



OFFICE *of* INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

REAL PROPERTY:

Improving Management Processes Could Reduce Costs and Generate Additional Revenues

Certain information in this report has been redacted due to its sensitive nature.

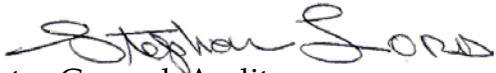
Audit Report OIG-A-2019-006 | March 29, 2019

This page intentionally left blank.



Memorandum

To: DJ Stadtler
Executive Vice President / Chief Administration Officer

From: Stephen Lord 
Assistant Inspector General, Audits

Date: March 29, 2019

Subject: *Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues (OIG-A-2019-006)*

Amtrak (the company) spends \$37.3 million annually on property leases, including \$18.3 million for leased office space in fiscal year (FY) 2017. In fall 2017, the company identified real property as an area where it could reduce costs as part of its broader goal of eliminating its operating loss within two to three years. In February 2018, the company's Stations, Facilities, Properties, and Accessibility group (SFPA) began consolidating space at specific properties to reduce costs with an emphasis on fully utilizing property that the company owns and reducing its reliance on leased space.¹ In November 2018, SFPA reported to the Board of Directors that it had begun making progress toward that goal.

This report assesses the effectiveness of the company's real property management processes. We focused primarily on decisions made in FY 2018 to enter, renew, or terminate leases for corporate office space, and their associated financial impacts. We also reviewed decisions related to two recently purchased properties that affect the occupancy of nearby leased corporate office space. To address our objective, we assessed the processes, tools, and practices the company uses for decision-making, planning, and oversight of real property. As the basis for our assessment, we used real property management practices and other management control standards in the private and public sectors. For more details on our scope and methodology, see Appendix A.

¹ The SFPA group was created in April 2018 and assumed many of the functions previously performed by the Real Estate Stations and Facilities group. Our reference to SFPA includes actions taken under the leadership of both of these groups.

SUMMARY OF RESULTS

We identified several opportunities to strengthen the effectiveness of the company's real property management processes. Specifically, the company could have avoided at least \$23.2 million in unnecessary costs and could realize as much as \$6.8 million in additional revenue if it had better data on its real property portfolio, used analytic tools such as business cases to make decisions about real property, and adopted a long-term facility plan. The company can strengthen its processes through the following actions:

- **Improving the quality of information.** Improving the quality of the company's cost and utilization data on corporate office space, consistent with management control standards, could improve the company's ability to plan and manage this space. For example, SFPA does not have processes for collecting data on office assignments, hiring, departures, and relocations. Without these data, SFPA cannot develop the kinds of meaningful metrics commonly used in the public and private sectors—such as square feet of space per employee, and cost per square foot of space. The company is working with the Human Resources, Payroll, and Information Technology departments to obtain these data but has not fully identified its data needs or developed a timeline for doing so. The lack of information also limits the company's ability to effectively plan and manage space and its related costs. For example, the company was not aware until August 2018 that two of its buildings in New York City had vacancy rates of over 50 percent. With better data, we estimate that the company could have avoided up to \$2.8 million in lease costs on one of the buildings through December 2020.
- **Implementing an analytical decision-making process.** A more formal analytical process could help the company make better decisions about leased corporate office space. Management control standards call for the use of business cases and other tools to make financial investment decisions. In addition, the company's capital investment policy requires sponsoring departments to develop business cases and other rigorous analytical assessments of proposed capital projects; however, the company's policy does not apply to leases. Instead, SFPA seeks input from departments on the need for lease extensions, but departments are not required to develop a business case or other formal analyses to support that input. This has led to costly lease extensions for space that exceeds the company's needs as well as missed opportunities to generate revenues. For example, the company's ClubAcela lounge in Boston South

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

Station is 7,000 square feet—more than twice the size needed to accommodate current and future projected passenger growth. Over the life of the [REDACTED] lease, the company will spend at least \$2.8 million on unneeded space, which is half the total cost of the lease. In addition, the company has not used an analytical process to assess its real estate requirements and revenue opportunities in New York City, where it could realize as much as \$6.8 million in revenues over three years from leasing out excess office space.²

- **Developing a long-term facility plan.** A long-term facility plan could help the company minimize real property costs, better utilize space, and ensure that its office space inventory aligns with the company's long-term financial goals. Without such a plan, the company has been making decisions about real property on a facility-by-facility basis without considering how each decision supports the company's long-term financial goals for reducing its costs. This approach has led to \$17.6 million in unnecessary costs. For example, the Amtrak Police Department (APD) is planning to move forward with the \$9.6 million construction of a new temporary police building adjacent to Washington Union Station without fully assessing potentially less costly options, such as accommodating some police functions in a nearby building it already owns. The company is also spending \$4.9 million and \$3.1 million, respectively, for excess corporate office space in Washington, D.C. and Boston, Massachusetts.

We recommend that the company finalize plans and develop a timeline for collecting quality data consistent with management control standards and, once completed, use the data to develop meaningful property metrics consistent with common practices in the private and public sectors. To do so, SFPA will need to develop a process for collecting current information on office assignments, hiring, departures, and relocations. We also recommend that the company require sponsoring departments to prepare business cases or similar analyses to make decisions about property leases. Finally, we recommend that the company develop a long-term facility plan to ensure that individual departments' real property decisions are consistent with the company's long-term strategic goals.

In commenting on a draft of this report, the Executive Vice President / Chief Administration Officer indicated that the company agreed with each of our

² Estimated savings do not include potential costs associated with preparing space for new tenants, landlord concessions, personnel moves, space reconfigurations, and other costs that could offset full recovery of lease costs.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues
 OIG-A-2019-006, March 29, 2019

recommendations and identified specific actions the company plans to complete by December 2020 to implement them. For management's complete response, see Appendix B.

BACKGROUND

The company's real property inventory included 24 leased and owned corporate office locations in 12 cities as of February 2019, as shown in Figure 1. In 2016, the company issued standards to govern the design and use of corporate office space.³ The standards establish the dimensions and square footage of offices and workstations based on titles and management levels. The standards prohibit employees from permanently occupying more than one office or workspace and also prohibit junior management staff from occupying offices.

Figure 1. Locations of the Company's Leased and Owned Corporate Offices



Source: OIG analysis of company office locations

SFPA is responsible for designing all new space to meet office standards and enforcing the office use standards. It functions as a corporate service that procures and disposes of

³ In January 2016, the Chief Executive Officer issued a memorandum establishing workspace standards based on employee position. In December 2016, the company further defined the dimensions and square footage of various workspaces.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

leased and owned space based on executive-approved requisitions from the departments it serves.

