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United States Government Accountability Office  
Washington, DC 20548

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July 11, 2005

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

Subject: *Questions for the Record Related to Amtrak's Food and Beverage Service*

Dear Mr. Chairman:

On June 9, 2005, I testified before the Subcommittee on Railroads at a hearing on "Amtrak Food and Beverage Operations."<sup>1</sup> This letter responds to your request that I provide answers to questions for the record. The questions, along with my responses, follow.

**1. Amtrak stated that it has used its Office of Inspector General to audit Amtrak's food and beverage operations and that GAO did not recognize this fact. Why does GAO think that additional information is useful to supplement the Inspector General's food and beverage report on Amtrak's food and beverage operations?**

In our testimony, we stated that Amtrak has not required the food and beverage contractor to submit the contractually required and independently audited annual report of budget variances for key line items. An audit of such a report could detect improper payments to the contractor. We also stated that Amtrak has never had an audit conducted of the discounts and rebates credited to it by Gate Gourmet International, even though such an audit is allowed under their contract. An audit of the purchase data could determine whether the contractor is appropriately passing along applicable rebates and discounts to Amtrak.

Amtrak's statement that we did not recognize that the Office of Inspector General (OIG) has been used to audit the food and beverage operations is inaccurate. In the course of our work, we reviewed OIG reports on certain aspects of Amtrak's food and beverage operations. However, we do not believe that the past work of the OIG should be viewed by Amtrak as a substitute for a comprehensive internal control program. Internal control should be a continuous built-in component of operations that, among other things, considers the results of audits and ensures prompt

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<sup>1</sup>GAO, *Amtrak: Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service*, [GAO-05-761T](#) (Washington, D.C.: Jun. 9, 2005).

resolution. This is especially critical in an operational area where Amtrak is losing considerable money. In addition, upon reviewing the OIG's work we found that certain scope limitations existed. For example, the Amtrak OIG noted in its report on the food and beverage contract to Amtrak management that its work in this area has been limited due to the contractor's failure to provide certain requested information and documentation.

**2. Amtrak maintains that food and beverage product rebates go directly to Amtrak and not through Gate Gourmet. Has Amtrak implemented processes to ensure that it is getting all of the discounts and rebates on food and beverage items purchased by Gate Gourmet for Amtrak?**

Amtrak has not implemented processes to ensure that rebates and discounts received directly from suppliers or indirectly through its contractor are accurate and complete. As Amtrak officials explained, the majority of rebates are received directly from suppliers. However, no formal procedures have been established to review and verify the amount of rebates and discounts actually received from the suppliers or to determine whether there are other rebates and discounts that Amtrak may be entitled to receive from the contractor. Although the contract allowed Amtrak to audit the contractor's allocations of rebates and discounts, Amtrak never required such an audit and never required that the contractor certify that all discounts due to Amtrak were credited to its account.

**3. Amtrak maintains that it closely monitors food and beverage purchase prices charged to Amtrak by Gate Gourmet – on a daily basis. Why does GAO believe that Amtrak does not adequately monitor its purchase price information for food and beverage items purchased by Gate Gourmet?**

According to Amtrak's senior director of food and beverage services, price reports are distributed to each of its commissaries on a daily basis. These daily reports list the quantity, unit size, cost and last prior purchase of the previous day's purchases. However, Amtrak has not established procedures to ensure that all of the daily report reviews are conducted timely and in a consistent manner, that errors or other issues that are identified are documented and tracked, and that corrective actions taken are documented to ensure completion. In addition, these daily price reports are limited to detecting errors or unacceptable purchase prices after the goods are received. More preventive control procedures, such as the monitoring of order prices could assist in avoiding the varying range in unit prices we found in purchase order and payment data. Furthermore, Amtrak has not enforced key contract provisions, such as requiring an independently audited annual report, auditing the amount of rebates received from the contractor, and creating contractor performance standards, which has weakened its ability to prevent and detect improper payments for food and beverage services.

**4. Amtrak says that it did not pay the prices GAO cites in its statement for Heineken beer and that the prices paid for strip steak were paid only for two emergency purchases in the retail market. How does GAO respond to this and what evidence does GAO have that Amtrak did pay these prices?**

Based on information provided to us by Amtrak on June 29, 2005, it appears that Amtrak (1) received and paid for 10 half-kegs of Heineken beer (\$94.50 per half-keg) and not 10 cases of 12 ounce bottles of Heineken beer (\$3.93 per bottle) as we testified based on information then available to us; and (2) Amtrak received and paid as high as \$7.58 per 10 ounce portion for strip steak that was not documented as an emergency purchase.

Purchase order and payment support provided to us by Amtrak's contractor in March 2005 with copies of all such documentation provided to Amtrak concurrently show that Amtrak ordered 12 ounce bottles of Heineken beer and received and paid \$3.93 per bottle for the beer. However, based on information Amtrak provided to us after our June 9, 2005 testimony it appears that Amtrak paid \$945 to purchase 10 half-kegs of Heineken beer, rather than 10 cases as indicated on the original documentation provided to us and to Amtrak officials by the contractor. While we provided Amtrak the Heineken beer purchase example 14 days before the hearing and discussed the Heineken beer purchase in considerable detail with Amtrak officials before the testimony, it was not until over a month after the example was provided to Amtrak and twenty days after the testimony that we received the additional documentation that supports Amtrak's assertion regarding a data entry error and subsequent correction. In addition, Amtrak officials testified that the strip steak examples were "emergency purchases." However, following our request for documentation to support this claim an Amtrak official told us on June 29, 2005 that documentation to support the assertion that these were emergency purchases does not exist. The establishment of internal control procedures that ensure the documentation of the identification and correction of errors and approval for emergency purchases would ensure that adequate documentation is readily available for review by internal and external parties.

