toward implementing these changes by the third quarter of FY18. During this process, FRA also recommends Amtrak review its internal guidelines for initiating capital projects and identifying appropriate allocation methods for projects at the outset, with input from Amtrak Engineering, Corporate Planning, and Enterprise Project Management. Improving these processes will also confirm that capital projects are linked to passenger and Service Line needs.

5.2.2 FRA Response to Amtrak's Recommendations

Amtrak has also recommended several updates to labeling within the Account Structure reports,[21] such as renaming NEC Intercity Operations to *NEC Service Line*, as well as Train Operations Asset Line to *Transportation Asset Line*, and presenting commuter operations as a type of revenue within the Amtrak Services portfolio. These proposed changes were coordinated with and approved by FRA, and are reflected in Account Structure reports as of March 2018. FRA and Amtrak will continue to coordinate on any changes to the subcategories within the Service or Asset Lines.

5.3 Other Recommendations

5.3.1 FRA Recommendations

FRA recommends further research on adopting a standard definition of the NEC.

FRA has identified an issue with a standard definition of the NEC. The FAST Act and Section 11201 define the Northeast Corridor as "the Northeast Corridor main line between Boston, Massachusetts, and the District of Columbia and facilities and services used to operate and maintain that line." However, Section 212 of PRIIA required that a standard cost-allocation methodology apply to the "Northeast Corridor main line between Boston, Massachusetts, and Washington, District of Columbia, and the Northeast Corridor branch lines connecting to Harrisburg, Pennsylvania, Springfield, Massachusetts, and Spuyten Duyvil, New York."[22] As a result, in the Account Structure, the costs and revenues associated with the branch lines listed above are classified as the National Network. A standard definition of the NEC would reduce confusion with these geographies, particularly the capital allocations assigned to individual projects.

5.3.2 FRA Response to Amtrak's Recommendations

In its December 2017 report to the Secretary, Amtrak recommended two improvements to the grant process to provide additional reporting clarity and reduce duplicative work. First, Amtrak recommended one annual grant with two accounts (one account for the NEC, another for the NN) in place of two separate grants (one for the NEC account and another for the NN account). Following enactment of the FAST Act, FRA determined the FAST Act authorizations of appropriations (Section 11101) and subsequent appropriations prescribe specific amounts for separate NEC and NN accounts, and therefore require two separate grant agreements. At this time, FRA recommends maintaining the two grant structure. FRA has potential technical concerns about invoice tracking and matching lines of accounting from two appropriated sources in one consolidated grant. FRA will continue to work with Amtrak to streamline reporting to eliminate redundancy.

Establishing two separate grants also supports a key principle requested by Amtrak and other funding partners: Amtrak's ability to retain NEC revenues for capital investment in the corridor. From an FRA accounting perspective, the separate NEC and NN grants support the assignment of revenues and costs to the appropriate Service Lines. Two different grant agreements provide better FRA management and oversight for transfers between accounts subject to specific financial controls.

Second, Amtrak recommended a new authorization of appropriations (split between the NEC and NN accounts) on an annual basis instead of the current authorization split, which was based on FY15 estimates.

[21] See *Amtrak Report to the Secretary of Transportation*, December 4, 2017, in Appendix A.

[22] PRIIA Section 212, codified at 49 U.S.C. § 24905, (c)(1)(a).

While FRA agrees that a more precise estimate of NEC and NN needs in Amtrak's authorization would be beneficial to the Federal budgeting and appropriations process, this issue would be more appropriate for consideration during the next reauthorization of surface transportation programs. According to Amtrak's FY19 Grant and Legislative Request, a difference of only $14 million dollars was identified that should be transferred from the NEC to the NN account – less than 1 percent of Amtrak's FY19 authorized funding.

5.4 Next Steps

The goals established by FRA and Amtrak during the development of the Account Structure have also served the implementation phase of the Account Structure. Amtrak has made significant progress since the Account Structure's initial implementation in January 2017, despite the corporate challenges associated with changes in leadership, company reorganization, and staff downsizing.