IMPROVED MANAGEMENT PROCESSES COULD REDUCE COSTS AND CAPITALIZE ON NEW REVENUE OPPORTUNITIES

Improving the effectiveness of the company's real property management process could help it reduce costs and identify new opportunities to increase revenues. Specifically, improving the quality of the company's information about how it is using its office space could improve its ability to plan and manage this space. In addition, a more formal analytical process could help the company make better decisions about leased office space. Further, a long-term facility plan could help the company ensure that its real property inventory aligns with its projected needs and long-term financial goals.

Improving the Quality of Information to Support Space Planning and Management

SFPA maintains a basic property inventory, but it does not maintain key data and metrics about the company's owned and leased property consistent with public- and private-sector management control standards. Improving the quality of its information could help the company plan and manage space more effectively across its portfolio.

In 2014, the company developed its Real Property Inventory Management Information System (RPIMIS) to capture general information on its real property inventory, such as the types, location, and ownership of these facilities.⁴ However, it did not design the system to collect or report other information needed to effectively manage these facilities, including operating costs, utilization of space, and subdivision of space by departments.

Further, SFPA does not have real-time access to the data necessary to develop meaningful metrics to inform real property decisions. For example, a common practice in the private sector is to calculate comparative attributes such as property costs and use—including square feet of space allocated per person and occupancy cost per square foot—to help identify opportunities to better manage space and reduce costs. However, SFPA officials told us they are unable to perform these analyses because they do not have current data on employees' and contractors' assigned duty stations or a process for

⁴ We reported on the development of the RPIMIS in *Real Property Management: Applying Best Practices Can Improve Real Property Inventory Management Information* (OIG-A-2013-015), June 12, 2013.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

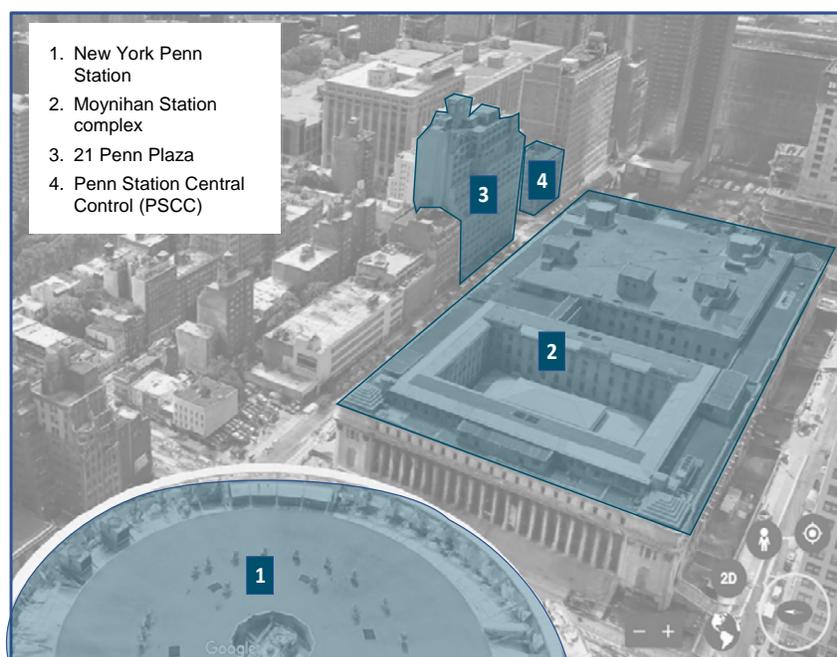
OIG-A-2019-006, March 29, 2019

ensuring that they are informed when employees and contractors join or leave the company or move to new space. In the absence of such data, SFPA managers told us the only way to develop these metrics would be to walk through each property and manually annotate seating charts—a process that is time-consuming and inefficient, and results in data that are quickly out of date.

SFPA managers told us they are working with the Human Resources, Payroll, and Information Technology departments to develop a system to collect these data and plan to use this system to provide more comprehensive information and metrics on how the company is using its real property inventory. However, company officials told us they had not developed a timeline for completing and implementing the system as of February 2019.

In the absence of detailed information about real property costs and use, SFPA manages space in an ad hoc manner. In New York City, for example—the most expensive commercial real estate market in the United States—the company has excess corporate office space and is in the process of obtaining more. As shown in Figure 2, the company occupies corporate office space in New York Penn Station and the Penn Station Central Control (PSCC) building, which it jointly owns with the New York Metropolitan Transit Authority. It also leases office space on three floors of the nearby 21 Penn Plaza and plans to acquire additional office space in the new Moynihan Station complex when it opens in 2021.⁵

⁵ The Moynihan Station complex will provide space for train, station, and baggage operations, as well as an estimated 22,590 square feet of corporate office space. Amtrak is jointly developing this property with the Moynihan Station Development Corporation, the Port Authority of New York and New Jersey, and the U.S. Department of Transportation.

Figure 2. Current and Future Office Locations in New York City

Source: OIG analysis of company office locations and Google Earth

In May and June 2018, we visited the company's offices in New York City and observed several vacant offices and other offices that the staff were using in ways that were not consistent with the company's office space standards.⁶ Specifically, we found the following:

- **PSCC.** Of the 95 workspaces, 50 were vacant or underutilized (53 percent). This included 32 vacant offices or cubicles, 14 offices occupied by junior staff, and 4 offices reserved for or occupied by staff who also maintained full-time workstations in another office location.
- **21 Penn Plaza.** Of the 56 workspaces, 37 were vacant or underutilized (66 percent). This included 24 vacant offices or cubicles, 9 offices occupied by junior staff, and 4 cubicles or offices reserved for or occupied by staff who also maintained full-time workstations in another office location.

