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**Progress in
Implementing
Provisions of the
Aviation and
Transportation
Security Act**

**Statement of
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Mr. Chairman, I appreciate the opportunity to testify today before the House Committee on Government Reform concerning the Transportation Security Administration's (TSA) progress in implementing provisions of the Aviation and Transportation Security Act (Act).

We all recognize that the mission of ensuring that our transportation systems are secure is a tremendous task. Although TSA is charged with securing all modes of transportation, the Agency's efforts so far have mostly focused on addressing aviation security and meeting deadlines established in the Act. The task is one that has never been undertaken before on a scale of this magnitude, and TSA has very little empirical experience to draw on. It should be noted that TSA could not be working any faster or harder than it already is.

TSA has made progress in implementing the requirements of the Act, but the heavy lifting still lies ahead. To date, TSA has had several notable accomplishments including:

- Completed the deployment of Federal passenger screeners at nine airports including Baltimore/Washington International (BWI) Airport—the first location to have a federalized passenger screener workforce.
- Let three major contracts—two to Lockheed Martin for training all passenger screeners and modifying airport checkpoints, and one to Boeing Services Company to do site assessments, modify airports, install equipment, and train personnel for screening checked baggage. The three contracts have a combined total dollar value of about \$1 billion, not including contract options.
- Addressed several cost concerns that we identified, among them TSA has agreed to use part-time positions which will help match staffing to traffic patterns at many airports.
- Entered into an agreement with the Office of Special Counsel to handle whistleblower complaints from TSA screeners.

Since the Act was passed, it has also become apparent that the price of good security is substantial. For fiscal year (FY) 2002, TSA has been appropriated over \$6.2 billion and has requested \$4.8 billion for FY 2003. TSA anticipates that in FY 2003 the agency's workforce will have grown to about 67,000. However, revenues from the new passenger security fee will pay for only a fraction of these costs. Current estimates are that the fee will generate about \$900 million this year, and \$1.7 billion next year. It is evident TSA will require a large infusion of cash from the General Fund at a time when the General Fund is already strained to pay for vastly increased fiscal needs throughout the Federal Government.

Today, the deadline to have a federalized screener workforce in place is just over 3 months away, and the deadline to begin screening all checked baggage is less than 5 months away. While there has been much debate as to whether these dates are achievable, we can attest that TSA is working diligently to meet these deadlines.

Today, I would like to discuss two areas—meeting the deadlines in the Act, and building cost controls into the Agency’s infrastructure.

- ***Meeting the Deadlines in the Act.*** As we get closer to the deadlines with only a fraction of the airports completed, the task ahead becomes more formidable. In the next 30 days it should become clearer as to what exactly must be done—airport by airport—to meet the deadlines of the Act. As TSA and the contractors begin rolling out plans for deploying Federal screeners and installing explosives detection equipment, it will be extremely important to communicate information to all parties (Congress, the Administration, airports, and airlines) if corrections are needed. Because airport assessments for the deployment of explosives detection equipment are scheduled to be completed at the largest airports by the end of August, and because of the current ramp-up in hiring passenger screeners, we will be in a much better position at the end of this month to judge what is or is not feasible to accomplish by the deadlines.
- ***Building in Cost Controls.*** The overriding goal for TSA must be to provide tight and effective security in a manner that avoids waste and ensures cost-effective use of taxpayer dollars. TSA faces significant challenges in overseeing the large number and dollar volume of new contracts it is letting. Contracts associated with deploying a new Federal screener workforce and screening all checked baggage total over \$2 billion, including all contract options; while contracts with the current screening companies are expected to cost about \$1.6 billion. Because the agency is new, it does not have an established infrastructure that provides an effective span of control to monitor contractor costs and performance.

The President’s proposal to create a Department of Homeland Security (which should offer economies of scale) could have significant implications for TSA. The implications extend to activities TSA anticipates performing and staffing up, such as intelligence gathering and analysis, performing criminal investigations, establishing an administrative support structure, and office space requirements at airports. With the tremendous tasks facing TSA, it is important that the Agency avoid extending itself beyond the basic tenets of the Act.

Meeting the Deadlines in the Act

The two most critical deadlines in the Act are federalizing the screening workforce and the screening of all checked baggage. First, TSA is required to have enough Federal screeners in place to conduct the screening of passengers and their carry-on property at all commercial airports by November 19th. Second, TSA must have a sufficient number of explosives detection systems in place to screen all checked bags by December 31st.

