



Testimony

*Before the Subcommittee on Government Operations,
Committee on Oversight & Government Reform
House of Representatives*

Food and Beverage Service: Progress and Opportunities to Reduce Operating Losses

**Statement of Ted Alves
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National Railroad Passenger Corporation**

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OIG-T-2014-002



Good Morning Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee:

Thank you for the opportunity to discuss Amtrak's food and beverage service. My testimony today will focus on two areas:

1. Amtrak's progress in reducing losses, and
2. Opportunities to further reduce losses by improving business practices, processes, and management information

In summary, losses on Amtrak's food and beverage service have been a long-standing issue. From fiscal year (FY) 2006 through FY 2012, the food and beverage service incurred direct operating losses of more than \$609 million. The overwhelming majority of the losses were incurred on its long-distance routes.

We recognize that it is a significant challenge to provide efficient and cost-effective food and beverage services across a nationwide passenger rail system with varying route lengths and 24/7 operations. To successfully meet that challenge, it is important that Amtrak consider fundamental changes in its management of the food and beverage service.

Over the last several years, Amtrak has taken actions to reduce food and beverage losses. Nevertheless, in FY 2012, losses still totaled \$72 million. In our most recent report, we identified a number of opportunities to improve the efficiency and cost-effectiveness of the food and beverage service, including improving business processes and developing better business management data. Also, outsourcing certain food and beverage services could significantly reduce labor costs, but has complex workforce and financial implications. The corporation agreed with the spirit of our recommendations and announced in October 2013 that it is developing a five-year plan to eliminate food and beverage losses.

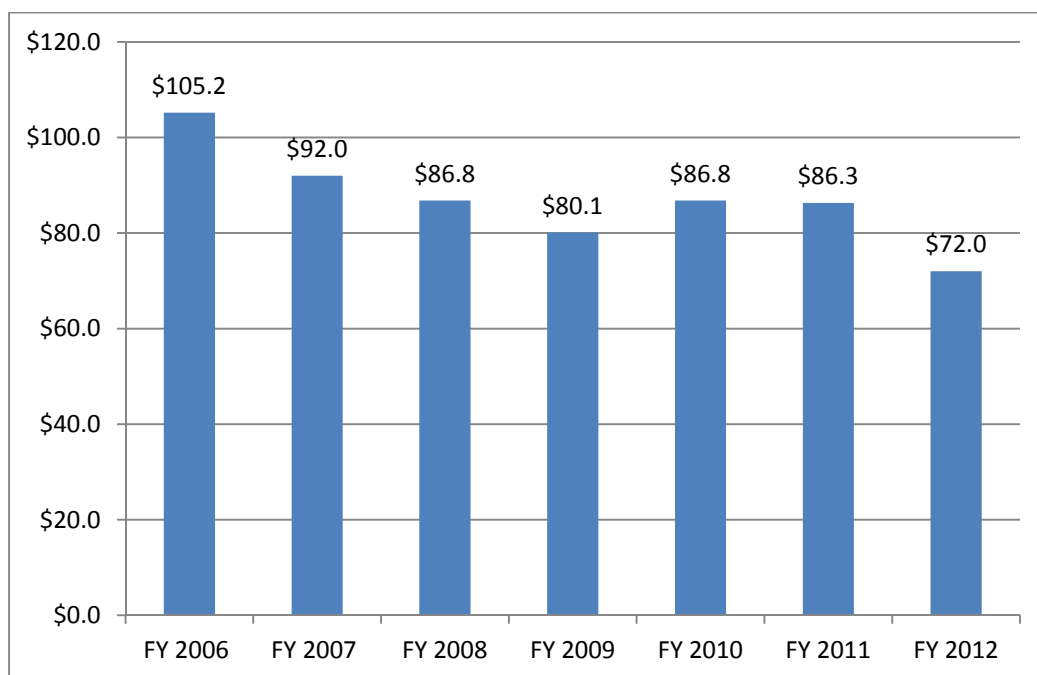
We are encouraged by this commitment, but recognize that promised actions alone cannot substitute for results. Without a well-documented plan that includes clear organizational accountability, year-by-year loss reduction goals and metrics, and a sustained management commitment, Amtrak will not likely achieve the results it seeks. We will monitor the corporation's progress developing and implementing the plan.

Losses Have Decreased but Remain Significant

Food and beverage service is an amenity that is common on passenger rail, and Amtrak's passengers have come to expect it, particularly on routes that take several days. Amtrak's operating losses on food and beverage services have been a long-standing issue, and they contribute directly to the need for federal subsidies to support operations. To Amtrak's credit, it has reduced food and beverage losses, but they remain significant.