⁶ Company managers told us they observed higher occupancy rates during subsequent visits to New York properties; however, the company did not provide supporting data in sufficient detail for us to verify these statements.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

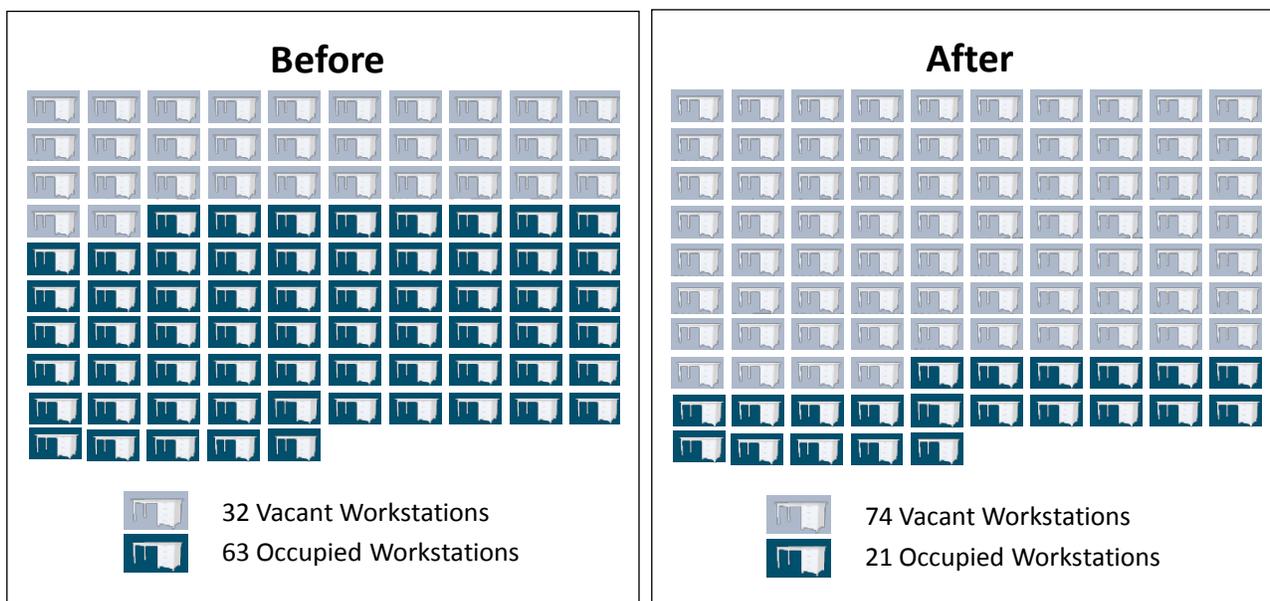
OIG-A-2019-006, March 29, 2019

Managers were not aware of the excess space until late FY 2018 because RPIMIS does not capture these data, and managers did not routinely visit the offices before this date to document the use of space. Managers therefore did not explore options for consolidating personnel and functions from leased space in 21 Penn Plaza to owned space at PSCC and will therefore pay an estimated \$2.8 million in projected lease costs for 21 Penn Plaza through December 2020.⁷ Because these are funds spent on space that exceeds the company's needs, they represent funds that the company could have put to better use.

Further, in the absence of complete information on space utilization in New York City, the company has continued to move forward with plans to obtain additional corporate office space at the nearby Moynihan Station complex. When this space becomes available in 2021, the company plans to move all the employees and functions currently located at 21 Penn Plaza into the Moynihan Station complex, as well as 42 staff from PSCC. However, if the headcount remains the same, this will increase the already high vacancy rate at PSCC to 78 percent (see Figure 3) and is contrary to the company's stated goal of fully utilizing space in buildings it owns. Further, according to SFPA senior managers, the company does not want to sublet PSCC because [REDACTED]. Therefore, the company will likely continue to incur costs for the vacant space at PSCC, including utilities, maintenance, and insurance.

⁷ In February 2019, company managers told us [REDACTED]; however, this information was provided after we completed our audit work, and we did not assess the feasibility or potential financial impacts of this option.

Figure 3. Projected Occupancy of 95 Workspaces in PSCC Before and After Planned Move to Moynihan Station Complex



Source: OIG observations and analysis of Amtrak data, as of June 26, 2018

Implementing an Analytical Decision-making Process

A more formal analytical process could help the company make better decisions about leased corporate office space. Public- and private-sector management control standards suggest that organizations use tools such as business cases to help weigh the costs and benefits of investment decisions.⁸ The company requires departments requesting capital funds to prepare business cases for capital investments, including new properties, when they cost at least \$2 million and to prepare a short-form justification for capital projects below that threshold. However, the company does not require business cases or other analyses for leases, even when they reach the same dollar thresholds.

Because it did not prepare business cases or conduct any of the key elements of business cases—such as identifying requirements, analyzing alternatives, and mitigating risks—the company will likely incur about \$2.8 million in additional costs, representing funds that could have been put to better use. The company may also miss an

⁸ We have previously reported on the benefits of using business cases. For example, see *Corporate Governance: Planned Changes Should Improve Amtrak's Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds* (OIG-E-2013-020), September 27, 2013.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

opportunity to realize about \$6.8 million in additional revenues as described in the following examples.

Identifying requirements. The company is leasing excess space for the 7,000-square-foot ClubAcela lounge on the mezzanine level of Boston South Station because it did not assess its short- and long-term requirements for the space (see Figure 4).

Figure 4. Boston ClubAcela Lounge



Source: OIG photo, April 4, 2018

The company tracks the number of visitors to the lounge each day. During calendar year 2017, it received an average of 54 visitors per day—about 3 per hour.⁹ Although the company does not track actual hourly use, the station manager told us that the lounge, which has seating for 84 people, is only about one-quarter full (20 people) during peak morning and evening hours. Nonetheless, in October 2018, the company renewed its lease for the lounge for [REDACTED], even as the annual cost of the lease increased from [REDACTED] to [REDACTED] per square foot ([REDACTED]). As a result, the annual cost of the lounge lease increased from about [REDACTED] per year to about [REDACTED] per year, for a total of about \$5.6 million over the life of the [REDACTED] lease.

⁹ The lounge is open from 5:30 a.m. to 9:30 p.m. daily for a total of 16 hours.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

The company justified this decision based on projected ridership growth after the company's new high-speed trains begin to enter service in 2021; however, it did not assess how much the growth in ridership would increase the use of the lounge. Applying the company's projected 73 percent ridership growth to the number of daily lounge visitors, we estimate that by 2028 the lounge could receive an average of 93 visitors per day with an average of about 6 visitors per hour, which is about 7 percent of capacity. Further, based on the station manager's estimates for use during peak hours, about 35 visitors would occupy the lounge during its busiest times, which suggests the lounge is more than twice the size of what the company will need. As a result, the company is spending at least \$2.8 million on unneeded space—half the total cost of the lease and represent funds that could have been put to better use.