Hiring and Training TSA's Passenger Screener Workforce

The deadline for hiring and training all passenger screeners is now just over 3 month away. TSA is estimating it will need up to 33,000 screeners and screener supervisors to meet this requirement. As of July 31, 2002, TSA had about 4,400 passenger screeners onboard with another approximately 6,800 having accepted offers for employment. TSA has also hired over 600 other staff, including Federal Security Directors, attorneys, criminal investigators, program analysts, computer and information technology specialists, and administrative staff. These figures do not include 1,034 former employees of the Federal Aviation Administration (FAA), which brings TSA's total to over 6,100 employees, exclusive of Federal Air Marshals.¹

Hiring Passenger Screeners. The next 30 days will be crucial in determining if TSA will meet the deadline for a federalized workforce. With just over 3 months left, TSA needs to hire and train more than 8,000 passenger screeners a month to meet the November 19th deadline. This is to hire the estimated 33,000 passenger screeners needed and does not include an estimated 21,600 checked baggage screeners that will be needed.

TSA contracted with Lockheed Martin to convert airport checkpoints to a new Federal model and coordinate the conversion of passenger screeners to a Federal workforce. This conversion includes both a physical reconfiguration of screening checkpoints and deployment of Federal screeners. Lockheed Martin had over 100 teams conducting assessments at over 200 airports during the month of July to determine how each checkpoint needs to be reconfigured. In addition, Lockheed Martin subcontracted with a consulting firm to develop a computerized model to determine the number of passenger screeners needed at each airport. A breakdown of passenger screeners per airport from the new computerized model should be available within the next couple of weeks. By the end of this month,

¹ The actual number of Federal Air Marshals is classified information.

TSA should have a better idea of the number of passenger screeners needed at each airport.

TSA contracted with NCS Pearson for recruiting and hiring. As of July 31, 2002, NCS Pearson was accepting applications for about 415 airports, and had opened 53 centers to assess applicants and hire screeners for 119 airports.

As of July 31, 2002, TSA had completed the hiring, training and deployment of passenger screeners for nine airports. (Baltimore, MD, Louisville, KY, Mobile, AL, Kalamazoo, MI, Bedford, MA, Hartford CT, Chicopee, MA, Columbus, OH, and Athens, GA) In addition to these nine airports, a Federal workforce has taken over passenger screening at three terminals at John F. Kennedy International Airport (JFK) in New York and two terminals at Orlando International Airport in Florida.

There is no doubt that over the last month the pace of hiring has increased. TSA has more than tripled the number of screeners hired (from 1,248 to about 4,400) and increased the number of airports currently in the assessment process from 3, during the week of June 17, 2002, to 119 as of July 31. In addition to the screeners hired, as of July 31, about 6,800 individuals have accepted offers for employment as screeners. *These employees will be added to TSA's payroll and considered hired, upon reporting for training.*

However, TSA is still having difficulties in hiring enough screeners in major metropolitan areas such as New York, Boston and Chicago. For example, TSA estimated it will need about 2,300 passenger screeners in total for the three largest airports in the New York area: JFK, La Guardia, and Newark. The assessment center for these three airports has been opened since June 24, 2002. As of August 1, 2002, TSA had 774 job offers accepted, 33 percent of the targeted amount.

The delays in hiring are largely due to the high percent of "no shows" and the number of applicants failing the aptitude test portion of the assessment process.

- Based on experience, TSA now expects one third of the scheduled candidates not to show up at the assessment centers. At BWI airport, 26 percent of qualified, scheduled candidates did not show up for assessments.
- A significant number of applicants are failing the first phase of the assessment process. The first phase of the assessment process consists of a computer-based test for English proficiency and overall aptitude skills. For the three New York airports, 61 percent of applicants who completed the first phase of the assessment process failed. This is similar to TSA's experience at

BWI, where 53 percent of applicants failed the first phase of the assessment process.

TSA is experiencing difficulty hiring a sufficient number of women. Initially, TSA's target was to hire 50 percent men and 50 percent women. However, of the over 9,100 individuals who have been hired or who have accepted job offers for employment at a specific airport (excluding the mobile screeners²) as of August 1, 2002, only 26 percent are women. TSA has recently addressed this issue, by modifying its hiring targets to one third women, one third men, and one third either. If TSA is successful in getting the new mix, there should still be a sufficient number of female screeners to ensure that female passengers are wanded by female screeners, since screeners rotate positions at screening checkpoints.