From FY 2006 through FY 2012, food and beverage operating losses decreased by a reported \$33.2 million, as shown in Figure 1.

Figure 1. Amtrak's Reported Food and Beverage Direct Operating Losses, FY 2006 to FY 2012 (dollars in millions)



Source: Finance department, Food and Beverage Marketing Reports, FY 2006–FY 2012

Note: All figures are reported in 2012 dollars.

As shown in Table 1, about 99 percent of FY 2012 food and beverage losses (\$71.5 million) came from long-distance routes; labor costs were the key driver of the losses. For example, on 13 of Amtrak's 15 long-distance routes, labor costs alone exceeded the revenue for food and beverage service.

Table 1. Reported Food and Beverage Direct Operating Loss, FY 2012 (dollars in millions)

| Routes | Food and Beverage Revenue | Direct Costs | | | Profit/Loss | Percentage of loss |
|--------------------|---------------------------|----------------|---------------|--------------------|--------------------|--------------------|
| | | Onboard Labor | Commissary | Total Direct Costs | | |
| Northeast Corridor | \$36.5 | \$19.0 | \$16.7 | \$35.7 | \$0.8 | -1% |
| State-supported | 32.9 | 19.0 | 15.2 | 34.2 | (1.3) ^a | 2 |
| Long-distance | 63.5 | 75.3 | 59.8 | 135.0 | (71.5) | 99 |
| Total | \$132.9 | \$113.2 | \$91.7 | \$204.9 | (\$72.0) | 100% |

Source: Amtrak Finance department, Food and Beverage Marketing Report for FY 2012.

Note: Numbers do not all add to totals due to rounding.

^a Food and beverage operating losses on state-supported routes came from the routes where Amtrak provided services that are not subsidized by the states. The Passenger Rail Improvement & Investment Act of 2008 directed equal treatment of the states by October 16, 2013.

Amtrak achieved its reported reductions in losses from FY 2006 through FY 2012 as a result of revenue increases and efficiency improvements that reduced costs. The revenue increases came from the following sources:

- Food and beverage revenue transfers from sleeper class on long-distance routes and Acela first-class tickets increased by \$22.1 million.
- Onboard cash and credit card sales increased \$8.9 million on all routes.
- Subsidies from state-supported routes, which Amtrak counts as revenue, increased by \$1.2 million, from \$9.7 to \$10.9 million.

In addition, Amtrak took actions to reduce costs:

- In October 2008, Amtrak awarded a new contract for food and beverage service warehouse management that included greater volume discounts and incentives to control costs. As a result, from FY 2006 through FY 2012, commissary costs decreased by \$4.5 million.

- Starting in fall 2011, Operations department officials began implementing staffing efficiencies, such as reducing reporting times for onboard staff on selected long-distance routes. Although labor costs decreased by \$6.2 million in the first full year after implementing these efficiencies, overall labor costs increased by \$3.6 million from FY 2006 through FY 2012.¹

To enhance the management of the food and beverage services, the corporation consolidated previously dispersed responsibilities for food and beverage activities into the Operations department. Although this was a positive step, three offices in Operations still have food and beverage responsibilities and separate reporting chains to the Vice President, Operations. As a result, accountability for improving financial performance remains split among the three, leaving final accountability with the Vice President, Operations.

In addition, our previous reports have documented long-standing internal control weaknesses and gaps in the onboard food and beverage service. In a June 2011 report, we estimated that \$4 million to \$7 million of Amtrak's onboard food and beverage sales could be at risk of theft.² The report identified limited oversight on some routes and a number of recurring employee schemes to steal revenues and inventories. Examples include inflating first-class meal checks, selling non-Amtrak items for cash, shorting cash register sales, stealing inventory, and providing items at no cost. In response to our recommendations, the corporation has established a loss-prevention unit and also plans to establish a pilot project for cashless food and beverage sales in early 2014.

Additional Business Process Changes Provide Opportunities to Reduce Losses

Our October 2013 report identified a number of opportunities to improve business practices, processes, and management information.³

¹ A portion of these increases resulted from a 2010 labor agreement, which provided guaranteed wage increases for food and beverage employees.

² *Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps*, Report No. E-11-03, June 23, 2011.

³ *Food and Beverage Service: Potential Opportunities to Reduce Losses*, Audit Report OIG-A-2014-001, October 31, 2013.

Opportunities to Improve Existing Model

Our report identified six opportunities to improve business practices and processes, which we conservatively estimate have the potential to reduce losses by at least \$10.5 million annually—and probably much more, depending on how they are implemented. Based on our work, we believe that Amtrak can capitalize on most of these opportunities in the near- to medium-term.