Analyzing alternatives. The company decided to build out and occupy an estimated 22,590 square feet of office space within the Moynihan station complex in New York City without analyzing alternative uses for the space. The company plans to move some of its New York City-based staff into the space although, as discussed above, the company already has excess office space nearby. The Moynihan station complex is in midtown Manhattan, which has the highest commercial real estate costs in the country.¹⁰ The company architect tasked with designing the space told us it could generate as much as [REDACTED] per square foot per year in revenue as a commercial sublet because of its location, historic character, and newly renovated office space.

However, an SFPA manager told us the company did not analyze potential alternative uses for the Moynihan station complex because the company obtained the office space at no additional cost as part of an easement granted through negotiations with its development partners. He also stated that the company viewed obtaining office space in the new high-profile Moynihan station complex as a "once in a lifetime" opportunity. By not considering alternative uses, however, the company may be missing opportunities to generate as much as \$6.8 million in revenue over [REDACTED] by redesigning the planned employee office space to accommodate an external tenant.

Mitigating risks. The company downsized the Information Technology department's Atlanta Service Delivery Center (ASDC) without a plan for mitigating the financial risks associated with maintaining its long-term lease on 35,300 square feet of office space at the facility. The company justified opening the center in 2016 by stating that transferring as many as 233 jobs from higher-cost regions such as Washington, D.C.,

¹⁰ According to CBRE, a real estate services and investment firm, September 13, 2017.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues
OIG-A-2019-006, March 29, 2019

and Wilmington, Delaware, to Atlanta would reduce personnel and real estate costs, saving \$6 million annually. However, the company did not fully staff the center and no longer plans to do so; therefore, some of these anticipated savings did not materialize. As of August 2018, only 73 employees and contractors were located at the facility. The company consolidated staff from two floors to one, and SFPA began trying to sublet the remaining floor in April 2018.

On January 31, 2019, the company signed a [REDACTED] sublet agreement with a tenant to occupy the vacant floor beginning in February 2019. However, the sublet is for a shorter period and at a lower rate than the company's lease commitment. We estimate that the company's incurred losses to date on the vacant space and its losses through [REDACTED] when the sublet expires could total approximately \$638,000. In addition, the company's lease for the floor extends another three years beyond the current sublet term, and the company could incur additional costs if the tenant does not extend the lease, or the company is not able to locate another tenant. Figure 5 shows the vacant space at this facility prior to sub-leasing.

Figure 5. Workspace and Breakroom at the ASDC



Source: OIG photos taken on May 10, 2018

Developing a Long-Term Facility Plan

A long-term facility plan could help the company minimize real property costs, increase utilization, and help plan for the future use of all properties.¹¹ Public- and private-sector management control standards call for companies to use tools such as long-term plans to help minimize real property costs, increase utilization, and plan for the future use of all properties. In addition, private-sector property management practices suggest that companies develop a two-to-five-year facility plan that includes current information on the types, quantity, layout, occupancy, and location of space, and also demonstrates how each facility supports the company's core mission. These practices also suggest that plans be developed with input from stakeholders and that they include financial analyses demonstrating the returns and risks associated with alternative courses of action for each property. Further, the practices suggest using this long-term facility plan as a tool for corporate real estate departments to quickly react to material changes in company needs and ensure that companies have sufficient lead time to identify, plan, and execute changes to their real estate portfolios.

The Vice President for SFPA acknowledged the need for a long-term facility plan and told us that his department started preparing one in September 2018, but completion is contingent upon the company's executive leadership approving a corporate real estate strategy. In the meantime, in the absence of such a plan, SFPA managers have been assessing each space on a facility-by-facility basis without considering whether departmental decisions to add or remove property from the company's inventory are consistent with the company's overall long-term financial goals. SFPA managers have also been pursuing space consolidations without engaging stakeholders in a timely manner. This ad hoc approach limits the company's ability to respond when material changes in company conditions affect space needs and effectively plan and make decisions before leases expire. As a result, the company is incurring \$17.6 million in unnecessary costs, which represent funds that could have been put to better use, as the following examples illustrate.

Ensuring consistency with financial goals. The company does not have a long-term facility plan identifying its inventory of owned, leased, and available space in the area. Without such a plan, the company is procuring additional space in Washington, D.C.,

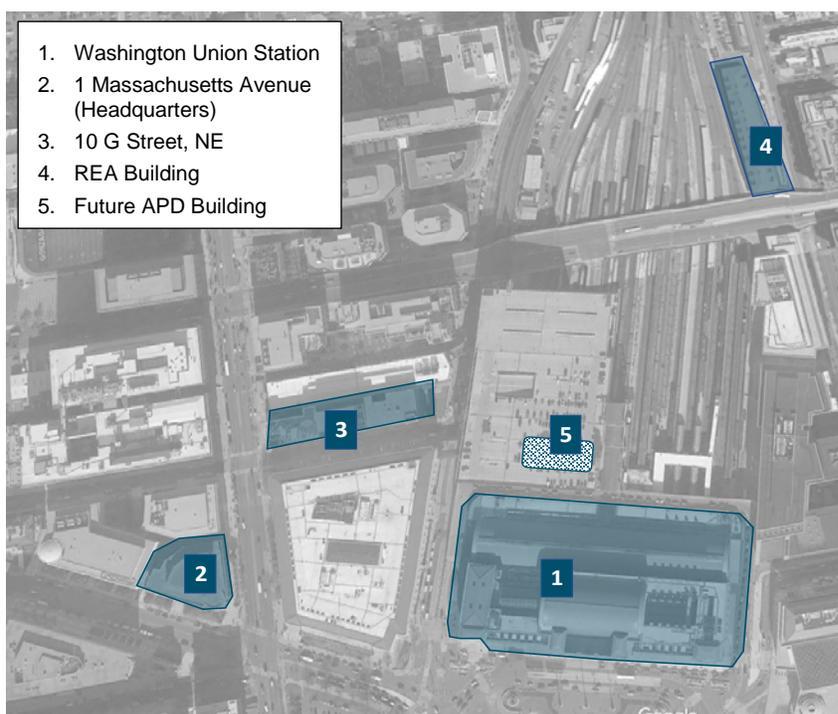
¹¹ We previously reported on the benefits of improving project and other planning functions. For example, see *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009), March 29, 2017.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues
 OIG-A-2019-006, March 29, 2019

although it already has excess space in the area. A long-term facility plan would facilitate an assessment of whether and how to consolidate staff within space the company owns or has under long-term lease, consistent with its goal of fully occupying owned buildings while reducing its lease footprint.