This assessment has outlined key recommendations that FRA will pursue to improve the usefulness of the Account Structure. These recommendations can be divided into the following near- and long-term next steps.

Near-Term Improvements (One Year)

- *Improve coordination between Amtrak finance and other divisions to better integrate Account Structure reports into business practices*
- *Complete the integration of the capital allocations into Amtrak's Performance Tracking (APT) financial system*
- *Assess the need to make policy and organizational changes to the Account Structure to align with Amtrak's corporate organization*
- *Refine and expand the internal controls process*
- *Improve annual grant reporting to better align with Account Structure reporting*

Long-Term Improvements

- *Improve Amtrak's financial systems to better support reporting in the Account Structure*
- *Standardize financial reporting to minimize variances between the Account Structure and other reports, including those used by external stakeholders*
- *Consider legislative recommendations that would align the NEC territory with PRIIA Section 212 territory*

FRA will continue to work with Amtrak to make improvements to the Account Structure and reports, as needed. The initial implementation has been successful, despite significant challenges for Amtrak. The next phases will allow FRA and Amtrak to build on an already strong foundation.

APPENDIX A

Amtrak Report to the Secretary of Transportation, December 4, 2017

National Railroad Passenger Corporation
1 Massachusetts Avenue, NW. Washington, DC 20001

AMTRAK®

December 4, 2017

The Honorable Elaine Chao
Secretary of Transportation
U.S. Department of Transportation
1200 New Jersey Avenue, S.E.
Washington, DC 20590

Dear Secretary Chao:

We are pleased to transmit Amtrak's report on the account and reporting structure established pursuant to section 11201 of the FAST Act, codified at 49 U.S.C. § 24317.

Background & Development

The Fixing America's Surface Transportation (FAST) Act (P.L. 114-94) required the U.S. Department of Transportation (USDOT) to consult with Amtrak and define an account structure and improvements to accounting methodologies to support the Northeast Corridor (NEC) and National Network. Within this section, 11201(h) states:

> *''(h) REPORT.—Not later than 2 years after the date of enactment of the Passenger Rail Reform and Investment Act of 2015, Amtrak shall submit to the Secretary a report assessing the account and reporting structure established under this section and providing any recommendations for further action. Not later than 180 days after the date of receipt of such report, the Secretary shall provide an assessment that supplements Amtrak's report and submit the Amtrak report with the supplemental assessment to the Committee on Commerce, Science, and Transportation of the Senate and the Committee on Transportation and Infrastructure of the House of Representatives."*

The goals of this section are to promote the effective use of Amtrak's revenue and other sources of funds, as well as to enhance the transparency of the assignment of revenues and costs among the company's service lines while ensuring the health of the NEC and National Network.

For nearly two years, Amtrak worked with USDOT to restructure its accounts. Amtrak has fulfilled the various mandates associated with this provision.

The first step in restructuring Amtrak's accounts was to set out a complete and comprehensive view of Amtrak's revenues and funding (Sources) and expenditures (Uses) in a manner that focuses on the services that Amtrak's customers buy or fund. That review led to the creation of a Sources and Uses document (account structure). The account structure was developed by the FRA in consultation with Amtrak based on mutually agreed upon principles with existing reporting structures as the framework (PRIIA Sec. 209 and PRIIA Sec. 212). As the organization continues to adapt to the FAST Act, the account structure is increasingly used for internal management to analyze the fully allocated service line Profits & Losses in order to make more informed business decisions. In addition, the account structure is the basis for the 5-year plan, and provides an organized view in which to report Amtrak's service line and asset line strategies.

The new Amtrak account structure is an important step toward more effective management of costs and revenues and increased accounting transparency for all of Amtrak's stakeholders. The account structure is intended to provide a comprehensive view of Amtrak's financial information to better inform Amtrak's decision-making process and more clearly communicate with Congress, states, partners and the public on Amtrak's business priorities and financial performance.

What has worked?

