United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Railroads, Committee on Transportation and Infrastructure, House of Representatives

For Release on Delivery
Expected at 9:30 a.m. EDT
Thursday, June 9, 2005

AMTRAK

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service

Statement of JayEtta Hecker, Director
Physical Infrastructure Issues

GAO-05-761T

June 9, 2005

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-05-761T, a report to Subcommittee on Railroads, Committee on Transportation and Infrastructure, House of Representatives

AMTRAK

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service

Why GAO Did This Study

Amtrak has provided food and beverage service on its trains since it began operations in 1971. Amtrak has struggled since its inception to earn sufficient revenues and depends heavily on federal subsidies to remain solvent. While a small part of Amtrak's overall expenditures, Amtrak's food and beverage service illustrates concerns in Amtrak's overall cost containment, management and accountability issues.

This testimony is based on GAO's work on Amtrak's management and performance as well as additional information gained from Amtrak and other transportation providers. This testimony focuses on (1) the provisions written into Amtrak's contract with Gate Gourmet to control costs, (2) the types of management controls Amtrak exercises to prevent overpayments, and (3) the information Amtrak collects and uses to monitor the service and to report to stakeholders such as its Board of Directors.

What GAO Recommends

Since we did not have sufficient time to obtain Amtrak's comments, as required by government auditing standards, prior to this hearing, GAO anticipates making recommendations to Amtrak to improve its food and beverage service at a later time.

www.gao.gov/cgi-bin/getrpt?GAO-05-761T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker, 202-512-8984.

What GAO Found

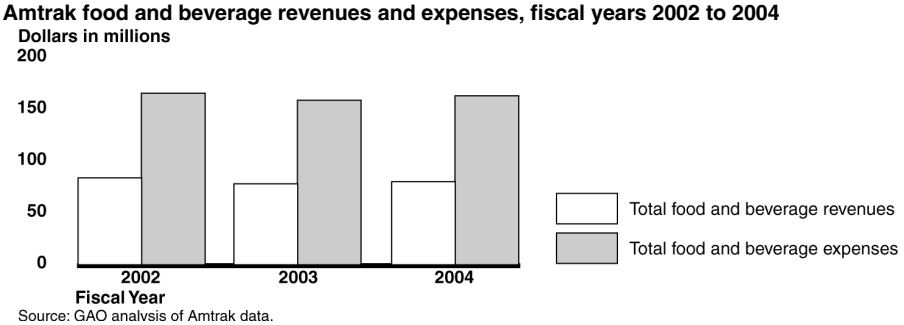
Amtrak's financial records show that for every dollar Amtrak earns in food and beverage revenue, it spends about $2—a pattern that has held consistent for all 3 years GAO reviewed. In GAO's estimation, Amtrak has lost a total of almost $245 million from fiscal year 2002 through fiscal year 2004 on food and beverage service. Since 1999, Amtrak has contracted out the responsibility to Gate Gourmet International (Gate Gourmet) for managing commissaries and for ordering and stocking all food and beverages and related items managing under a contract that expires in September 2006.

Amtrak's current cost reimbursable contract with Gate Gourmet creates, if anything, an incentive to increase Amtrak's costs unless properly monitored. Gate Gourmet can charge Amtrak for the cost of the food and beverage items, as well as management, labor, and other expenses. Without defined controls and management, this type of contract structure provides little incentive for a contractor to reduce or contain costs to provide better value to its customer.

GAO found five different management controls that Amtrak did not fully exercise regarding oversight of its food and beverage service. These controls include: (1) requiring an independently audited financial report, (2) auditing for all applicable rebates and discounts that Gate Gourmet could have applied to food and beverage items purchased for Amtrak, (3) adequately monitoring purchase price information for its food and beverage items, (4) not considering Amtrak's food and beverage labor costs, as a part of product markups, and that (5) not utilizing Amtrak's procurement department in negotiating the current contract.

Information that could provide both internal and external accountability for the food and beverage function is limited. Amtrak does not include any information about its food and beverage expenses in any of its internal or external reports, including its monthly performance reports, its internal quarterly progress reports or its annual consolidated financial statements. This lack of information makes it difficult for internal and external stakeholders to gauge the profit or loss of the operation as well as to assign accountability.