The company leases and owns about 310,000 square feet of space in three buildings near Washington Union Station, as shown in Figure 6. It leases space at 1 Massachusetts Avenue (headquarters) and a nearby building at 10 G Street, NE. It also owns the Railway Express Agency (REA) building and is planning to construct a new APD facility adjacent to the station.

Figure 6. Current and Future Office and Other Properties in Washington, D.C.



Source: OIG analysis of company office locations and Google Earth

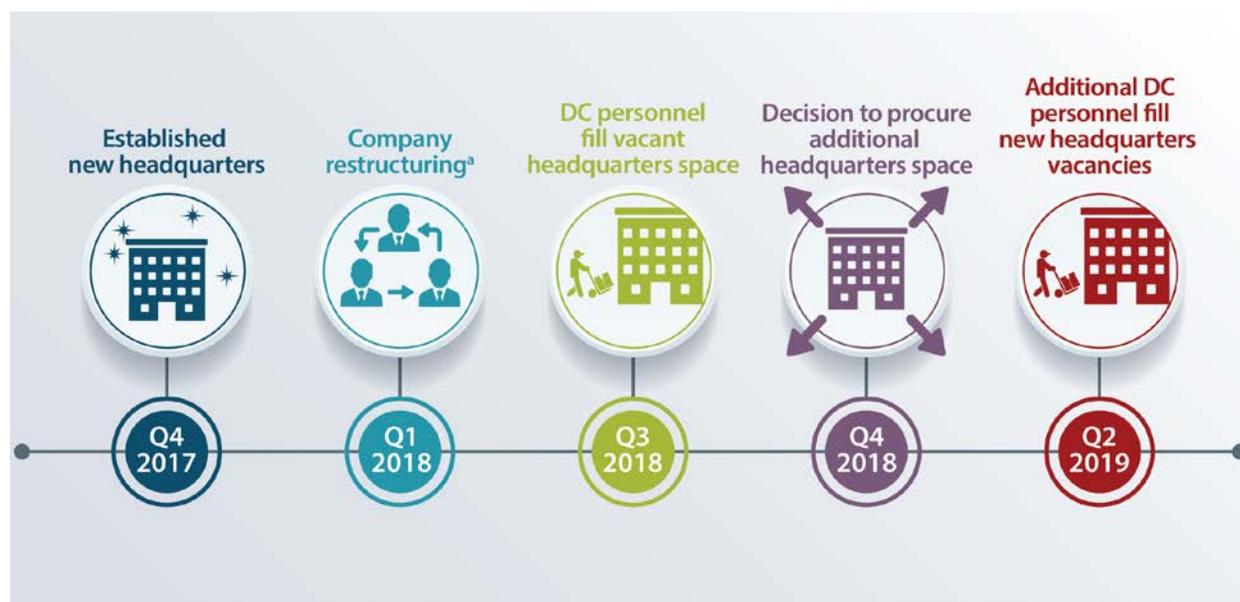
Beginning in September 2017, the company began consolidating Washington, D.C., staff in its headquarters office space at 1 Massachusetts Avenue and plans to continue doing so through the first few months of calendar year 2019. This consolidation advances a company goal to co-locate more of these employees. By early 2018, however, 180 staff based in Washington, D.C., had departed as part of the company's restructuring, resulting in a 30 percent vacancy rate at its headquarters building. Although the company was able to backfill the space at headquarters by transferring staff from

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

the 10 G Street and the REA building, these moves exacerbated the vacancies in those locations. Furthermore, the company recently decided to lease additional space at its headquarters building and plans to move additional staff from 10 G Street to occupy the new space. Figure 7 shows the timeline of decisions that led to excess space at the 10 G Street and REA building locations.

Figure 7. Timeline of Decisions Related to Office Space in Washington, D.C.



Source: OIG analysis of company decisions

Note:

^a The company restructuring extended into the second quarter of FY 2018.

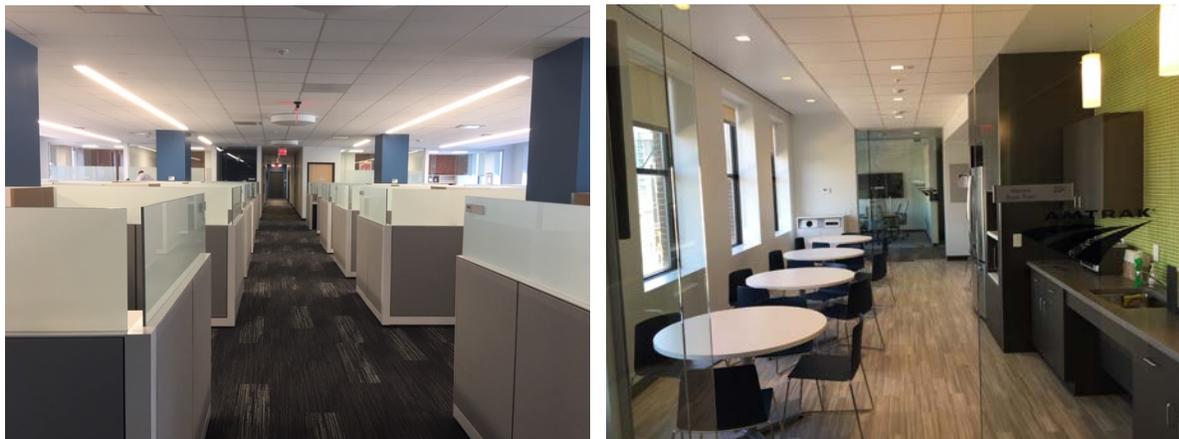
In the absence of a long-term facility plan, the company's decisions have led to the following excess space and costs:

- REA building.** In 2015, the company purchased the estimated 107,000-square-foot building for approximately \$37 million and has spent about \$4.7 million on renovations to provide a low-cost alternative to leased office space in the area. The Vice President for SFPA told us the company's goal was to permanently occupy the entire building with Amtrak staff, but SFPA managers told us departments have been reluctant to move there. As of December 2018, company managers told us they could not provide definitive data on the anticipated quantity of vacant space because they are still negotiating with potential occupants. However, an SFPA manager told us that several suites are still

Certain information in this report has been redacted due to its sensitive nature.

occupied by external tenants, and some vacant suites are being used to store construction materials. Figure 8 shows renovated space in the REA building.