Training Passenger Screeners. The May conversion at BWI to a Federal workforce provided TSA with a valuable test of its planned process to train passenger screeners. BWI was TSA's first attempt to locate its training operation near an airport, and for Lockheed Martin instructors to conduct the courses. As of July 8th, there were 539 Lockheed Martin instructors who had passed the 44-hour basic screener course and are available to conduct training classes.

Through the week of July 22, 2002, Lockheed Martin instructors conducted basic screener training for the 11 airports where TSA has at least partially taken over passenger screening. Basic screener training was planned for 12 airport sites and at the FAA Academy in Oklahoma City the week of July 29, 2002. Training is planned for 30 airport sites and in Oklahoma City during the week of August 5, 2002.

As of July 27th, TSA had over 3,100 passenger screeners who had completed the basic training course, about 1,500 in the mobile screener workforce and about 1,600 permanent workforce screeners now working at 11 airports.

While the quality of the in-class instruction has been satisfactory, TSA experienced other difficulties with the training.

- The training contractor is not being required to provide x-ray machines and trace machines for hands-on training during the classroom instruction. For the training to be effective, students need to have hands-on practice with screening equipment. TSA has addressed this by conducting hands-on training using equipment at airport checkpoints that are closed for the night. So far, the contractor has been able to use equipment at the airports because TSA had

² The Mobile Screener Force consists of about 2,100 supervisory screeners who were hired or accepted job offers to deploy to airports around the country as the Federal workforce takes over screening.

taken over checkpoint operations before starting any on-site training. However, TSA has changed its deployment procedures, due to the number of airports it needs to convert to Federal screeners each week, so that it will not take over checkpoint operations at an airport before it starts the on-site training. As a result, TSA will need to work closely with airport managers and screening contractors to get access to screening equipment and ensure screeners receive this critical hands-on training.

- The hiring contractor needs to do a better job of providing accurate and timely information to the on-site training coordinator on the number and identity of the personnel who are to report for training. Significant differences have occurred between the roster of personnel scheduled for training and the actual students who report. For example, at the training that started on July 15th in New York, a roster listing 127 students was provided, but only 63 students reported to training. However, 21 of the 63 students reporting were not on the roster. The training contractor had to verify that the 21 additional students were supposed to be in training and then run the class for half as many students as planned. This problem is occurring in the major cities where the rate of hiring has not met initial expectations and the hiring contractor is scheduling applicants for training within days of passing the assessment and accepting a job offer.

Hiring Screeners in Large Metropolitan Areas Is Presenting a Challenge.

While TSA has recently made progress in both hiring new screeners and conducting training at the airports, it only has just over 3 months left to meet the November 19th deadline. TSA is having the most difficulty in hiring screeners in large metropolitan areas. TSA estimates that overall, it takes an average of 5 weeks to build a Federal workforce for each airport, which includes 2 weeks to conduct assessments, 2 weeks for new screeners to notify current employers that they are leaving their jobs, and 1 week for classroom training. For two of three airports federalized to date, TSA has been able to beat this estimate. It was able to deploy a classroom trained screener workforce in Louisville and Mobile in just over 3 weeks after starting the on-site assessment and hiring process. However, the total passenger screener workforce for these two airports is about 200.

In the metropolitan areas of New York, Boston and Chicago, assessment centers were open for at least 3 weeks before local screeners started reported for training. The on-site training in these cities now is scheduled to last several weeks. Given the hiring difficulty TSA is experiencing in metropolitan areas, TSA should consider immediately opening assessment centers in all major metropolitan areas to ensure that sufficient screeners are hired to meet the November deadline.

Meeting the Deadline for Screening All Checked Baggage

The challenge facing TSA in meeting the statutory December 31st deadline³ to screen 100 percent of checked baggage is both unprecedented and monumental. An effort of this magnitude—an estimated 1,100 explosives detection systems (EDS) and 6,000 explosives trace detection (trace) machines to be deployed—has never been executed in any single country or group of countries. In fact, the amount of explosives detection equipment necessary to screen all checked baggage at more than 400 U.S. airports is estimated to be at least three times the amount of equipment currently deployed at airports worldwide. It is in this context that TSA and the Department are working fervently to meet the deadline, and they could not be working any faster or harder than they already are.