Amtrak food and beverage revenues and expenses, fiscal years 2002 to 2004



Source: GAO analysis of Amtrak data.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify on issues concerning the National Railroad Passenger Corporation's (or Amtrak) food and beverage service, which will clearly illustrate Amtrak's challenges in controlling its costs. Since Amtrak started operations in 1971, Amtrak has struggled financially, and has depended on a federal subsidy of more than $1 billion a year since fiscal year 2003 to remain solvent. For fiscal years 2002 through 2004, Amtrak's food and beverage expenses were about $487 million—or only about 5 percent of the company's total expenditures. However, during that same time period, Amtrak's food and beverage service earned about $243 million in revenue. This means that Amtrak spends about $2 to earn $1 in food and beverage revenue. Of Amtrak's total food and beverage expenditures, about 53 percent was for labor costs for Amtrak employees serving the food, about 38 percent was for food costs and fees to Gate Gourmet International (Gate Gourmet)—the contractor for food and beverages and operation of Amtrak commissaries—and about 9 percent for other Amtrak costs.

At your request, my statement today relates primarily to the contractor's portion of this expense, as well as Amtrak's oversight and control over its food and beverage service, and what Amtrak is doing to oversee and control contract costs. I will specifically address what we have learned in examining three major types of cost controls: (1) the provisions written into Amtrak's contract with Gate Gourmet[1] to control costs, (2) the types of management controls Amtrak exercises to prevent improper payments, and (3) the information Amtrak collects and uses to monitor the service and to report to stakeholders such as its Board of Directors. We also talked with three other passenger transportation providers to get background and comparison information on their food and beverage services. The information I will present is based on completed work done in the course of our ongoing review of Amtrak's management and performance which we will report on later this year. We also collected supplemental information from Amtrak, and on the food and beverage operations of VIA Rail Canada (VIA Rail) and the Alaska Railroad, two other providers of intercity passenger rail, and two major U.S. air carriers—Northwest Airlines and American Airlines.

[1]Gate Gourmet International was formerly known as Dobbs International prior to January 1, 2001.

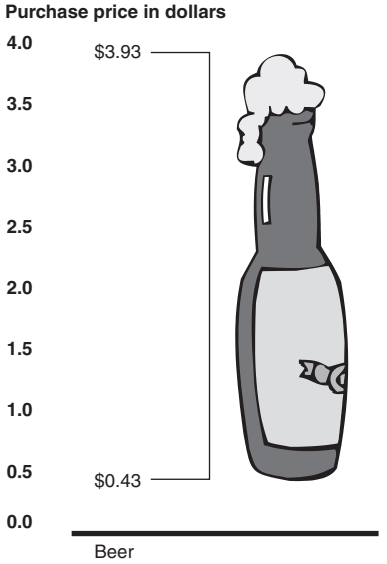
In summary, we found that:

- The provisions of the contract for food and beverage services provide little incentive for Gate Gourmet to reduce or contain the costs of food and beverages. The contract is a cost reimbursable contract, and under it, the contractor can charge for the costs of items purchased, in addition to management and other fees. Given the way Amtrak is managing the contract, none of the contractor's profit is tied to controlling costs. Although the contract included a discussion of performance standards, these standards and related measures were never created, even though they were required 45 days after the contract was signed in January 1999. Performance standards would have allowed for performance incentives and penalties. If these incentives had been developed, then they could have been used to pay Gate Gourmet based on such things as finding lower-priced food products of similar quality to what is being purchased now.

- Amtrak is not fully exercising prudent management techniques to control its food and beverage costs and prevent potential improper payments. We found three examples of this mismanagement at Amtrak. First, Amtrak has never required the contractor to submit an annual report (which would be independently audited) of budget variances for key line items, even though the contract requires such a report. Such a report could detect improper payments by Amtrak to Gate Gourmet for food and beverage items. Second, 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 example, Gate Gourmet reported passing along about $550,000 in rebates and discounts on purchases for Amtrak totaling about $6.5 million out of $90 million total purchases for Amtrak from fiscal year 2002 through fiscal year 2003.[2] Finally, Amtrak does not adequately monitor purchase prices reported by the contractor to identify variances or products with high costs. To further test purchase data, we non-statistically selected 37 payment transactions and reviewed the underlying supporting documentation and found evidence of widely variable product prices. For example, Amtrak paid between $0.43 and $3.93 per 12-ounce bottle of Heineken beer. (See fig. 1.)

[2]Fiscal year 2004 audited financial information was not available when we conducted our analysis.