Figure 8. Renovated Workspace and Pantry on Second Floor of REA Building



Source: OIG photos taken on May 8, 2018

- 10 G Street.** The company is under a lease for about [REDACTED] square feet of space through [REDACTED] at a cost of \$27.2 million, with no option for early termination. The company has space on five floors, and a manager told us that on two of those floors 13,200 square feet are vacant or soon to be vacant. The company cannot fully quantify the total amount because it is still consolidating staff within the building and temporarily housing staff until permanent space is ready elsewhere. The company is trying to sublet its excess space at 10 G Street [REDACTED].

In July 2018, notwithstanding this excess space, the company acquired an estimated [REDACTED] square feet of additional space at 1 Massachusetts Avenue at a cost of [REDACTED] annually (about \$4.9 million over the remaining [REDACTED] on the lease). The space will provide 45 more workstations, which the company plans to fill with Payroll department employees and other staff it has not yet identified. Although the additional space supports the company goal of consolidating staff based in Washington, D.C., it duplicates space already available in 10 G Street and the REA building; therefore, the \$4.9 million represents an unnecessary cost.

Providing a flexible response to changing space needs. Without a comprehensive long-term facility plan, managers may not be able to identify when new vacancies

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

in existing corporate office space might provide a lower-cost alternative to plans underway to procure new space. For example, company managers told us they plan to begin construction of a new \$10.7 million building to house Washington-based APD functions for the next 10 to 15 years even though excess space exists in the adjacent REA building.¹² When APD began developing plans for the new building, the company did not yet own the nearby REA building; however, when the company purchased it in 2015, the new APD building was only in the initial stages of design. APD managers told us they toured the building but decided to pursue their original plans for new construction because, in their view, the REA building would not meet all APD's needs. For example, they stated that APD's holding cell needs to be in or directly adjacent to Washington Union Station. However, standards governing design and operations of law enforcement facilities do not require a holding cell to be co-located with other offices and facilities, and APD's holding cell could potentially be located separately from their offices and other facilities.¹³

The availability of existing space and space that will soon become available when tenant leases expire at the REA building is an important consideration given the company's plans to demolish the proposed new APD building as part of future station redevelopment plans. Company managers told us that, to date, they have spent about \$1.0 million completing the design and procuring initial construction materials for the new APD building. As such, the company did not consider how to best use its excess space, including the space at the nearby REA building, to meet the remainder of APD's needs, which could save up to \$9.6 million in construction costs.¹⁴

¹² APD's facilities at Washington Union Station are being demolished as part of the first phase of the Washington Union Station Redevelopment program.

¹³ Commission on Accreditation for Law Enforcement Agencies standards.

¹⁴ Numbers do not add due to rounding.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

Without a long-term facility plan, the company is not able to identify alternative options and remain flexible when its needs change. As a result, the company may also be missing opportunities to fully utilize excess space in its Philadelphia customer contact center or use the space as a source of revenue. In 2018, the company purchased the 59,600 square foot building for [REDACTED] million. The center's director estimates that about one-quarter of the building—about 15,000 square feet—is vacant, as shown in Figure 9. In November 2018, the company announced that it plans to close its contact center in Riverside, California, and consolidate this function within the Philadelphia facility. However, the company projects that even with this consolidation, the facility's vacancy rate will increase over the next few years as customers increasingly use the company's website and mobile applications, and the need for live telephone agents decreases.¹⁵ Furthermore, over the next few years, the company plans to [REDACTED]

Figure 9. Unoccupied Space at Philadelphia Customer Contact Center



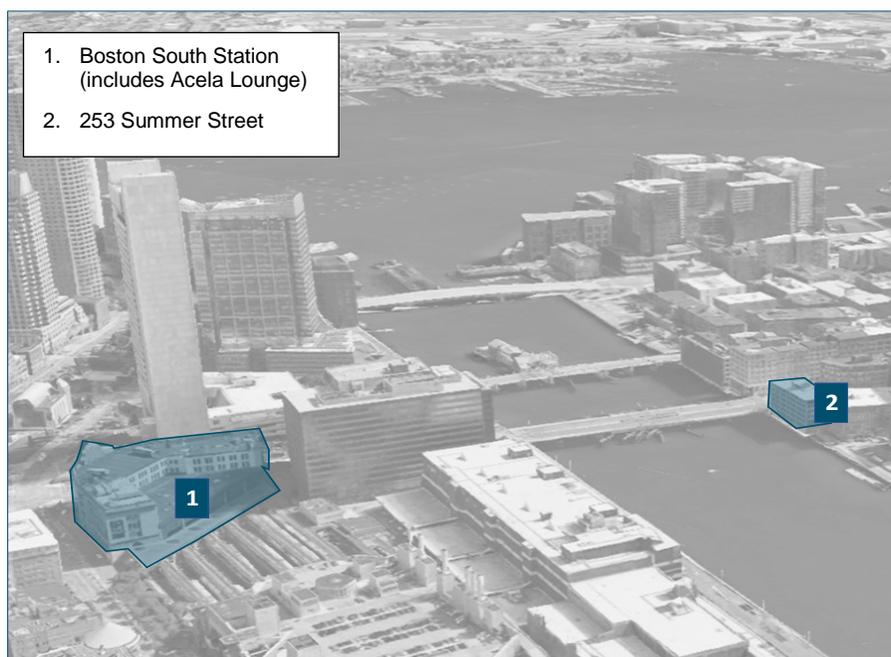
Source: OIG photo taken on May 4, 2018.

¹⁵ For example, the number of calls to the company's call centers declined 34 percent from FY 2010 to FY 2017 and are projected to decline another 20 percent by FY 2023.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues
 OIG-A-2019-006, March 29, 2019

Ensuring sufficient time to plan, coordinate, and execute changes to the real estate portfolio. Without a long-term facility plan, the company did not have sufficient time to plan, coordinate, and execute actions to reduce excess space in Boston, Massachusetts. The company leases office space on two floors of Boston South Station, as well as a suite of offices in a nearby building at 253 Summer Street. Figure 10 identifies the company's office space and other properties in Boston.

Figure 10. The Company's Corporate Office Locations in Boston, Massachusetts



Source: OIG analysis of company office locations and Google Earth

In April and July 2018, we visited the company's offices and other properties in Boston and observed underutilized office space in both office locations, including the following:¹⁶

- At Boston South Station, 17 of the 27 workspaces on one floor were vacant or not assigned in accordance with the company's office space policy (63 percent). We also found managers occupying older offices that exceed the company's new office space standards. For example, one office was almost three times the size

¹⁶ In December 2018, SFPA managers told us they had made no site visits since our last visit in July 2018 and, consequently, no better data exists on space utilization.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

specified in the standards,¹⁷ and another manager occupied a 780-square-foot office suite comprising two offices, a pantry, a conference space, and an equipment storage room.