Today TSA faces the task of deploying all the necessary explosives detection equipment in less than 5 months to more than 400 airports around the country, and at the same time hiring and training a checked baggage screener workforce of 21,600, not including the 33,000 passenger screening workforce that will need to be hired and trained. To help fulfill its December 31st mandate, TSA awarded a contract to Boeing Services Company to deploy EDS and trace machines to the Nation's airports and to train the checked baggage screener workforce needed to operate the equipment. *In our opinion, it should become clear by the end of this month as to what must be done—airport by airport—to meet the December deadline, as TSA and the contractors begin rolling out airport by airport plans for installing explosives detection equipment and for hiring and training screeners.*

The success of the deployment effort requires that TSA effectively manage three major program activities running on three parallel tracks. Therefore, TSA must:

- Obtain the necessary funding to place the remaining equipment orders and ensure that equipment manufacturers meet the delivery schedules laid out in their contracts.
- Ensure that Boeing executes its master plan for deploying the necessary equipment needed to screen all checked baggage, staying within the

³ Section 110(d) of the Aviation and Transportation Security Act (Public Law 107-71) mandates that the Under Secretary of Transportation for Security shall take all necessary action to ensure that explosive detection systems are deployed as soon as possible to ensure that all United States airports have sufficient explosives detection systems to screen all checked baggage no later than December 31, 2002, and that as soon as such systems are in place at an airport, all checked baggage at the airport is screened by those systems; and that all systems deployed are fully utilized; and if explosive detection equipment at an airport is unavailable, all checked baggage is screened by an alternative means.

established timeframes for each of the major milestones in the deployment process.

- Ensure that a checked baggage screening workforce of 21,600 is recruited, hired and properly trained.

These activities must be done in tandem given the fact that, among other things, the deadline is less than 5 months away, and that each activity has specific milestones allowing for little, if any, schedule slippage. Since the activities are interrelated, schedule slippage in any one activity affects the ability of the other activities to stay on track.

Current Deployment Status on Equipment Needed to Meet the Deadline. As of August 1, 2002, 217 EDS and 275 trace machines were in use at 59 airports for screening checked baggage. Nearly 60 percent of this equipment was installed prior to the events of September 11th, over a 5-year period beginning in February 1997. That leaves more than 1,000 EDS and over 5,600 trace machines that will have to be installed and made operational by December 31, 2002.

TSA has an ongoing 5-airport pilot project for screening all checked baggage using EDS, trace or some combination. Of the 5 airports selected, only 1 is considered a large airport (but is not 1 of the 20 largest airports) with the other 4 being medium and small airports. The five airports participating in the project are currently screening all checked baggage using explosives detection equipment. Of the five airports, passengers' checked baggage is being screened using trace machines at three airports; all EDS at one airport; and a combination of EDS and trace machines at the other airport. According to TSA, results from the pilot project will be used to determine the "most effective equipment layouts and best procedures to expedite the movement of passengers through check-in screening without compromising security."

Utilizing Existing Equipment. During the 5-year period when air carriers were responsible for screening checked baggage, we testified repeatedly that the EDS machines were woefully underutilized. *During this time the majority of machines were screening, on average, fewer bags per day than the machines were capable of screening in 2 hours. Although we have seen a steady increase in utilization since TSA took over the screening company contracts in February 2002, machines continue to be underutilized.*

For May 2002, the latest available data, over 82 percent of the machines in use were screening, on average, 750 bags or less per day. These machines can screen 125 bags per hour and should be screening, at a minimum, 1,250 bags per day. Of the 160 machines for which data were available, only 10 were screening more than

1,000 bags per day. The following table shows usage rates for the latest available data on 160 EDS machines for May 2002.

Number of EDS Machines	Bags Screened Per Day
39	1 – 250
55	251 – 500
38	501 – 750
18	751 – 1,000
9	1,001 – 1,250
1	1,251 – 1,500

One of the overriding reasons the machines are underutilized is that air carriers are only required to have the equipment screen the baggage of passengers requiring additional security measures based on the Computer Assisted Passenger Prescreening Systems (CAPPS). The air carriers are currently allowed to use alternative methods, such as positive passenger bag match, to screen all other passengers' checked baggage.

It makes good sense to get real world experience by maximizing the use of machines currently in operation, especially at large airports. Fully utilizing the installed machines will (1) assist TSA in determining how many machines are needed to screen 100 percent of checked baggage; (2) give TSA and the air carriers real world experience with screening all checked baggage using lobby-installed EDS; and (3) provide insight into how machine downtime and maintenance requirements will impact security and passenger operations.