Figure 1: Amount Amtrak Paid for a 12-Ounce Beer, Fiscal Years 2002 and 2003



Sources: GAO analysis of Amtrak data; Corel (clip art).

- The level of information Amtrak collects and uses to monitor its food and beverage service and report results to external or internal stakeholders inhibits accountability for its performance. Externally, Amtrak does not report food and beverage expenditure information in its monthly performance reports or its annual consolidated financial statements. While Amtrak reports the combined revenue of its food and beverage services in its monthly performance reports, it does not do so for its food and beverage expenses. By combining revenue, it is difficult for managers to determine the amount of revenue attributable to food services compared to beverage services. By not reporting expenses, it is difficult to determine how much is spent on food and beverage service. This lack of information inhibits Amtrak's ability to assign accountability for performance internally or allow for any external accountability to key stakeholders. Other transportation companies we studied have a different accountability structure for their food and beverage service. Because VIA Rail has a fixed subsidy from the federal Canadian government, VIA Rail's management has an inherent incentive to control its costs in all areas of its operation, including its food and beverage service. The Alaska Railroad receives bi-weekly reports from its contractor detailing its labor and food costs that show, among other things, contractor performance against the contractual cost caps.

Background

How Does Amtrak Operate Its Food and Beverage Service?

Food and beverages have been served onboard Amtrak trains since Amtrak was created. Amtrak's eleven commissaries are located around the country and are responsible for receiving, warehousing and stocking food, beverages, and other items for Amtrak's onboard dining and café service. Until January 1999, Amtrak ran these commissaries with its own employees. Since then, Amtrak has contracted out the responsibility for the commissaries and for ordering and stocking all food, beverages, and related items under a contract that expires in September 2006.[3] Gate Gourmet (the contractor), is also a supplier of food and beverages to several major airlines. During fiscal years 2002 through 2004, the 3-year period we focused on in our audit work, Amtrak paid Gate Gourmet between $59 and $64 million a year in reimbursements and fees.[4] Gate Gourmet personnel operate Amtrak-owned commissaries and order, receive, store, and stock trains with food, beverages, and other related items such as table linens and napkins. Food and beverage stock are charged to Amtrak employees who account for the food en route. When a train arrives at its final destination, all remaining stock items are returned to a commissary. Gate Gourmet charges Amtrak for the items used, as well as for labor, management, and other fees. The contract requires that Gate Gourmet provide Amtrak an independently audited annual report within 120 days following the expiration of each contract year.

Amtrak's model for handling its food and beverage service is similar to other passenger transportation companies, with some important differences. Northwest Airlines has outsourced their kitchen and commissary operations and have food and beverages delivered to each airplane before each flight. VIA Rail Canada, Canada's national passenger railroad, serves food on most of its trains and owns and operates its own commissaries. Food and other items are delivered to each train, consumed during the train's run and restocked at the destination. The Alaska Railroad, however, has a private contractor that orders, stocks, delivers, prepares, and serves all of its food and beverages on its trains using their

[3]There is an option for a 5-year extension.

[4]Gate Gourmet has contracts with food and non-alcoholic beverage suppliers for Amtrak's food and beverage service. Gate Gourmet purchases alcoholic beverages from distributors but Amtrak is directly billed as Amtrak holds the liquor license to serve alcohol on its trains.

own labor force. With certain exceptions and limits, all food and beverage revenues and expenses are the responsibility of the contractor.[5]

How Much Is Amtrak Losing on Food and Beverage Operations?

Amtrak's financial records show that for every dollar Amtrak earns in food and beverage revenue, it spends about $2—a pattern that has held consistent for all 3 years we reviewed. (See table 1 and fig. 2.) Amtrak's financial records also indicate that Amtrak has lost a total of almost $245 million for fiscal year 2002 through fiscal year 2004 on food and beverage service. Section 24305(c)(4) of Title 49, United States Code, states that Amtrak is not to operate a food and beverage service whose revenues do not exceed the cost of providing such service. About half of the total food and beverage expenditure is labor cost for Amtrak staff who prepare and serve the food aboard the trains. About 38 percent is reimbursements and fees to Gate Gourmet, representing the cost of food and other products in addition to other fees paid to Gate Gourmet. About 9 percent is for other Amtrak costs. While Amtrak's labor costs for its food and beverage service are significant, these costs are part of Amtrak's overall labor cost structure, and as such, are beyond the scope of work we did for this testimony. However, a recent Amtrak Inspector General report suggested that Amtrak could save money on its food and beverage labor if the cost of this labor was similar to that of the restaurant industry.[6]

[5]Under the Alaska Railroad contract, the contractor is guaranteed a 5 percent profit margin. If food and beverage sales do not provide this 5 percent margin, then Alaska Railroad makes up the difference. If margins exceed 5 percent, then the contractor and Alaska Railroad split the excess amount.