- At 253 Summer Street, we found five staff occupying 3,330 square feet of office space—an average of about 660 square feet per person. As discussed above, the company does not have a target utilization rate and does not produce metrics to report progress against that goal, but an SFPA manager told us the company uses 200 square feet per person as an informal gauge. Applying this metric, the Summer Street space is more than three times this size.

The company has this excess space in part because, in the absence of a long-term facility plan, the company did not allocate sufficient time to explore and coordinate alternatives before its leases expired. The company plans to [REDACTED]

[REDACTED]. The company also planned to further reduce costs by consolidating all staff onto one floor of South Station and terminating its lease on the second floor. However, SFPA managers did not coordinate its plan with stakeholders until late in May 2018—four months before the South Station lease was set to expire. When one of its stakeholders raised concerns about the plan, SFPA managers did not have sufficient time to identify an alternative space or design a new plan before the lease expired. As a result, the company opted to renew its lease for a second floor in South Station for [REDACTED], at a cost of \$3.1 million. Because these are funds spent on space that exceeds the company's needs, they represent funds that the company could have put to better use.

CONCLUSIONS

Strengthening the company's processes for managing its real property portfolio would help it reduce up to \$23.2 million in unnecessary costs and generate at least \$6.8 million in additional revenue opportunities. The company is planning to develop a new system to improve the quality of its real property data, but it has not developed a timeline for completing and implementing this system. These data would help the company develop comparative metrics to better plan and manage its corporate office space although developing such metrics will also require timely notification from Human Resources and other departments when employees join, leave, or relocate within the company. Improving the quality of data and metrics could potentially put \$2.8 million

¹⁷ This office was 289 square feet; the company's standards for new space would entitle the occupant of this office to a 100-square-foot office.

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

in funds to better use by ensuring the company leases space consistent with its needs. In addition, requiring departments to prepare business cases or other analyses for new leases or lease renewals (as it does for large capital projects) would help strengthen the company's analytical basis for making real property decisions, which could have resulted in \$2.8 million that could have been put to better use and result in as much as \$6.8 million in additional revenues. Further, developing a long-term plan that coordinates stakeholder needs across departments would help ensure that the company's decisions about its real property are consistent with its future space needs and long-term financial goals. Developing a long-term plan could potentially put \$17.6 million in funds to better use by identifying opportunities to reduce lease costs of avoid new construction costs. Without these actions, the company may continue to spend money that could be put to better use on other activities or investments and miss potential revenue opportunities.

RECOMMENDATIONS

To improve the company's controls over its real property, we recommend that the Executive Vice President/Chief Administration Officer take the following actions:

1. Develop a long-term facility plan to ensure that real property decisions are consistent with the company's strategic goals.
2. Finalize requirements and develop a timeline for implementing a system to collect data and develop metrics that are consistent with those commonly used in the public and private sectors—such as capacity, occupancy costs, and space use per employee.
3. Develop a process for updating occupancy information when employees and contractors join or leave the company or relocate to another office, and include this information in the company's real property data system.
4. Require departments to prepare business cases or similar analyses to support their requests for new or renewed property leases.

MANAGEMENT COMMENTS AND OIG ANALYSIS

In commenting on a draft of this report, the company's Executive Vice President / Chief Administration Officer agreed with our recommendations and identified actions the company is taking or plans to take to address them, as well as the planned

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

completion dates for these actions. The company's planned actions are summarized below:

- **Recommendation 1:** Management agreed with our recommendation to develop a long-term facility plan and stated it will prepare a plan that is based on the company's strategic goals for offices, stations, and other facilities. The target completion date for this action is December 2020.
- **Recommendation 2:** Management agreed with our recommendation to finalize requirements and develop a timeline for implementing a system to collect data and develop metrics. The company stated it will finalize its requirements and timeline for implementing such a system by December 2019, including metrics such as capacity, occupancy costs, and space use per employee as suggested in our report.
- **Recommendation 3:** Management agreed with our recommendation to develop a process for updating occupancy information when employees and contractors join or leave the company or relocate to another office. Management indicated it will review and update current processes and controls related to occupancy information by June 2020.
- **Recommendation 4:** Management agreed with our recommendation to require departments to prepare business cases or similar analyses to support their requests for new or renewed property leases. Management indicated that business cases or similar analysis will be required for all new or renewed property lease requests meeting certain threshold criteria by July 2019.

For management's complete response, see Appendix B.

APPENDIX A

Objective, Scope, and Methodology

Our objective was to assess the effectiveness of the company's processes for managing its real property. We focused primarily on decisions made in FY 2018 to enter, renew, or terminate leases for corporate office and other space in five cities: Atlanta, Boston, New York City, Philadelphia, and Washington, D.C. We also reviewed decisions related to the Philadelphia Customer Contact Center and the REA building because these recently purchased properties affect occupancy at nearby leased properties. Although our office occupies space in three of the five cities included in our scope, the company is required to provide office space at central and field office locations for the Amtrak Office of Inspector General (OIG) as provided under the Inspector General Act of 1978, as amended, 5 U.S.C.S. app. § 6(c). Based on this provision, we excluded our office spaces from the scope of this audit. We conducted this audit from November 2017 to February 2019 primarily in Washington, D.C., and the other four cities listed above. Certain information in this report has been redacted due to its sensitive nature.

To address our objective, we toured the company's offices in these five cities to observe the company's use of its property and understand its efforts to maximize the use of existing space. To do this, we took several steps, including reviewing company documents such as leases, floor plans, corporate office space standards, and capital budgeting policies. We also analyzed company data on personnel counts and locations, lease costs, Acela lounge visitor counts, Northeast Corridor ridership projections, and Philadelphia Customer Contact Center activity and projections. Further, we examined the company's decision-making processes, tools, and practices and compared them to private and public standards for managing real property and general management control standards. We also reviewed publications and recommended practices endorsed by the International Facility Management Association, a leading association for facility management professionals. As part of each step, we interviewed company officials about their roles, responsibilities, and perspectives on the company's management of its real property.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Through our review of company policies and procedures and our interviews of company personnel, we identified processes that were significant within the context of our audit objective. We assessed the internal controls over these processes based on public- and private-sector management control standards.¹⁸ We did not assess the company's overall internal controls for its real property processes or evaluate the company's overall information systems controls over the audit's two primary sources of data—SAP and RPIMIS—because they were not significant to our objective.