**5. Amtrak maintains that its food and beverage revenues cover the costs of food and beverage service. However, GAO and Amtrak's Inspector General state that Amtrak loses about \$2 for every \$1 on food and beverage operations. How does GAO explain the difference?**

The information provided by GAO and the Amtrak OIG included the labor costs for Amtrak employees on-board the trains delivering the food and beverages. These costs totaled more than \$256 million for the 3-year period fiscal years 2002 through 2004. For fiscal years 2002 through 2004, Amtrak's food and beverage expenses, including Amtrak employee labor cost, totaled about \$487 million while Amtrak's food and beverage service earned about \$243 million in revenue. This means that Amtrak spent about \$2 to earn \$1 in food and beverage revenue. Section 24305(c)(4) of title 49, United States Code provides that Amtrak may provide food and beverage services on its trains only if revenues from the services each year at least equal the cost of providing the services. What is to be included as cost is not defined. During

the testimony, the Amtrak witness explained that their understanding of this provision was that the cost to be considered included only the cost of the food and commissary operations. Hence, Amtrak did not consider the Amtrak employee labor costs of providing the on-board service in their analysis of the food and beverage operations.

**6. Amtrak noted that its food and beverage expenditures per passenger and its food costs have decreased as its ridership has increased. How have Amtrak's total costs for food and beverage service changed in relation to Amtrak's recent increases in both ridership and passenger revenue miles?**

Amtrak's total food and beverage expenditures decreased per rider by 7.7 percent and decreased per passenger revenue mile by 1.9 percent from fiscal year 2002 to fiscal year 2004.<sup>2</sup> However, due to reductions in Amtrak's food and beverage revenues, Amtrak's profit/loss results per passenger and per passenger revenue mile on trains with food and beverage service are mixed. While Amtrak reduced its food and beverage loss per passenger by 3.5 percent from fiscal year 2002 to 2004, its food and beverage loss increased per passenger revenue mile by 2.4 percent over the same period.

**7. Amtrak has called GAO's evaluation process, especially how GAO solicited and used Amtrak's comments on the draft version of its testimony, into question. What is GAO's process for soliciting and utilizing outside comments on its testimony? Did GAO deviate from those processes in creating its June 9 testimony to this Committee? If so, why did GAO deviate from those processes?**

It is GAO's policy to obtain the views of agency officials for GAO testimony statements that are based on either new or ongoing work to validate the accuracy of the data gathered and obtain the agency's views on the implications that flow from that data. The comments can be obtained either orally, via teleconference or in person, or in written form. The amount of time available for agency comments is determined on a facts-and-circumstances basis, considering a number of variables including the timing needs of the requester.

GAO did not deviate from these processes in preparation for the June 9 testimony. GAO sent a draft of its testimony statement to Amtrak for their comments on June 6 and held a three-hour teleconference with senior Amtrak officials on June 7 to obtain their comments. Subsequently, we made changes to our statement based on the oral comments we received. Prior to the hearing, we asked Amtrak to provide evidence

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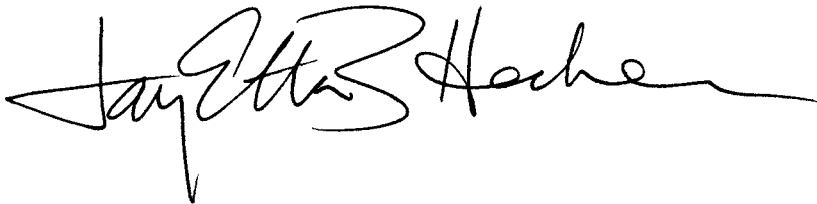
<sup>2</sup>While these calculations used total Amtrak riders and total Amtrak passenger revenue miles, not all Amtrak trains have food and beverage service. The trend for revenues and expenditures per rider for Amtrak's total ridership on trains with food and beverage service followed the same pattern as the statistics cited above for ridership on all Amtrak trains.

on their food and beverage operations to support their assertion that our facts - which were based on Amtrak and contractor documents - were incorrect. However, even though Amtrak made statements during the hearing based on additional documentation, they chose not to share that documentation with us until 20 days after the hearing.

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For additional information on Amtrak's food and beverage service, please contact me at (202) 512-8984 or Randall Williamson, Assistant Director, Physical Infrastructure, at (206) 287-4860 or [williamsonr@gao.gov](mailto:williamsonr@gao.gov).

Sincerely yours,

A handwritten signature in black ink that reads "JayEtta Z. Hecker". The signature is written in a cursive style with a long horizontal line extending to the right.

JayEtta Z. Hecker  
Director, Physical Infrastructure

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