1. **Align staffing of dining cars to ridership.** When staffing dining cars, route managers are not required to consider seasonal changes in customer demand, which results in unnecessary labor costs. We estimate that aligning onboard staffing on 13 long-distance routes with seasonal changes in ridership could have reduced costs by about \$6.9 million in FY 2012.
2. **Monitor and manage the sales performance of lead service attendants.** The amount of revenue generated by different lead service attendants on the same routes varies widely, which suggests an opportunity to earn more by using performance monitoring tools and employee incentives. Increasing the sales performance of these employees by just one percent in 2012 would have generated \$1.6 million. Amtrak is developing a report for managers to monitor the sales performance of lead service attendants.
3. **Shorten reporting times for onboard service personnel.** Each long-distance route manager determines reporting times based on operational needs. As a result, the times vary from one to five hours before the train's scheduled departure. On the three long-distance routes we traveled, shortening the time period could reduce labor costs by about \$100,000 annually.
4. **Align service to the needs of each route.** Route managers retain their base dining car service year-round for the duration of each long-distance trip regardless of customer demand. Our analysis identified opportunities to align food and beverage service with variations in ridership, customer demand, and financial performance. These include amending or eliminating the sit-down dining car service seasonally on selected routes or on portions of some routes.
5. **Ensure that the cost of complimentary items is recovered.** The Auto Train offers passengers complimentary wine and cheese, and three long-distance routes provide complimentary wine and champagne to sleeper car passengers. In FY 2012, this practice cost Amtrak \$428,000. In addition, employee pass riders travelling for free consumed about \$260,000 in complimentary meals on the Auto Train in FY 2012. Amtrak can increase revenues and thereby decrease losses by charging passengers for these items.

6. **Reduce spoilage.** The food spoilage rate of the Great Southern Rail in Australia is 5 percent; Amtrak's is 8.3 percent. We identified a number of causes for spoilage, including high onboard stock levels and excessive backordering. The Downeaster, a state-supported Amtrak route, reduces spoilage by reducing the price of food that approaches its expiration date at the end of trips. Selling food approaching its expiration date would increase revenue. Reducing spoilage to the level of the Great Southern Rail could save more than \$1.2 million annually.

Improved Business Performance Information Needed for Effective Management

We also found that the food and beverage accounting process lacks the capability to generate the information needed to efficiently and effectively operate the service. For example, route managers lack labor cost and revenue data by train and departure date, as shown in Table 2.

Table 2. Availability of Food and Beverage Financial Data by Operational Level

| Operational Level | Revenues | Costs | | | |
|---------------------------------------|----------------------|---|----------------------------|-----------|------------------------|
| | | Labor Wages & Benefits | Labor Support ^a | Food | Commissary |
| System-wide | Available | Available | Available | Available | Available ^b |
| Route ^c | Available | Available | Available ^e | Available | Available ^f |
| Train, by departure date ^d | Limited Availability | Available, but not calculated by departure date | Available ^e | Available | Available ^f |
| Food Service Car, by departure date | Limited Availability | Unavailable | Available ^e | Available | Available ^f |

Source: Amtrak OIG analysis of Amtrak data and officials' statements

Notes:

^a Crew meals, crew hotels, uniforms, training, and some crew base costs

^b Actual food costs are tracked and available for each of the 11 commissaries.

^c There are 44 different routes (not including special trains).

^d More than 300 trains operate each day.

^e These costs are allocated.

^f These costs are allocated based on the number of trains served by each commissary.

Amtrak's systems do not have the capability to track this data. To achieve profit-and-loss accountability for the service, cost and revenue data must be more complete and

accurate. In addition, Amtrak's accounting process lacks the capability to generate needed business information—such as the time of individual sales. The lack of this data hinders the ability of managers to align staffing with customer demand.

Contracting Could Offer Significant Benefits, but Has Complex Workforce and Financial Implications

To achieve a more significant impact on financial performance, Amtrak may require a completely different business model. As we reported, contracting out food and beverage services offers the greatest potential for cost reductions; nevertheless, this change to the business process would be complex and risk-prone. Consequently, this option should be approached in a structured, methodical manner.

Leading organizations consider it a best practice to pilot new programs and ideas to determine the costs and benefits of a new approach. In addition, when considering the outsourcing of activities, best practices organizations first ensure that their business processes use the most efficient and effective approach for conducting the activity. Otherwise, the cost of outsourcing could be higher than necessary, and much of the subsequent efficiency gains could benefit only the contractor—not the organization. Clearly, Amtrak's business processes are not optimized so there are significant efficiencies to be gained from process improvements.

