



Department of Homeland Security Office of Inspector General

Review of Costs Invoiced by the City of San Francisco Relating to the Terminal 2 Checked Baggage Screening Project at San Francisco International Airport Under Other Transaction Agreement Number HSTS04-09-H-REC123



American Recovery and Reinvestment Act of 2009



Homeland
Security

August 24, 2011

Preface

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 audits, inspections, and special reports prepared as part of our oversight responsibilities for programs, grants, and projects administered by the department under the *American Recovery and Reinvestment Act of 2009* (Recovery Act).

This report presents the results of our audit of the costs invoiced for reimbursement by the City of San Francisco under an agreement funded by the Recovery Act from the Transportation Security Administration. The purpose of the agreement was to finance a portion of the costs of modifications to San Francisco International Airport to accommodate a checked baggage inspection system.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits

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One Recovery Act award was to the City of San Francisco (the City) for a Checked Baggage Inspection System (CBIS) at San Francisco International Airport (SFO) through an Other Transaction Agreement (OTA) dated June 11, 2009. The City had previously awarded a terminal renovation project at SFO in which TSA was not involved that included a \$32,105,580 subcontract for the baggage-handling system renovation. Through the OTA, TSA was able to provide Recovery Act funding for the CBIS portion of the project. The City estimated that the CBIS project represented approximately \$17,052,000 of the total cost. As of January 31, 2011, the City had invoiced \$12,837,196 for construction (\$12,533,722) and construction management (\$303,474).

Discussion

The results of the audit determined that approximately 2 percent of the costs invoiced by the City were questionable because they were not adequately supported by accounting records. Specifically, while the \$12,533,722 invoiced for construction was allowable, the \$303,474 invoiced for construction management costs (personnel services and fees) was not allocated between the Recovery Act funded CBIS project and the larger terminal renovation project. To resolve this issue, TSA will work with the City to pro-rate these costs based on the percentage of actual costs of the \$17 million CBIS project compared to the total cost of the larger terminal renovation project, \$32 million. Based on this, \$160,841 of the questioned construction management costs (\$303,474) could be allocated to the CBIS project, with \$142,633 being allocated to the larger terminal renovation project. This adjustment will be attained by TSA receiving a future invoice from the City reflective of a \$142,633 reduction in costs.

The audit also determined that TSA officials did not examine the City's compliance with the Buy American Act. While most of the letters obtained by the general contractor indicated that the goods were Buy American Act compliant, four letters indicated that some could have been manufactured in foreign countries. While City officials provided OIG with a summary calculation from a schedule of values "showing that about 99.7% of all of the equipment and material components used in the CBIS project were made in America," the schedule did not include the names of the vendors that provided these goods. As a result, OIG was not able to validate the City's use of Buy American Act compliant materials. To verify that the goods used are Buy American Act compliant, TSA will conduct further analysis to ensure that the schedule of values includes the names of the specific vendors who provided those materials.

TSA concurs with both of the recommendations made in the subject draft report and will take the actions necessary to resolve these issues.

Recommendation 1: TSA's Contracting Officer resolve the \$303,474 of unsupported costs.

TSA Concurs: As indicated above, TSA will work with the City to pro-rate the \$303,474 of unsupported construction management costs based on the percentage of actual costs of the \$17 million CBIS project compared to the total cost of the larger terminal renovation project, \$32 million. Based on this, \$160,841 of the questioned construction management costs (\$303,474) could be allocated to the CBIS project, with \$142,633 being allocated to the larger

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terminal renovation project. This adjustment will be attained by TSA receiving a future invoice from the City reflective of a \$142,633 reduction in total reimbursable CBIS costs.

Recommendation 2: TSA's Contracting Officer review the iron, steel, and manufactured goods used in the CBIS project to determine whether the city fully complied with applicable Buy American requirements.

TSA Concurs: While City officials provided the OIG with a summary calculation from a schedule of values showing that approximately 99.7 percent of all of the equipment and material components used in the CBIS project were made in America, the Contracting Officer will work with the TSA site lead to ensure that the schedule of values includes the names of the specific vendors who provided those materials in order to verify that the goods used are compliant with Buy American Act requirements.

Additionally, TSA's Office of Acquisition has developed a checklist to assist acquisition workforce staff in assessing and monitoring Recovery Act recipient compliance with Buy American Act compliance. TSA intends to implement use of this checklist within 90 days. This checklist was previously provided to OIG in an update to *OIG-11-07, Final Report, Use of American Recovery and Reinvestment Act Funds by the TSA for the Electronic Baggage Screening Program (November 12, 2010)*.

Appendix C
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