

# Department of Homeland Security Office of Inspector General

**Review of Costs Invoiced by the City of Atlanta,  
Georgia, Relating to the Maynard H. Jackson, Jr.**

**International Terminal Checked Baggage  
Screening Project Under Other Transaction**

**Agreement Number HSTS04-09-H-REC154  
Awarded by the Transportation  
Security Administration**



*American Recovery and Reinvestment Act of 2009*

OIG-12-60

March 2012



# Homeland Security

March 21,

MEMORANDUM FOR: Kelly Hoggan  
Acting Assistant Administrator for Security Technology  
Transportation Security Administration

FROM: Anne L. Richard Anne L. Richard  
Assistant Inspector General for Audits

SUBJECT: *Review of Costs Invoiced by the City of Atlanta, Georgia, Relating to the Maynard H. Jackson, Jr. International Terminal Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC154 Awarded by the Transportation Security Administration*

Attached for your information is our final letter report, *Review of Costs Invoiced by the City of Atlanta, Georgia, Relating to the Maynard H. Jackson, Jr. International Terminal Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC154 Awarded by the Transportation Security Administration*. We incorporated the formal comments from the Administrator in the report.

The report contains one recommendation to resolve unsupported costs of \$1,354,740 invoiced by the City of Atlanta. The Administrator concurred with the recommendation. Within 90 days of the date of this memorandum, please provide our office with a written response that includes a target completion date or documentation that corrective actions have been completed. Until your response has been received and evaluated, the recommendations will be considered open and unresolved.

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.

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

Attachment

## **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 \$574,023,483 of that amount to 25 airport organizations for 29 projects modifying airports to accommodate new baggage-screening equipment.

Under Other Transaction Agreement (OTA) No. HSTS04-09-H-REC154, TSA agreed to reimburse the City of Atlanta (City) for 90% of allowable, allocable, and reasonable costs to support installation of a Checked Baggage Inspection System (CBIS) at the Maynard H. Jackson, Jr. International Terminal at the Hartsfield-Jackson International Airport. The OTA cost ceiling is \$20 million and covers project design, management, and construction for the CBIS portion of the terminal’s overall baggage handling system, which cost \$55.9 million.

The OTA was signed on September 21, 2009; specifies a project period from May 1, 2009, through December 31, 2012; and requires the City to submit invoices for reimbursement of project costs to TSA. Reimbursement for eligible project costs is based on the scope of the agreement; Office of Management and Budget (OMB) Circular A-87, Revised, *Cost Principles for State, Local and Indian Tribal Governments*; and TSA publication *Reimbursable/Non-Reimbursable Costs for the Electronic Baggage Screening Program, version 1.0*, June 2008. As of March 2011, the City invoiced costs of \$12,816,163 for CBIS installation, which included \$916,914 for design services and \$437,826 for project and construction management. The costs invoiced by the City represent 90% of the costs incurred.

The agreement also requires the City to comply with the 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; pay prevailing wages as determined by the Secretary of Labor under 40 U.S.C., Chapter 31, Subchapter IV; and use American<sup>1</sup> iron, steel, and manufactured goods.

The objective of this audit was to determine whether costs invoiced by the City are allowable, allocable, and reasonable according to the funding agreement and applicable federal requirements.

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

## **Results of Review**

We determined that invoiced costs of \$11,461,423 for construction were allowable, allocable, and reasonable. However, \$1,354,740 invoiced for design services (\$916,914) and project and construction management (\$437,826) is questionable for reimbursement because the amount is not based on costs incurred but instead was calculated based on the guidance for determining a ceiling on the amounts that may be invoiced for these categories of costs. We also concluded that the City complied with the requirements for submitting quarterly reports; for paying prevailing wages; and for using American iron, steel, and manufactured goods in the construction of the Recovery Act project.