Amtrak also would need to consider other qualitative and quantitative factors. The *quantitative* factors include the applicability of various railroad labor statutes—such as the Railroad Retirement Act, the Federal Employers' Liability Act, and the Railroad Unemployment Insurance Act. Amtrak must also weigh certain *qualitative* factors, such as the safety and security responsibilities of onboard personnel, and the possibility of labor unrest. Further, a contractor would likely have to obtain its own liquor licenses, which cost Amtrak about \$88,000 a year—not including the administrative costs to research state and local laws and navigate the application and approval process in multiple jurisdictions.

Other railroads have tried this approach successfully. Although these models do not provide a direct comparison to Amtrak's food and beverage service, they are generally similar. As such, they can provide useful information for identifying and considering ways to reduce food and beverage losses. For example, the Downeaster, Alaska Railroad, and the Rocky Mountaineer contract with third parties for all or nearly all of their food and beverage service.

On all three railroads, labor rates for food and beverage personnel are significantly lower than Amtrak's. According to Downeaster and Alaska Railroad officials, hourly labor rates for contracted staff, including servers and cooks, ranged from \$7.75 to \$13.00, with no employee benefits. In FY 2012, hourly labor rates for contracted cooks on the Rocky Mountaineer averaged \$14.70, including limited benefits. In contrast, Amtrak's onboard employees were paid an average of \$41.19 per hour in FY 2012, including full benefits.⁴

What We Recommend

Since we reported on potential improvements to the food and beverage service in 2011, we have made various recommendations to the President and Chief Executive Officer, and the Vice President, Operations, to improve the efficiency and effectiveness of food and beverage services.

In September 2012, we recommended the development of a five-year plan for reducing direct operating losses and emphasized the need to improve program accountability. In October 2013, we recommended developing improved financial and business management data, piloting various options to increase efficiency, and piloting contracting out food and beverage services on selected routes. In commenting on both of our reports, Amtrak agreed with the spirit of our recommendations and agreed to take actions, such as the development of a five-year plan, with a goal to eliminate food and beverage losses. We will continue to monitor Amtrak's progress addressing our recommendations and report as appropriate.

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Mr. Chairman, I thank the Committee for your interest in our work. This concludes my testimony, and I welcome your questions.

⁴ The labor rate is based on the average hourly rate plus hourly benefit rate for the highest wage position (lead service attendant) and lowest wage position (service attendant). Amtrak benefits include medical insurance, railroad retirement, post-employment benefits, dental insurance, disability insurance, life insurance, unemployment, railroad workers compensation, and administrative fees. The Rocky Mountaineer's benefits include only medical insurance.

Amtrak's Inspector General



Theodore (Ted) Alves

Theodore (Ted) Alves was appointed Amtrak's Inspector General in November 2009, capping a career of commitment to oversight. Mr. Alves was the Deputy Inspector General at the U.S. Department of Transportation (DOT) when he retired in January 2009 after 35 years of federal service. As the Deputy Inspector General, Mr. Alves was responsible for providing executive level leadership and direction of all Office of Inspector General (OIG) audits and investigations, as well as overseeing operational support activities in human resources, information technology, accounting and budgeting, procurement, and other areas.

For more than eight years, he served the DOT OIG in several executive positions, including Principal Assistant Inspector General for Audits and Evaluations, Assistant Inspector General for Financial and Information Technology Audits, and Assistant Inspector General for Surface Infrastructure Audits.

Before joining DOT, Mr. Alves led the Financial Management Audits Branch at the Federal Emergency Management Agency (FEMA). He was responsible for overseeing audits of financial statements, financial management, and information technology. Prior to joining FEMA, Mr. Alves spent 4 years as the Director of Information Technology and Special Audits at the U.S. Agency for International Development, and 22 years with the U.S. Government Accountability Office.

Born in Medford, Massachusetts, Mr. Alves earned a bachelor's degree in management from Northeastern University in Boston. He is a Certified Inspector General and a Certified Government Financial Manager. He is also a member of the Association of Inspectors General, the Association of Government Accountants, and the Institute of Internal Auditors.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: THEODORE (TED) ALVES

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October, 2010. Include the source and amount of each grant or contract.

NONE

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

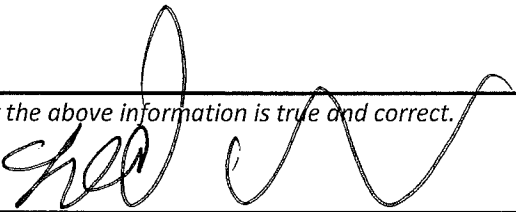
I am testifying on behalf of the AMTRAK OFFICE OF INSPECTOR GENERAL (OIG). Under the IG Act, the Amtrak OIG is responsible for providing independent objective oversight of Amtrak's programs and operations.

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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE

I certify that the above information is true and correct.

Signature:



Date:

11-7-13