Development of the account structure has resulted in a number of positive impacts for Amtrak, most notably; increased coordination with the FRA, more informed decision making, increased communication within Amtrak and the development of a robust capital allocation methodology.

As a result of review meetings, our coordination with the FRA has increased. Meetings are held on a monthly basis to discuss business results, major service line changes, questions or recommended changes. The account structure serves as a consolidated and useful way for the FRA to absorb Amtrak's financial information, making it easier for them to analyze results. It also serves as a standard format from which to start discussions and makes it easier for Amtrak to understand which portion of the business FRA is reviewing. For example: at the September meeting (reviewing August YTD results), the FRA had a question about the month-to-month variability of the national assets and corporate services asset line (across all service lines). Amtrak was able to research the issue and discuss the key drivers of the monthly variability. This resulted in a productive discussion between Amtrak and the FRA on corporate services expenses and the seasonality of G&A expenses. In addition to questions/discussions on results and trends, the meetings give Amtrak and the FRA an opportunity to discuss minor structure changes or allocation adjustments that need to be made. These monthly meetings have led to a better understanding for Amtrak on how the FRA is using Amtrak's reports and provides an open line of communication regarding financial results.

The account structure has resulted in improved internal decision making. A transparent view of the sources and uses of funds has enabled internal management to easily identify where we are earning money, where we are spending money, and the profitability of each service line. Clear profitability leads to more informed decisions.

Prior to the account structure, Amtrak had multiple reports and methodologies in place to view profitability, using a number of sources to support "go/no-go" decisions when evaluating investment decisions. As we continue to align with the FAST Act, Amtrak will have a standardized methodology for evaluating the financial impacts of business decisions.

The development of the account structure has led to internal improvements within Amtrak. As a result of the complicated process of development, we have improved internal communications. This new transparency on where revenue and expenses are booked has led to more communication among accounting, finance and the field groups on where items are booked. For example, when the account structure was first developed, we found a number of small dollar items booked to the appropriate service line but to accounts (asset lines) where they were not expected. The transparency led to a cleanup effort to ensure results were not only allocated to the appropriate service line, but also to the correct account or asset line.

The account structure has resulted in the creation of a robust allocation for capital costs. The allocation mirrors the operating allocation process in APT, but is closer to how we budget and view capital data. Amtrak's SAP Enterprise Resource Planning System ("SAP ERP") is Amtrak's general ledger accounting system that is the foundation for recording and tracking all financial transactions. Both operating and capital transactions (sources and uses) are recorded and tracked in the SAP ERP system. APT is a separate IT system that uses transaction data from SAP and forecast and budget data from other sources to allocate the operating costs to the various trains, routes, and customers. Prior to this effort, a separate methodology was used to allocate the capital revenues and expenditures to the trains, routes, and customers.

To implement the account structure and assign capital sources and uses to service lines and asset lines in alignment with the new FAST Act guidance, Amtrak developed a process and spreadsheet-based tool for sorting and allocating project-level data. In general, Amtrak assigns projects to the appropriate Asset Line based on the type of capital work, and applies additional criteria to allocate these projects across Service Lines using relevant train or passenger operating statistics. With the Financial Planning (BPC) system upgrade, our intent is to continue to refine the capital allocations and make them more robust.

What has not worked?

Developing an entirely new account structure for Amtrak has been an enormous undertaking and not without difficulties. While we have made tremendous progress on this front, we are still working through a number of challenges the account structure has presented. Additionally, successive CEO and senior management changes over this period have meant a shifting organizational landscape which has also contributed to some internal challenges.

The account structure is based on a complicated formula for operating and capital results. Operating data is allocated to routes using the APT allocation system and presented in the account structure based on a complicated formula using multiple dimensions to assign a reported location. Although the operating allocations utilize a standard system, the process is not simple or automated. Capital allocations are also based on an allocation rule set, but is further complicated because it is a manual process not allocated through the APT system. The complex allocation rules for operating and capital take resource time and understanding.