[6]*Evaluation Report: Food and Beverage Financial Performance*, Report E-05-03, Amtrak Inspector General.

Table 1: Amtrak's Estimated Food and Beverage Revenue and Expenses (by Major Category), Fiscal Years 2002 to 2004

	2002	2003	2004[c]	Total	Percent of Total Expense (%)
Total food and beverage revenues[a]	**$ 84,100,000**	**$ 78,400,000**	**$ 80,400,000**	**$ 242,900,000**	
Expense Category					
Amtrak Labor Costs	$ 83,768,416	$ 83,257,574	$ 89,162,529	**$ 256,188,519**	52.6
Payments to Gate Gourmet	$ 63,754,973	$ 59,769,085	$ 61,893,852	**$ 182,422,910**	38.0
All Other Amtrak Food and Beverage Expenses[b]	$ 16,961,343	$ 15,775,092	$ 13,123,348	**$ 45,859,910**	9.4
Total Food and Beverage Expenses	**$ 164,489,732**	**$ 158,801,751**	**$ 164,179,729**	**$ 487,471,212**	**100.0**
Profit or (Loss)	**$ (80,389,732)**	**$ (80,401,751)**	**$ (83,779,729)**	**$ (244,571,212)**	

Source: GAO analysis of Amtrak data.

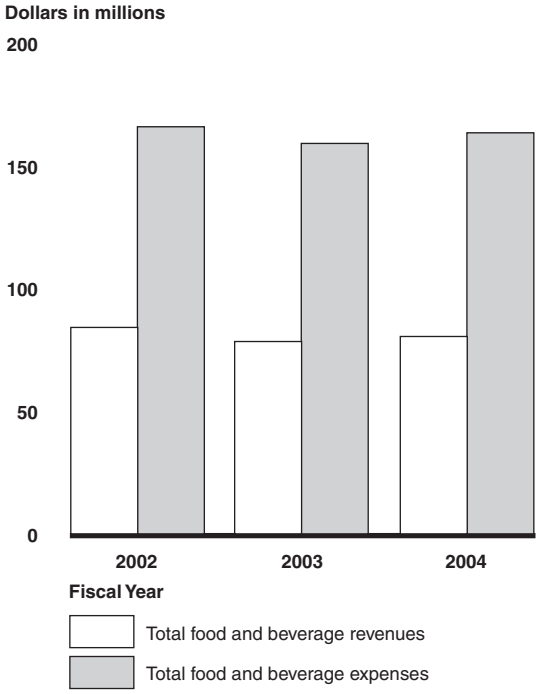
Notes

[a]Revenues include a portion of first class ticket revenue dedicated toward food and beverage revenues.

[b]"All Other" expenses include such items as utilities, office supplies, crew meals, and reusable support items such as crockery and glassware.

[c]All 2004 figures are unaudited.

Figure 2: Amtrak Food and Beverage Revenues and Expenses, Fiscal Years 2002 to 2004



Source: GAO analysis of Amtrak data.

Amtrak has responded to these continued losses with some incremental reductions in food and beverage service. On July 1, 2005, Amtrak plans to discontinue food and beverage service on its routes between New York City and Albany, New York, which would allow Amtrak to close its commissary in Albany. An official in Amtrak's Office of Inspector General stated that Amtrak lost between $6 to $8 per person on food service on those routes and that closing the commissary will save Amtrak about $1 million per year. However, achieving additional savings by closing commissaries could be limited, as Amtrak's other commissaries serve multiple Amtrak trains that would continue to offer food and beverage service. In other words, closing a commissary could affect multiple trains on multiple routes. According to an Amtrak procurement official, a team consisting of members of Amtrak's procurement, legal, financial and

transportation departments is currently working to identify ways to reduce Amtrak's costs in its next commissary contract.[7]

Other transportation companies have taken actions to better control their food and beverage costs in recent years. For example, Northwest Airlines officials stated that they pay particular attention to food and beverage expenses. Since 2002, Northwest has reduced its food costs by 4 percent. This has been achieved by reducing or eliminating complimentary food service for coach passengers on domestic flights (even to the point of eliminating pretzels on these flights), aggressive pricing of food products and flexible budgeting that adjusts each month to reflect increases or decreases in ridership.[8] VIA Rail officials told us they have considerable flexibility in hiring its onboard service personnel to adjust its labor force to respond to peak and off-peak tourist seasons for its long-distance trains. In addition, VIA Rail officials said they have considerable flexibility in how onboard service staff are used; in essence, all onboard service staff can be used wherever and whenever needed. The Alaska Railroad restructured the contract with its food and beverage service provider to allow for food price fluctuation within defined limits.