### **Unsupported Project and Construction Management and Design Costs of \$1,354,740**

The OTA specifies a ceiling for design costs of 8% of the total TSA-funded amount and for project and construction management of 4% of the total TSA-funded amount. The City computed \$916,914 for design costs by applying the 8% to construction costs of \$11,461,424 and invoiced for 90% of that amount. The City computed the \$437,826 in project and construction management in a similar manner, using a rate of 3.82%. The City chose to use 3.82% instead of 4%. In neither case were the rates or amounts supported by the accounting records. The OTA is a cost-reimbursable agreement and specifies that TSA will reimburse the City for the allowable, allocable, and reasonable cost of the project according to OMB Circular A-87. We questioned the \$1,354,740 invoiced for design and project and construction management because it does not represent a properly supported cost as required by Circular A-87.

Following our exit conference on November 10, 2011, City officials wrote that the City's Department of Aviation (DOA) "acknowledges the audit observations and specifically the finding that the DOA utilized a percentage allocation methodology for design and project management costs which conflicts with the OTA and the OMB Circular A-87 guidance." City officials also responded that DOA had incurred eligible design and project management costs and that it had informed TSA of the allocation method that it would use to invoice for these types of costs. Finally, the City said that the DOA will collaborate with the TSA to determine an equitable basis for documenting these project expenses.

### **Compliance With Requirements for Reporting, Paying Prevailing Wages, and Buying American**

The Recovery Act requires recipients to submit quarterly reports on project activities to the federal government; pay prevailing wages; and ensure that projects are accomplished with American-made iron, steel, and manufactured goods. We verified that the City submitted the quarterly reports, paid prevailing wages, and complied with the Buy American provisions.

## **Recommendation**

We recommend the TSA’s Contracting Officer resolve the \$1,354,740 of unsupported costs.

## **Management Comments and OIG Analysis**

### **TSA Comments to Recommendation**

TSA concurs with the recommendation, and has said that it will “work with the City of Atlanta to determine the amount of design and construction management costs incurred for the Checked Baggage Inspection System (CBIS) project.”

### **OIG Analysis**

The TSA decision responds sufficiently to the recommendation. However, the recommendation will remain unresolved until TSA provides us with a written response that includes target completion dates for the recommendation or documentation that corrective actions have been completed.

## **Appendix A** **Purpose, Scope, and Methodology**

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The objective of this audit was to determine whether costs invoiced by the City of Atlanta are allowable, allocable, and reasonable according to the funding agreement and applicable federal requirements. Our audit covered invoiced costs of \$12,816,163 for the period May 2009 through March 2011. This represents the total amount invoiced as of March 22, 2011.

Our tests and procedures included the following:

- Reviewing TSA project files, the award agreement and modifications, the Recovery Act, and TSA and OMB guidelines;
- Interviewing TSA officials to get an understanding of the project and project management;
- Examining DOA and its Hartsfield-Jackson (Airport) Development Program (H-JDP)<sup>2</sup> accounting records supporting the amounts invoiced;
- Interviewing project contractors and DOA officials to obtain an understanding of project management, accounting, procurement, and invoicing;
- Inspecting the CBIS project;
- Performing fraud detection procedures; and
- Testing H-JDP and DOA records supporting costs invoiced to determine compliance with OMB Circular A-87 and with other terms and conditions of the agreement.

We considered H-JDP and DOA internal controls over the administration of TSA funds in determining our audit procedures. Our audit was conducted without the benefit of a technical evaluation by TSA; therefore, our conclusions are qualified to the extent that a technical evaluation may affect the allowability of invoiced costs. However, we coordinated our review with appropriate contracting officials

We conducted this performance review between July and November 2011 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.

We appreciate the cooperation of the City of Atlanta and TSA officials in providing the information and access necessary to accomplish this review.

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<sup>2</sup> The Hartsfield-Jackson Development Program provides DOA with the program management for the construction of the Maynard H. Jackson, Jr. International Terminal.

## **Appendix B**

### **Management Comments to the Draft Letter Report**

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**U.S. Department of Homeland Security**  
601 South 12th Street  
Arlington, VA 20598



**Transportation  
Security  
Administration**

**MAR - 1 2012**

**INFORMATION**

MEMORANDUM FOR: Charles Edwards  
Acting Inspector General  
U.S. Department of Homeland Security

FROM:

  
John Pistole  
Administrator

SUBJECT:

Transportation Security Administration's (TSA) Response to the U.S. Department of Homeland Security (DHS) Office of Inspector General's (OIG) Draft Report titled *Review of Costs Invoiced by the City of Atlanta, Georgia, Relating to the Maynard H. Jackson, Jr. International Terminal Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC154 – FOUO*, dated January 20, 2012"

#### Purpose

This memorandum constitutes TSA's formal Agency response to the Department of Homeland Security (DHS), Office of Inspector General (OIG) draft letter report, *Review of Costs Invoiced by the City of Atlanta, Georgia, Relating to the Maynard H. Jackson, Jr. International Terminal Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC154 – For Official Use Only (FOUO)*, dated January 20, 2012. TSA appreciates the opportunity to review and provide comments to your draft report.

