

Department of Homeland Security **Office of Inspector General**

Costs Invoiced for Checked Baggage Inspection
Systems and Closed-Circuit Television Cameras
at Orlando International Airport



American Recovery and Reinvestment Act of 2009

OIG-12-129

September 2012




OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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September 25, 2012

MEMORANDUM FOR: John P. Sanders
Assistant Administrator
Office of Security Capabilities
Transportation Security Administration

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Costs Invoiced for Checked Baggage Inspection Systems and Closed-Circuit Television Cameras at Orlando International Airport*

Attached for your information is our final letter report, *Costs Invoiced for Checked Baggage Inspection Systems and Closed-Circuit Television Cameras at Orlando International Airport*. Since the report contains no recommendations to Transportation Security Administration officials, we did not solicit formal comments.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are Roger LaRouche, Audit Director; William J. Gillies, Audit Manager; Karl T. Gallagher, Audit Manager; and Marisa Coccaro, Report Referencer.

Please call me with any questions, or your staff may contact John E. McCoy II, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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Background

On February 17, 2009, Congress enacted the *American Recovery and Reinvestment Act of 2009*, as amended (Recovery Act) to preserve and create jobs, promote economic recovery, and invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits. The Recovery Act appropriated \$1 billion to the Transportation Security Administration (TSA) for “procurement and installation of checked baggage explosives detection systems and checkpoint explosives detection equipment...” According to TSA, it awarded \$574,023,419 of that amount to 25 airport organizations for 29 projects modifying airports to accommodate new checked baggage inspection systems (CBISs) and \$61,827,702 to 14 airport organizations for the Advanced Surveillance Program (ASP). Under the ASP, TSA funds the purchase and installation of closed-circuit television cameras (CCTVs) throughout TSA’s passenger and baggage screening areas of responsibility at the airport.

TSA awarded four Other Transaction Agreements (OTAs) to the Greater Orlando Aviation Authority (Authority) for the following projects:

OTA NUMBER	PROJECT DESCRIPTION	ESTIMATED COST	TSA SHARE	
			PERCENT	AMOUNT
HSTS04-09-H-REC127	Design, modification, and construction for TSA’s in-line CBIS at Orlando International Airport’s (MCO) Central East and West Terminal baggage screening locations.	\$16,585,898	90	\$14,927,308
HSTS04-09-H-REC162	Design for new in-line CBIS at MCO’s Remote Screening Facility.	1,448,276	90	1,303,448
HSTS04-10-H-REC112	Engineering and construction for TSA’s in-line CBIS at MCO’s Remote Screening Facility.	25,436,000	90	22,892,400
HSTS04-10-H-REC401	Design, procurement, and installation for additional CCTV equipment at passenger screening checkpoints, baggage resolution rooms, and Federal inspection services checkpoints at MCO.	7,525,000	100	7,525,000
Totals		50,995,174		46,648,156

Reimbursement for eligible project costs is based on the scope of the OTAs; Office of Management and Budget (OMB) Circular A-87, Revised, *Cost Principles for State, Local and Indian Tribal Governments*; and the TSA publication *Reimbursable/Non-Reimbursable*



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Costs for the Electronic Baggage Screening Program, relevant version. The agreements also require the Authority to comply with OMB Circular A-133, Revised, *Audits of States, Local Governments, and Nonprofit Organizations*, and Recovery Act provisions to submit quarterly recipient reports to the Federal Government. Additionally, for construction projects the Recovery Act requires payment of prevailing wages as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40 of the United States Code and the use of American iron, steel, and manufactured goods.



Results of Review

We determined that project costs of \$24,255,866 were allowable, allocable, and reasonable, as summarized below:

OTA NUMBER	PROJECTS COST	TSA SHARE		TSA PAYMENTS	PROJECT STATUS
		PERCENT	AMOUNT		
HSTS04-09-H-REC127	\$13,906,255	90	\$12,515,630	\$12,515,630	Completed
HSTS04-09-H-REC162	1,380,082	90	1,242,074	1,242,074	Completed
HSTS04-10-H-REC112	8,258,924	90	7,433,032	6,689,729*	Open
HSTS04-10-H-REC401	710,605	100	710,605	710,605	Open
Totals	<u>24,255,866</u>		<u>21,901,341</u>	<u>21,158,038</u>	

*TSA withholds from payment 10 percent of its share of construction project costs pending completion of the project. In this case, TSA withheld \$743,303 for 10 percent of the \$7,433,032.

In addition, we verified that the Authority complied with the Recovery Act requirements for submitting quarterly reports on project activities to the Federal Government; for paying prevailing wages; and for using American iron, steel, and manufactured goods¹ in the CBIS construction projects. TSA determined that the additional CCTV equipment project was not subject to the “buy American” provisions of the Recovery Act.

¹ On October 13, 2009, the Department of Homeland Security issued a limited waiver of the “buy American” requirements for each TSA Electronic Baggage Screening Program project. The waiver specifies that at least 95 percent of the costs of each project will comply with buy American requirements of section 1605 of the Recovery Act, and allows up to 5 percent of total project costs to be used for non-American products.



Appendix A

Objectives, Scope, and Methodology

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

The objective of this audit was to determine whether costs invoiced by the Authority were allowable, allocable, and reasonable according to the funding agreements and applicable Federal requirements. Our audit covered invoiced costs of \$21,901,341 for the period April 2009 through March 2012.

In conducting our audit, we—

- Reviewed the Recovery Act, OTAs, and TSA and OMB guidelines;
- Interviewed TSA officials to obtain an understanding of the project and project management;
- Interviewed Authority officials to obtain an understanding of the project, project management, accounting, and invoicing;
- Examined Authority accounting records and supporting documents for the amounts invoiced to TSA;
- Reviewed the eligibility of 100 percent of the costs submitted for reimbursement, relying on the Single Audits performed for fiscal years (FYs) 2009, 2010, and 2011 and discussing our findings with Authority officials;
- Inspected the CBIS and the CCTV projects; and
- Reviewed the audit working papers of the certified public accounting firms that performed the Single Audits of the Authority for FYs 2009, 2010, and 2011.

Ernst & Young, LLP, performed the Single Audit of the Authority for FY 2009, and Moore Stephens and Lovelace, P.A., performed the audits for FYs 2010 and 2011. The audits included Recovery Act–funded CBIS and CCTV project costs totaling \$18,361,048 (84 percent of invoiced costs). The Single Audit reports classified the CBIS and CCTV projects as major programs. The Single Audit reports did not identify any questionable costs or compliance issues related to the CBIS and CCTV projects, or any deficiencies in internal controls over financial reporting or compliance with Federal requirements.

We tested Authority records to determine their compliance with OMB Circular A-87 and with other terms and conditions of the OTA. We considered the Authority’s internal



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

controls over the administration of TSA funds and the Single Audits' results in determining our audit procedures.

Our audit was conducted without the benefit of a technical evaluation by TSA of the materials and manufactured components used in the construction of the CBIS and CCTV; therefore, our conclusions are qualified to the extent that a technical evaluation may affect the allowability of invoiced costs.

We conducted this performance audit between May and June 2012, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government 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 upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



Appendix B

Report Distribution

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