Current Contract Does Not Provide Incentives to Reduce or Contain Costs

One way to control costs is to build provisions into a contract that motivate a contractor to keep costs as low as possible. Amtrak's current cost reimbursable contract with Gate Gourmet creates, if anything, an incentive to increase Amtrak's costs unless properly monitored. Under the contract, Gate Gourmet receives a number of reimbursements, including commissary, labor, and insurance costs, in addition to an operating fee. The operating fee is defined in the contract as 5 percent of the total actual cost of the onboard food and beverage items. This fee is an incentive for the contractor to increase Amtrak's food and beverage costs. These costs can change in each yearly operating budget. This operating budget is subject to review by Amtrak and is mutually agreed to by both Amtrak and Gate Gourmet.

Incentives can also be written into a cost reimbursable contract to control costs and enhance performance. Although the contract included a

[7]The current contract expires on September 30, 2006.

[8]Northwest officials noted that in lieu of complimentary food service for coach passengers they have instituted a "Buy On Board" program which offers certain food items for sale to passengers.

discussion of performance standards, these standards and related measures were never created, even though they were required 45 days after the contract was signed in January 1999. Performance standards would have allowed for performance incentives and penalties. If these incentives had been developed, then they could have been used to pay Gate Gourmet based on such things as finding lower-priced food products of similar quality to what is being purchased now, or identifying ways the food and beverage service could be operated more economically or efficiently.

Other factors may not provide the needed incentives for Gate Gourmet to aggressively seek to reduce Amtrak's food costs. Under current contract provisions, Gate Gourmet can charge Amtrak for food prepared in Gate Gourmet facilities and delivered to Amtrak's commissaries. The contract provides considerable pricing flexibility to Gate Gourmet for these items with no detailed definitions or price caps. This makes it difficult to determine whether or not Amtrak is being charged a reasonable price. In addition, the contract also provides that Gate Gourmet deduct any trade or quantity discounts on items purchased for Amtrak either immediately from Amtrak's invoices or retroactively based on the proportion of Amtrak's purchases. Discounts applied retroactively are to be applied by Gate Gourmet in "good faith" and retroactive payments are "an approximation and that [Gate Gourmet] cannot guarantee exactness." The contract stipulates these payments are subject to an audit by Amtrak. However, these audits have never been conducted.

In contrast, while Northwest Airlines has cost plus contracts with its largest food and beverage contractors (including Gate Gourmet), Northwest's management of them is different. Northwest's caterer contracts have labor and other rates specified in the contract. According to Northwest's food and beverage officials, they know quickly if they change their menu, how much their suppliers will charge them—even to the addition or subtraction of a leaf of lettuce served as part of an entree. In addition, Northwest officials stated that each price charged by its contractors is checked and invoices are audited.

Management Controls Over Food and Beverage Operations Not Fully Exercised

We identified five types of management controls that Amtrak did not fully exercise regarding oversight of its food and beverage service. These include the following:

- **Requirement for an annual report has never been enforced**. Amtrak's contract requires Gate Gourmet to provide an independently audited annual report within 120 days following the expiration of each contract year; this report must also be certified by Gate Gourmet officials. This report is to provide actual and budgeted amounts for key line items and to provide a narrative explanation for any actual to budget variance greater than one percent in the aggregate for all commissaries. However, Gate Gourmet has not provided this report during the five completed years the contract has been in place. Amtrak food and beverage officials could not provide us with a reason as to why they had decided not to enforce this provision. They told us that they relied on contractor-provided monthly operating statements and on reports from Amtrak's Inspector General instead. Our review found that the monthly operating statements lacked critical information that was to be included in the annual report, were prepared by the party seeking reimbursement, and, perhaps more importantly, were not independently reviewed or audited. By contrast, the annual report was to be certified by contractor officials and audited by an independent certified public accountant. The Inspector General's 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 audit and report.