TSA needs to direct that the current rate of machine usage pick-up substantially; otherwise we will miss out on the opportunity to practice screening a higher percentage of checked baggage in order to better understand the logistical and physical constraints of lobby-installed machines, and the human factors involved.

Equipment Orders and Deliveries. With the equipment orders that are currently placed, TSA must ensure that equipment manufacturers meet the delivery schedules laid out in their contracts. Delivery dates under the current orders have not always been met because of problems found with the machines during factory acceptance testing.

As of August 1, 2002, TSA has placed orders for 1,025 EDS, including orders for almost 400 long-lead items in the amount of \$682 million; and 1,410 trace machines, including long-lead orders in the amount of \$7 million. TSA needs \$427 million to turn the long-lead items into complete units, and place orders for an additional 75 EDS and 4,590 trace machines to meet the projected equipment deployment quantities.

EDS manufacturers have certain machine components that need long-lead times, in some cases up to 60 days. Manufacturers of trace also have certain machine components with long-lead times of 60 to 90 days. Orders will have to be placed by the end of September 2002 if the equipment is to be delivered, installed and made operational by year-end.

Under TSA letter contracts awarded to the two EDS manufacturers in February and April 2002, 114 machines were to be delivered by the end of June 2002. However, as of July 27th, 100 machines have been delivered and 29 of those have been installed and made operational. By the end of September 2002, TSA expects to take delivery of a total of 558 EDS.

Before the February and April 2002 TSA contracts, prior FAA contracts with one EDS manufacturer were limited to about 100 machines per order with delivery dates spread out over a 2-year period. An average monthly production rate was about 4 to 5 machines per month. Under the current TSA letter contract, this EDS manufacturer has an order for 418 machines to be delivered by the end of September 2002. To meet the September delivery deadline, a monthly average of 138 machines will have to be produced and factory acceptance tested before TSA can take delivery. That equates to an average production rate of about 28 times what this particular manufacturer had earlier experienced.

Any time a manufacturer dramatically ramps up production of complex systems such as EDS that heretofore have been produced in limited quantities, a great deal of attention must be focused on quality control efforts (for both software and hardware) to ensure that new systems will work as intended. TSA is working closely with the manufacturers to resolve the quality control issues and anticipates that the manufacturers will be able to meet revised delivery dates. Obviously, meeting the revised delivery dates will be key to meeting the December deadline.

Deploying the Necessary Equipment Needed to Screen All Checked Baggage.

On May 18, 2002, TSA reported to selected committees of Congress on its deployment strategy for meeting the December 31st deadline to screen all checked baggage. TSA has planned a two-phase approach. The initial phase is an interim solution to meeting the deadline where some airports will use EDS, with trace machines used only for resolving alarms; others will use trace machines exclusively; and some will use a mix of EDS and trace machines to screen checked baggage to meet the December 31st deadline. An interim solution was selected because it was not possible for manufacturers to produce enough EDS to screen all checked baggage, and even if they could, there would not be enough space in airport lobbies to install the EDS. Nor was it possible to complete the

necessary modifications to baggage handling facilities to integrate EDS into the baggage handling systems.

There are cost and staffing tradeoffs associated with using trace instead of EDS. Trace requires much more staff than EDS to operate, while integrating EDS machines into airport baggage handling systems takes substantially more up-front capital. The following table shows the cost and staffing trade-offs estimated by officials at Dallas/Fort Worth International Airport (DFW).

Item	Lobby-Installed Trace and EDS Machines	In-Line EDS
Equipment Mix	157 Trace machines 12 EDS	60 EDS 19 Trace machines
Workforce	1,444 screeners	628 screeners
Labor Costs (Annual)	\$72.3 million	\$31.4 million
Facility Modifications and Explosives Detection Equipment (Up Front) Costs	\$67 million	\$281 million

The trade-offs estimated by DFW show that lobby-installed trace machines compared to in-line EDS will require over twice the number of screeners and annual labor costs but only one-quarter of the costs for facility modifications and explosives detection equipment.

In phase two, at a future date not yet established, TSA will move the EDS machines into baggage systems at the largest airports. It is unclear how much this will cost and who will have to pay. A review of its FY 2003 budget shows that TSA is not planning to fund any equipment relocations from the lobby to the baggage handling facility. For now, it is also unclear whether some airports will rely exclusively on trace machines to screen checked baggage even in phase two.