From a structural perspective the account structure is not routinely updated to align with organizational changes. The account structure should be a living document that will be adjusted as Amtrak moves forward to ensure its utility. The FRA has provided Amtrak the flexibility to adjust the account structure to fit our organization, but Amtrak is evolving, with new executive leadership and a new strategic focus and has had difficulty implementing these changes. The Board of Directors and the Executive Leadership Team continue to work on developing longer term corporate strategy, but in FY18 the landscape is organized around six pillars: strategy; customer impact; safety and operations; assets; people; and financial stewardship. Although the account structure yields valuable profitability views for each service line, it is difficult to apply to day-to-day management of the business as it does not consistently line up with how the organization is evolving.

The unique account structure view has led to consistency issues with other internal and external reporting. The account structure was created using existing reporting structures as a framework, but updates throughout the development process resulted in variances to other published reports. These variances cause confusion for internal and external stakeholders and have resulted in time-intensive dedication of Amtrak's resources to verify that the data is reported accurately across all reports and to explain structural differences to stakeholders.

Differences in reporting methodologies include the following:

- PRIIA Sec. 209 cost-sharing agreements: Due to the individual contract requirements the fully allocated results reported in the account structure do not match the invoices given to the states or agencies. Section 209 has additives that do not cover 100% of the expenses to Amtrak. An example is that Section 209 has a specified G&A percentage which is less than the fully allocated G&A expenses. These additives are not specifically included in the account structure.

- PRIIA Sec. 212 cost-sharing agreements: Section 212 cost sharing agreements are based on a three-year average of data and do not include current year projected expense. The categories will line up with the account structure, but the numbers will not match as Amtrak is reporting on actual current year expenditures for operating and capital rather than a three-year average.

- Monthly performance report and Board reporting: Reporting by route and service line is different compared to reporting based on profit center (currently used for internal reporting). In profit center reporting, many of the support costs are shown under core expenses while they are allocated to the various routes and businesses in the account structure.

The account structure was intended to reduce the administrative burden of reporting to the FRA and other customers. This view of reporting is still being introduced to the organization, as well as to external customers and Amtrak needs time and resources to bridge the results to other reports in order to avoid confusion and duplicative effort.

Amtrak's recommendations

Amtrak's recommendations are a result of efforts to provide additional clarity and are intended to help streamline the reporting process to reduce duplication of work and efforts. Please see below for Amtrak's recommended changes.

Amtrak recommends one annual grant with two accounts (account for NEC, account for National Network) in place of two separate annual grants. Two annual grants (grant for NEC, grant for National Network) have resulted in a duplication of work and effort, moving to one annual grant with two accounts will result in an easier tracking and reporting process. Amtrak is committed to transparency and will continue to provide variance explanations for each account, but one annual grant will lead to a reduction of work and be more efficient for Amtrak.

Amtrak recommends a new authorization of appropriations split between NEC and National Network on an annual basis using the prior year's submitted Amtrak 5-year plan as reference. The authorization split we are currently using is based on an estimate set in FY 2015 (prior to enactment of the FAST Act) and does not accurately reflect the current state of our business. With an updated split used for appropriations of Amtrak's annual funding, Amtrak is less likely to need a transfer of funds between the NEC and National Network accounts.

The FRA has afforded Amtrak the flexibility to realign the asset lines in an effort to increase consistency across reports while still maintaining the framework developed by the FRA. Amtrak would like to see this flexibility continue and will work closely with the FRA to update cost lines to simplify and align expenses more closely with PRIIA Sec. 209, PRIIA Sec. 212 and other internal reporting.

Amtrak will begin the process of leveraging the APT system to automate the capital allocation to service lines in Q3 of FY 2018. The capital allocation was developed to replicate the APT allocation process, but once the allocation is in APT, statistics and rules may result in variances to reported numbers. In an effort to be transparent, Amtrak will need to closely monitor and adjust as needed.