Computer-Processed Data

For our analysis of personnel at various office locations, we used data from SAP, the company's Enterprise Resource Planning system. We relied on the results of the company's external auditors' test of Information Technology controls to ensure that the data was generally reliable for our audit. We further tested the reliability of the company's data on employees' office locations by verifying the SAP data fields related to employee workstation during the site visits and by obtaining additional data from company personnel.

We also used data from RPIMIS, the company's real estate management inventory system, to determine whether the company captures key real property data. During tours of various company facilities, we tested the reliability of the data in the system by verifying the existence and accuracy of the data. We also compared the RPIMIS data to data from other company information systems. We concluded that the data available in RPIMIS were sufficiently reliable within the context of our audit objective.

Prior Audit Reports

The following reports were relevant to our work:

- *Amtrak: Top Management and Performance Challenges—Fiscal Years 2017 and 2018* (OIG-SP-2017-009), March 29, 2017

¹⁸ *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014; and *Internal Control—Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Amtrak Office of Inspector General

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

- *Corporate Governance: Planned Changes Should Improve Amtrak's Capital Planning Process, and Further Adoption of Sound Business Practices Will Help Optimize the Use of Limited Capital Funds (OIG-E-2013-020), September 27, 2013*
- *Real Property Management: Applying Best Practices Can Improve Real Property Inventory Management Information (OIG-A-2013-015), June 12, 2013*

Amtrak Office of Inspector General

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

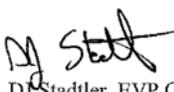
APPENDIX B

Management Comments

NATIONAL RAILROAD PASSENGER CORPORATION

Memo



Date	March 11, 2019	From	 DJ Stadler, EVP CAO
To	Stephen Lord, Assistant Inspector General, Audits	Department	Administration
cc	Eleanor Acheson, EVP General Counsel Stephen Gardner, EVP CCO Tim Griffin, EVP CMO David Handera, VP Stations, Properties and Accessibility Carol Hanna, VP Controller Kenneth Hylander, EVP CSO Scot Naparstek, EVP COO Mark Richards, Sr Director Amtrak Risk & Controls Swati Sharma, Acting CFO Christian Zacariassen, EVP CIO		

Subject Management Response to *Real Property: Improving Management Could Reduce Costs and Generate Additional Revenues* (Draft Audit Report for Project No. 004-2018)

This memorandum provides Amtrak's response to the draft audit report entitled, "*Real Property: Improving Management Could Reduce Costs and Generate Additional Revenues*". Management appreciates the opportunity to respond to the OIG recommendations. As indicated in our responses, we agree with each of the OIG recommendations and will initiate actions to address each in a timely manner.

Recommendation 1:

To improve the company's controls over its real property, we recommend that the Executive Vice President/Chief Administration Officer develop a long-term facility plan to ensure that real property decisions are consistent with the company's strategic goals.

Management Response/Action Plan: Management agrees with this recommendation. Real Estate will commit resources and prepare a long-term facility plan to reduce costs based on the corporation's strategic goals for offices, stations, and other facilities.

Responsible Amtrak Official(s): Senior Director, Real Estate Development

Target Completion Date: December 2020

*Amtrak Office of Inspector General***Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues**

OIG-A-2019-006, March 29, 2019

NATIONAL RAILROAD PASSENGER CORPORATION

Recommendation 2:

To improve the company's controls over its real property, we recommend that the Executive Vice President/Chief Administration Officer finalize requirements and develop a timeline for implementing a system to collect data and develop metrics such as capacity, occupancy costs, and space use per employee consistent with those commonly used in the public and private sectors.

Management Response/Action Plan: Management agrees with this recommendation. Requirements and timeline for implementing a system to collect data and metrics such as capacity, occupancy costs, and space use per employee will be finalized by December 2019.

Responsible Amtrak Official: Vice President, SFPA in conjunction with the AVP Information Technology, Employee and Train Operations.

Target Completion Date: December 2019

Recommendation 3:

To improve the company's controls over its real property, we recommend that the Executive Vice President/Chief Administration Officer develop a process for updating occupancy information when employees and contractors join or leave the company or relocate to another office, and include this information in the company's real property data system.

Management Response/Action Plan: Management agrees with this recommendation. Real Estate will review current processes and controls for updating occupancy information when employees and contractors join or leave the company and use them to develop requirements for implementing new processes that include the information in the company's real property data system.

Responsible Amtrak Official: Vice President, SFPA in conjunction with the AVP Information Technology, Employee and Train Operations.

Target Completion Date: June 2020

Recommendation 4:

To improve the company's controls over its real property, we recommend that the Executive Vice President/Chief Administration Officer require departments to prepare business cases or similar analyses to support their requests for new or renewed property leases.

Management Response/Action Plan: Management agrees with this recommendation. All new or renewed property lease requests are now being processed through the Etrax workflow system. For those requests that meet certain threshold criteria, business cases or similar analyses are required..

Responsible Amtrak Official: Vice President, SFPA

Target Completion Date: July 2019

APPENDIX C**Abbreviations**

APD	Amtrak Police Department
ASDC	Atlanta Service Delivery Center
FY	fiscal year
OIG	Amtrak Office of Inspector General
PSCC	Penn Station Central Control
REA building	Railway Express Agency building
RPIMIS	Real Property Inventory Management Information System
SFPA	Stations, Facilities, Properties, and Accessibility group
the company	Amtrak

Amtrak Office of Inspector General

Real Property: Improving Management Processes Could Reduce Costs and Generate Additional Revenues

OIG-A-2019-006, March 29, 2019

APPENDIX D

OIG Team Members

Jason Venner, Deputy Assistant Inspector General Audits

Leila Kahn, Senior Director

Felix Kungu, Audit Manager

John Borrelli, Senior Auditor

Orinda Basha, Contractor

OIG MISSION AND CONTACT INFORMATION

Mission

The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.

Obtaining Copies of Reports and Testimony

Available at our website www.amtrakoig.gov

Reporting Fraud, Waste, and Abuse

Report suspicious or illegal activities to the OIG Hotline

www.amtrakoig.gov/hotline

or

800-468-5469

Contact Information

Stephen Lord

Assistant Inspector General, Audits

Mail: Amtrak OIG

10 G Street NE, 3W-300

Washington, D.C. 20002

Phone: 202-906-4600

Email: Stephen.Lord@amtrakoig.gov