The task will not be to simply move the machines from lobbies to baggage handling facilities but will require major facility modifications. For example, TSA recently approved Boston's Logan International Airport proposal for in-line EDS at an estimated cost of \$100 million to the airport, while DFW estimates nearly \$196 million in facilities costs in its own EDS in-line proposal.

Hiring a General Contractor. To execute its deployment strategy for meeting the December 31st deadline, TSA hired Boeing Services Company. On June 7th, TSA issued Boeing a cost-plus award fee contract for an estimated cost of \$508 million from now until December 31st, with \$862.4 million in options through calendar year 2007. Boeing has been tasked to (1) complete airport site assessments at over 400 airports scheduled between early July through November 2002, with 266 airports being completed by the end of August; (2) submit to TSA a proposal on the right mix of equipment for each airport and where the equipment will be

installed; (3) modify facilities to accommodate the equipment; (4) install and make the equipment operational; (5) maintain the equipment; and (6) train a workforce estimated at 21,600 to operate the equipment.

Boeing's contract does not include the purchase of explosives detection equipment, which will be funded separately by TSA. Boeing has been authorized to expend up to \$340 million for installations and facility modifications at airports nationwide. However, it is unclear who will pay for any additional airport modifications in excess of the \$340 million.

Beginning last month, Boeing started the first phase of a six-phase deployment process. The six phases include site assessment, site survey, design, construction, installation, and site acceptance testing of the equipment. As part of the site assessments, Boeing will determine the equipment mix and quantities needed at each airport. Henceforth, site assessments become the driving force behind the actual number of machines needed to be procured and manufactured, and the actual number of employees that need to be hired and trained for each airport. Site assessments have been started at 202 airports. Of these, 45 have been completed as of July 26th. The next 30 days of site assessments will tell what can and cannot be accomplished by the deadline.

The remaining 5 phases (site survey, design, construction, installation, and site acceptance testing of the equipment) are stretched out over the remainder of the year with 43 of the largest airports (e.g., DFW, San Francisco, Atlanta) scheduled to be completed the last week in December. Of the remaining 386 airports, 88 are scheduled to be completed between mid-November and mid-December, and completion of the other 298 airports will be staggered throughout the remainder of the year with the earliest scheduled for completion this month. Boeing needs to stick to its milestones for each phase. Schedule creep in any one phase can affect the ability to meet the milestones of the other phases and ultimately the December deadline for all airports.

Also, this is an enormous effort that requires large amounts of money expended in a short period of time. The span of control over this effort is far-reaching because there are numerous subcontractors. With respect to this contract, TSA needs to ensure that three basic oversight steps are taken:

- monitoring contractor billings, especially when such a large amount of money is being spent over a short period of time;
- monitoring contractor performance with respect to cost, schedule and quality with regards to the \$31 million available in award fees; and

- drawing on work that has already been done by Raytheon and airport operators with respect to the recently completed airport site assessments. For example, DFW alone spent 12 weeks and over \$2 million to complete its assessment.

Hiring and Training a Baggage Screener Workforce. TSA must ensure that a screening workforce is recruited, hired and properly trained, and it estimates that 21,600 screeners are needed for checked baggage screening operations. This is in addition to the 33,000 passenger screening workforce. The workforce of 21,600 screeners will be responsible for operating EDS and trace machines used in the screening of passengers' checked baggage at the Nation's 400-plus airports.

As of July 16, 2002, TSA has hired, trained and deployed 166 Federal baggage screeners. That leaves more than 21,400 screeners to be recruited, hired and trained before the December 31st deadline, which means nearly 4,300 screeners need to be recruited, hired and trained each month. It is too early at this time to tell whether TSA will experience the same problems hiring this workforce as it has experienced with hiring the workforce for passenger screening, such as the high percentage of applicants failing the aptitude test portion of the assessment process. Nevertheless, we believe the earlier experiences with hiring passenger screeners can be instructive and provide valuable lessons for TSA and its contractors in this effort.

It is also important to keep in mind that the driving force behind the staffing levels for checked baggage screeners is the mix and quantity of equipment used in screening checked baggage, whether the equipment is all EDS, all trace or some combination. Boeing is currently conducting site assessments at airports nationwide to determine what equipment is needed and where. Once the assessments are completed, TSA will know how many screeners will be needed at each airport.