In order to distinguish between the roles and responsibilities of Amtrak's Operations and Commercial groups and to reflect which group is delivering train service (Operations) vs developing and managing the product that is sold to customers (Commercial), Amtrak recommends the following name changes:

- NEC Intercity Operations to *NEC Service Line*
- Train Operations Asset Line to *Transportation Asset Line*

Amtrak leadership has also created an "Amtrak Services" group to provide rail passenger transportation, maintenance, and related services at market based prices to commuter rail agencies and commercial entities. Commuter operations should instead be presented as a type of revenue with costs reflected in the relevant asset category to more clearly indicate that commuter operations is a subset of the Amtrak services portfolio.

We look forward to continued work with FRA to meet the FAST Act's policy goals and improve our business.

Sincerely,

William N. Feidt
EVP and Chief Financial Officer

Stephen Gardner
EVP and Chief Commercial Officer

APPENDIX B

Amtrak Letter to FRA, Delivered December 5, 2016

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002

Joe McHugh
Vice President, Government Affairs &
Corporate Communications

December 5, 2016

Mr. Paul Nissenbaum
Associate Administrator for Railroad Policy & Development
Federal Railroad Administration
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Dear Mr. Nissenbaum:

Over the last year, Amtrak and the Federal Railroad Administration (FRA) have worked in close collaboration and partnership to implement the new Amtrak account structure requirements established in the Passenger Rail Reform and Investment Act, part of the Fixing America's Surface Transportation Act[1] (FAST) signed into law on December 4, 2015.

Developing an entirely new account structure for Amtrak as required by Section 11201 of the FAST Act resulting in the creation of two accounts — the Northeast Corridor and National Network — and the supporting service and asset line framework has been an enormous undertaking. While we have made tremendous progress with the FRA to develop four levels of increasing detail for the account structure, as you know, we are still working through several elements and have certain technical limitations with our existing IT systems and a shortage of available staff.

More significantly, the arrival of Wick Moorman as our new President and CEO on September 1, means Amtrak's upcoming changes to its organizational structure will impact numbers reflected in the draft account structure reports and affect roles, responsibilities, expectations, and outcomes vis à vis plan development. Widely issuing reports now only to revise them in several months risks unnecessary confusion for our customers and stakeholders as they adjust to the new format.

The new account structure underpins how Amtrak will strategically plan and manage its business. We believe additional time is necessary to meet the associated 2016 and 2017 statutory deadlines which will better position us for long-term success.

That said, and with the December 4 statutory deadline to implement the new account structure upon us, we are writing to provide you with a status report on our compliance timeframe and set forth a revised schedule.

[1] Pub. L. No. 114-94.

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The following table identifies the key FAST Act deadlines that are rapidly approaching. We appreciate the seriousness of this matter and that is why we are dedicating additional human capital resources to the account structure initiative. We will continue to work as diligently as possible to meet the statutory requirements as expeditiously as possible.

Deadline	Requirement	Target/Status
December 4, 2016	*Implement any account structures and improvements so that Amtrak is able to produce profit/loss statements for each of the business lines described in (the Account Structure) that describe sources and uses of: revenues, appropriations and transfers between business lines.*	*Pending. Amtrak and FRA to finalize the four account structure levels this month.*
January 4, 2017	*Amtrak shall submit updated profit and loss statements for each of the business lines and asset categories to the Secretary*	*Pending. Amtrak will submit preliminary P&L reports to FRA in accordance with the deadline, with the understanding that these will be closely held and subject to revision pending organizational changes and additional QA/QC review.*
February 15, 2017	*Service line plans due to the Secretary and Congress*	*June 2, 2017. In accordance with organizational changes, Amtrak will produce these strategy documents and associated financial projections with sufficient time for stakeholder and customer consultation.*

AMTRAK

We thank you for your engagement and leadership. We are confident that in the coming weeks and going into the New Year, Amtrak will be well positioned to finalize and implement the new FAST Act account structure, providing greater transparency and accountability to Congress and for all of Amtrak's stakeholders and customers.

Sincerely,

Joe McHugh
Vice President
Government Affairs and Corporate Communications