- **Audits of discounts and rebates were not conducted**. The contract provides that Amtrak audit Gate Gourmet's allocations of trade and quantity discounts received from purchases of food and beverages. However, Amtrak has never conducted an audit of the discounts credited to it, nor has it requested that the contractor certify that all of the discounts that Amtrak should receive have been credited to its account.

  Information we reviewed indicates that such audits may yield savings for Amtrak. For example, Amtrak officials advised us that discounts and rebates totaling over $550,000 for fiscal years 2002 and 2003 had been credited on gross purchases of about $6.5 million.[9] However, total Gate Gourmet purchases 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. Because Amtrak did not require an independent

[9]Audited 2004 financial information was not available during our analysis.

audit or otherwise analyze the trade and quantity discounts received, Amtrak does not know whether or not it received all of the discounts and rebates to which it was entitled. Amtrak could not provide us with reasons supporting its decision or its consideration of this issue.

- **Adequate monitoring of purchase price information needs improvements**. Amtrak did not adequately monitor its purchase price information for food and beverage items purchased by Gate Gourmet. Amtrak officials said they monitored contractor purchases using daily price reports that listed unit prices for purchases ordered the previous day and the price the last time the item was ordered. However, given the importance of purchase orders in a food and beverage operation, internal controls need to be developed to systematically monitor and analyze purchase information. These controls should then be monitored on a regular basis to assess the quality of performance over time.[10] For example, controls should include processes to identify unit price variances over established or pre-set amounts and actions taken to document follow-up work performed. Although Amtrak had some processes that compare prices, the process was not robust enough to include a record of price trends or follow up actions taken such as corrections of amounts billed. Our testing of this control showed that if Amtrak had approached this review in a more rigorous manner, it may have identified discrepancies warranting further investigation. For example:

  - *Monitoring of Purchase Order Pricing*: Using data mining[11] and other audit techniques, we selectively reviewed more than $80 million of purchase order information for fiscal years 2002 and 2003 and found that the contractor was generating purchase orders with significant variances in unit prices. For example, in 2003, the purchase order price of a 10-ounce strip steak ranged from $3.02 to $7.58.

  - *Monitoring of Actual Product Price Charged by Gate Gourmet*: When Amtrak officials told us that purchase order information did not always

[10]GAO, *Internal Control Standards: Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug.1, 2001).

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

reflect actual amounts paid,[12] we tested actual prices paid by Amtrak to Gate Gourmet. To test purchase order data, we nonstatistically selected 37 payment transactions and reviewed the underlying supporting documentation and found evidence of widely variable product prices. For instance, in fiscal years 2002 and 2003, payments of over $400,000 for 12-ounce Heineken beer varied from $0.43 to $3.93 per bottle.

- **Amtrak product pricing excludes labor costs**. Our work revealed that Amtrak's product price to the customer does not take into account over half of Amtrak's total food and beverage costs. Amtrak's target profit margin is 67 percent for prepared meals and 81 percent for controlled beverages. These target profit margins are expressed as a percentage of sales over the item product cost charged to Amtrak. However, these target profit margins do not take into account Amtrak's on-board labor costs, which our work has determined is estimated at over half of Amtrak's food and beverage total expenditures. Amtrak's current food and beverage product pricing seems to ensure that its food and beverage service will not be profitable.

- **Available procurement expertise not brought to bear**. Finally, Amtrak's procurement department was not involved in the negotiation of the original contract.[13] The current contract was signed by officials of Amtrak's now defunct Northeast Corridor Strategic Business Unit.[14] The contract's initial period was for about 7 years (January 29, 1999, to September 30, 2006), with a 5-year extension option. In addition, another agreement to supply Amtrak's Acela train service for food and beverage items from Gate Gourmet's flight kitchens was made verbally between

[12]For example, a price change may have occurred between the time an item was ordered and when it was delivered. Record keeping errors may also 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.

[13]Since the original contract, Amtrak's procurement department plans to take the lead role in any future renewal, bidding and negotiating the next iteration of the outsourced commissary contract.

[14]According to Amtrak, Strategic Business Units (or "SBU"s) were a method for better managing performances and differences in businesses or markets within a company and were designed to anticipate and facilitate rapid response to change, place decisionmaking close to the customer, and establish authority and accountability. Amtrak established 3 SBU's—Northeast Corridor, Intercity, and West. The SBU's were largely self-contained units that had their own chief executive officers, handled their own train service, procured their own materials and supplies, and handled their own financial management and planning.