Building in Cost Controls

Since passage of the Act, it has become increasingly clear that TSA will require a large infusion of cash from the General Fund. This comes at a time when the General Fund is already strained to pay for vastly increased fiscal needs throughout the Federal Government. Within this context, the need for TSA to build cost control mechanisms into its infrastructure is critical. Controls are particularly important in terms of defining the scope of its missions, establishing employee compensation and controlling salaries, overseeing contracts, and utilizing space at airports.

Defining the Scope of the Agency's Missions. With the tremendous tasks facing TSA, it is important that the agency avoid extending itself beyond the basic tenets of the Act's requirements. For example, while the law is only explicit about a Federal law enforcement presence at checkpoints, we have seen TSA proposals for staffing activities such as criminal investigations at airports and intelligence gathering. In these instances, it is unclear what TSA's role would be or how it would relate within the jurisdiction of other agencies such as the Federal Bureau of Investigation or the proposed Department of Homeland Security.

The President's proposal to create a Department of Homeland Security (which should offer economies of scale) could have significant implications for TSA—particularly in overlapping functions, such as intelligence gathering and analysis, criminal investigations, administrative support, and space requirements at airports. For example, under the President's proposal, TSA would be merged with Customs Service and the Immigration and Naturalization Service, which already have a combined criminal investigative workforce of approximately 5,000.

Similarly, the proposed Department of Homeland Security will include an Under Secretary for Information Analysis and Infrastructure Protection whose responsibilities will include receiving and analyzing law enforcement information and intelligence. It may be premature for TSA to expend resources now to expand an intelligence function beyond the existing staff of the Department and Coast Guard when that function could be merged into the new Department of Homeland Security.

Establishing Employee Compensation and Controlling Salaries. TSA has much flexibility in establishing salaries for newly hired employees, and employees can be hired anywhere within the pay band for their position. Use of this flexibility bears watching to ensure that salaries for TSA employees are commensurate with the position duties and not arbitrarily higher than salaries for comparable positions in other agencies. For example, we have seen numerous reports that recruitment of Federal Air Marshals is draining other agencies' law enforcement resources.

We found that most Federal Air Marshals were being hired at the lower half of their assigned pay band, which starts at \$36,400, excluding locality pay. However, Air Marshals also receive a 25 percent Law Enforcement Availability Pay (LEAP) differential, which would put their total starting salary at \$45,500. This salary level is higher than law enforcement salaries at other agencies that do not receive LEAP.

While law enforcement positions without LEAP may receive intermittent overtime, it is important to bear in mind that LEAP is constant. TSA had originally planned to provide LEAP to all its law enforcement positions including

checkpoint guards. However, after concerns were raised, TSA reconsidered that approach. TSA is currently planning to provide LEAP to Air Marshals and criminal investigators but not to checkpoint guards.

We also have concerns regarding the salary levels being established for some general and administrative positions. As of July 27, 2002, TSA had hired 614 employees for non-screener positions. Of these employees, 360 (59 percent) had salaries over \$90,000, and 269 (44 percent) had salaries over \$100,000. In fact, within most of the job categories for general and administrative positions, the preponderance of employee salaries were over \$90,000. For example:

- Of 58 attorneys hired, 48 (83 percent) have salaries ranging from \$90,000 to \$144,000.
- Of the 71 employees hired in the General Inspection, Investigation, and Compliance series, 50 (70 percent) are receiving annual salaries between \$91,149 and \$141,500.
- Of 50 criminal investigators hired, 36 (72 percent) have salaries ranging from \$90,395 to \$138,200, which does not include a 25 percent LEAP differential.

It is important that TSA exercise caution in how it structures employee compensation and benefits, since these costs represent the largest portion of the agency's operating expenses. For a workforce of about 67,000, these costs will be significant in 2003 and will have a tremendous impact on future financial needs. FAA, which has similar flexibilities in setting pay, has experienced huge cost growth in its operating costs largely due to employee salaries. As a result, containing operating costs has now become a critical issue for FAA.

Ensuring Adequate Contract Oversight. TSA faces significant challenges in overseeing the large number and dollar volume of contracts being let by the agency. For example, the contracts with Boeing, Lockheed Martin, and NCS Pearson alone total over \$2 billion, including all contract options. In addition, TSA estimates that the current screening contracts will cost about \$1.6 billion. Because the agency is new, it does not have an established infrastructure that provides an effective span of control to monitor contractor costs and performance. Cost and performance oversight are key tenets in any internal control system, and we are prepared to assist TSA, however possible, in establishing adequate internal controls.