#### Background

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), TSA was appropriated \$1 billion for “procurement and installation of checked baggage explosives detection systems and checkpoint explosives detection equipment...” TSA has awarded more than \$500 million in ARRA funding to airport organizations for modifying facilities to accommodate new baggage-screening equipment through the Electronic Baggage Screening Program (EBSP).

## **Appendix B**

### **Management Comments to the Draft Letter Report**

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One of these ARRA awards was to the City of Atlanta (the City) for a Checked Baggage Inspection System (CBIS) project at the Maynard H. Jackson, Jr. International Terminal at Hartsfield-Jackson Atlanta International Airport (ATL) through an Other Transaction Agreement (OTA) dated September 21, 2009. Through the OTA, TSA agreed to reimburse the City for 90 percent of CBIS project costs, including design and construction management, not to exceed \$20 million. As of March 2011, the City invoiced costs of \$12,816,163 for the CBIS project.

#### Discussion

The results of the audit determined that \$11,461,424 of the total costs invoiced by the City were allowable, allocable, and reasonable; however, \$1,354,740 of invoiced costs were questionable because they were not incurred costs. The \$1,354,740 of questioned costs consists of \$916,914 for design services and \$437,826 for construction management. The OTA provides a ceiling for reimbursement of design costs to 8 percent and of construction management costs to 4 percent of the total TSA funded amount. The OIG determined that the City computed the invoiced design and construction management costs by applying the respective 8 percent and 4 percent reimbursement limits<sup>1</sup>, and thus these amounts were not based on incurred costs. As reflected in the draft report, the City indicated that they have incurred eligible design and project management costs. TSA will work with the City to determine the correct reimbursement amounts for these incurred costs.

The draft report also reflects that the City complied with requisite quarterly reporting, payment of prevailing wage rates, and Buy American Act requirements.

TSA concurs with the recommendation made in the subject draft report and will take the actions necessary to resolve the issue.

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<sup>1</sup> The OIG calculated these percentages by using the amount of project costs determined to be allowable, \$11,461,424, as opposed to the total invoiced costs, \$12,816,163. Specifically, the draft report reflects that “[t]he City computed \$916,914 for design costs by applying the 8% to construction costs of \$11,461,424 and invoiced for 90% of that amount.” The questioned \$916,914 design costs represent 7% of the total invoiced costs, not 8% as indicated in the draft report. The draft report reflects the same methodology in determining the questioned construction management costs (\$437,826) to be 3.82%. These costs represent 3.4% of the total invoiced costs.

## **Appendix B**

### **Management Comments to the Draft Letter Report**

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#### **Transportation Security Administration (TSA)**

#### **Response to DHS OIG Draft Report**

*Review of Costs Invoiced by the City of Atlanta, Georgia, Relating to the Maynard H. Jackson Jr. International Terminal Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC154 – FOUO dated January 20, 2012*

**Recommendation 1: TSA's Contracting Officer resolve the \$1,354,740 of unsupported costs.**

**TSA Concurs:** As indicated above, TSA will work with the City of Atlanta to determine the amount of design and construction management costs incurred for the Checked Baggage Inspection System (CBIS) project.

## **Appendix C** **Major Contributors to this Report**

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Roger LaRouche, Director  
Karl Gallagher, Audit Manager  
William J. Gillies, Audit Manager  
Sandra Ward-Greer, Referencer

## **Appendix D**

### **Report Distribution**

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Departmental Recovery Act Coordinator  
Acting General Manager, Checked Baggage Division/Program  
Manager, Electronic Baggage Screening Program, TSA  
Audit Liaison Official, TSA

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