Amtrak's former president and the president of Gate Gourmet. Amtrak does not have any documentation for the contract terms for this service.

In contrast to Amtrak, other transportation companies we interviewed closely monitor their invoices and contractor payments through periodic audits or have given the responsibility for costs and pricing to the contractor. For example, Northwest Airlines officials stated that they conduct regular audits of "every [food and beverage] price" they are charged from their contractors and have found errors in either prices or labor charges in their contractor invoices. VIA Rail selectively audits their food supplier invoices that are attached to every billing statement they receive. Finally, the Alaska Railroad food and beverage business model gives responsibility for food and labor costs to the contractor, subject to contractual limits.

Information for Accountability Is Limited

Finally, information that would provide accountability over this service, both internally and externally, is limited. We noted that while Amtrak reports the combined revenue from its food and beverage services in its monthly performance reports, it does not identify for stakeholders the revenue attributable to each service. Amtrak also does not include any information about its food and beverage expenses in any of its internal or external reports, including its monthly performance reports, its internal quarterly progress reports, or its annual consolidated financial statements. Absent this information, it is difficult for internal and external stakeholders to determine the amount of expense attributable to the food and beverage service and to gauge the profit or loss of the operation. This hinders oversight and accountability.

Other transportation companies we studied have a different accountability structure for their food and beverage service. Because VIA Rail has a fixed subsidy from the federal Canadian government, VIA Rail's management has an inherent incentive to control its costs in all areas of its operation, including its food and beverage service. VIA Rail controls its food and beverage costs in many different ways including fixed fee supplier contracts, item price reports, monitoring of supplier markups and item prices, and fixed food cost budgets to VIA Rail menu planners. Northwest Airlines has a flexible monthly food and beverage budget that increases or decreases with ridership levels. In addition, each supplier contract has established markups on product prices and its contracts with food preparation and delivery providers have detailed labor rates that are all audited for accuracy. The Alaska Railroad receives biweekly reports from its contractor detailing its labor and food costs that show, among other

things, contractor performance against the contractual cost caps. In addition, the contractor and the Alaska Railroad will conduct annual audits of its contractor's performance under the contract.

Conclusions

Amtrak's food and beverage service may represent a relatively small part of the company's operating budget, but it speaks volumes about Amtrak's need to get its operations in better order. In administering this contract, basic steps for good management have been ignored or otherwise set aside. Omissions include not completing agreed-upon provisions of the contract, not carrying through with basic oversight called for in the contract, and ensuring that the organization was getting products at the most reasonable price. Prudence requires a stronger effort, beginning with carrying out those steps that, under the contract, should have been taken all along. Amtrak needs to take such steps not only to curb the losses in this program, but to help convince the public that it is acting as a careful steward of the federal dollars that continue to keep it operating.

Recommendations

Based on our work to date, we anticipate making recommendations to Amtrak to improve controls over its food and beverage operations. Since we did not have sufficient time to obtain Amtrak's comments, as required by government auditing standards prior to this hearing, the recommendations remain tentative until that process is complete. At that time, we anticipate making the following recommendations that Amtrak:

1. Better contain its food and beverage costs through:

- Following its own procedures for ensuring proper contracts and payments;
- Enforcing key provisions of the current Gate Gourmet contract including annual reports that are independently audited by an outside auditing firm and certified by Gate Gourmet officials and conduct regular audits of discount and rebates.

2. Prepare a written contract for food and beverage service on Acela trains that specifies the service to be provided, includes incentives to ensure efficient and effective contractor performance, and includes regular annual reports and audits.

3. Create separate revenue and expenditure reporting and other basic food service metrics to allow for internal and external accountability

for its food and beverage service and create incentives to reduce costs and/or increase revenue.

4. Comprehensively review the revenue and cost structure of its food and beverage service to determine the most cost effective solution that can increase the financial contribution of its food and beverage function.

Mr. Chairman, this concludes my testimony. I would be happy to answer whatever questions you or the other members might have.

Contacts and Acknowledgements

For further information, please contact JayEtta Z. Hecker at heckerj@gao.gov or at 202-512-2834. Individuals making key contributions to this statement include Greg Hanna, Heather Krause, Bert Japikse, Richard Jorgenson, Steven Martin, Robert Martin, Irvin McMasters, Robert Owens, and Randy Williamson.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

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