One recommendation we have made is that TSA set aside or “fence off” a specific amount to be used for overseeing contractor performance with respect to cost, schedule, and quality. In recent hearings before the House Appropriations Subcommittee on Transportation and Related Agencies, we recommended that TSA reserve at least one half of one percent of the available contract award dollars for oversight activities. For example, TSA can contract with the Defense Contract Audit Agency for a wide variety of services, including audits of incurred costs claimed by contractors on cost reimbursable contracts. In TSA’s FY 2002 Supplemental Appropriation, Congress has subsequently required the agency to adopt this process.

As far as the \$1.6 billion screening contracts, in April, we testified before the House Subcommittee on Transportation Appropriations that controls over the existing security screener contracts were lacking and that improvements were drastically needed. Since that time, we met with TSA officials who agreed that internal controls over the screener contracts were inadequate. They stated that additional staff would be assigned and TSA would provide more guidance to security field representatives for reviewing contractors’ on-site documentation. TSA also set out to obtain a contractor to provide oversight of screening contracts and contractors, and sent out staff to review contractors at three airports.

Notwithstanding these initiatives, we continue to find that further action is needed immediately. During our visits to two airports and six screening contractors, we saw virtually no on-site monitoring of screener contractors by TSA employees. While we were able to locate all contractor employees who signed in for duty at the time of our visits, we observed contractor employees arriving late and leaving early, but they signed in as though they were on duty the entire time. For example, a contractor employee arrived at 1:53, but signed in as though he arrived about an hour earlier at 1:00. In this case, TSA would be paying for about 1 hour of work that was not performed.

We also found that hourly and overhead rates charged by the contractors vastly exceeded the rates they charged before TSA assumed the contracts. The following table shows the loaded labor rates (which include amounts paid to contractor employees and for the contractors’ overhead costs) charged by contractors before and after TSA became responsible for screener contracts (February 17, 2002).

Overhead Rates

Screeners	Employee Pay Rates	Loaded Rates Billed to Customers*	Overhead Rate
Company 1			
Before Feb. 17	\$8.25	\$11.11	35%
After Feb. 17	\$11.00	\$19.81	80%
Company 2			
Before Feb. 17	\$10.00	\$14.91	49%
After Feb. 17	\$14.00	\$28.00	100%
Company 3			
Before Feb. 17	\$6.90	\$9.83	42%
After Feb. 17	\$10.13	\$19.39	91%

**Rates before February 17 were billed to airlines, while rates after February 17 were billed to TSA.*

While contractors should recover their costs and overhead, they are required to provide TSA with specific cost and pricing data including components of and support for the loaded hourly rates. At the locations we visited, we asked the contractors for support for their loaded labor rates. However, they did not provide evidence to support their rates nor did they explain why the overhead rates billed to TSA more than doubled under contracts to TSA, as compared to contracts with airlines.

Because of the urgent need for continuing coverage, when TSA took over these contracts in February, letter contracts were originally awarded to screening contractors who were already under contract with the airlines. Immediately after signing the letter contracts, the screening contractors were to begin negotiating the price and any price-related terms with the agency's contracting officer. The intent was that these negotiations would result in definitized firm-fixed price contracts with each company.

It is now nearly 6 months since the letter contracts were issued and cost and pricing data have not been submitted, negotiations have not been conducted, and the contracts have not been definitized. In accordance with the terms of the Aviation and Transportation Security Act, TSA employees must be in place performing the screening services at the Nation's airports by November 19, 2002. After the screener contracts end, it could be very difficult to recover any improper or unsupported payments. Accordingly, TSA needs to take immediate action to: (1) require contractors to submit proposals and cost and pricing data; and (2) definitize the contracts.

In addition to our work, TSA's Office of Inspection performed similar reviews at two screening contractors and three airports. These reviews also found that internal controls were not followed, contractors billed TSA for employees who were on vacation, and TSA was overcharged for services not performed. TSA notified us of its intent to refer the results to our Office of Investigations.

TSA is in the process of developing a statement of work to hire a contractor to perform oversight of screening contractors' billings. Based on our initial findings, the oversight contract needs to be in place quickly and clarified to ensure that the oversight contractor verifies cost and pricing data at the screener contractors' offices, focusing specifically on cost data used to support the loaded labor rates.

Additionally, TSA is planning to enter into an agreement with the Defense Contract Management Agency to provide contract administration services. If implemented, this would be a good step in the right direction.

That concludes my statement, I would be happy to address any questions you might have.