

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

Costs Invoiced by the City of Phoenix for
Checked Baggage Screening Projects at the
Phoenix Sky Harbor International Airport



American Recovery and Reinvestment Act of 2009

OIG-12-105

July 2012



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

JUL 30 2012

MEMORANDUM FOR: Kelly Hoggan, Assistant Administrator/
Chief Technology Officer
Office of Operational Process and Technology
Transportation Security Administration

FROM: Anne L. Richards *Anne L. Richards*
Assistant Inspector General for Audits

SUBJECT: *Costs Invoiced by the City of Phoenix for Checked Baggage
Screening Projects at the Phoenix Sky Harbor International
Airport*

Attached for your action our final report, *Costs Invoiced by the City of Phoenix for Checked Baggage Screen Projects at the Phoenix Sky Harbor International Airport*. We incorporated the formal comments from the Administrator of the Transportation Security Administration in the report.

The report contains three recommendations to address questionable invoiced costs and to ensure the City of Phoenix complies with the requirement to buy American goods. The Administrator concurred with the three recommendations. As prescribed by Department of Homeland Security Directive 077-1, Follow-Up and Resolutions for the Office of Inspector General Report Recommendations, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement and disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and supporting documents needed to inform us on the status of the recommendation. Until your response is 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.

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

Attachment



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Abbreviations

BHS	baggage-handling system
CBIS	Checked Baggage Inspection System
DHS	Department of Homeland Security
GMP	Guaranteed Maximum Price
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTA	Other Transaction Agreement
T3	Terminal 3
T4NO	Terminal 4 North Oversize
TSA	Transportation Security Administration



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Executive Summary

The Transportation Security Administration (TSA) entered into an Other Transaction Agreement with the City of Phoenix to fund a portion of the costs to modify Terminal 3 and Terminal 4 North Oversize at the Phoenix Sky Harbor International Airport to incorporate Checked Baggage Inspection Systems. Under the Other Transaction Agreement, TSA agreed to reimburse the City of Phoenix up to \$26,588,898 (90 percent) of the estimated costs of \$29,543,220 for designing, managing, and building the project. At the time of our audit, the City of Phoenix had submitted six invoices to TSA totaling \$20,542,009 for costs through July 31, 2011.

We conducted our audit to determine whether invoiced costs were allowable, allocable, and reasonable according to the funding agreement and applicable Federal requirements.

We concluded that costs of \$8,844,377 (TSA share) invoiced for construction and construction-related activities were questionable for reimbursement because they were not allowable under the terms of the Other Transaction Agreement (\$3,994,119) or were not properly supported (\$4,850,258). In addition, we determined that the City of Phoenix complied with the requirements for submitting quarterly reports to the Federal Government and for paying prevailing wages, but could not provide adequate support that it complied with the requirement for buying goods manufactured in America. TSA agreed with our recommendations to resolve the questioned costs and verify that the City of Phoenix complied with the “buy American” requirement.



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Background

The *American Recovery and Reinvestment Act of 2009*, as amended, (Recovery Act) appropriated \$1 billion to TSA for “procurement and installation of checked baggage explosives detection systems and checkpoint explosives detection equipment.” TSA awarded \$574,023,419 of that amount to 25 airport organizations for 29 projects modifying airports to accommodate new baggage-screening equipment.

Under Other Transaction Agreement (OTA) No. HSTS04-10-H-REC128, dated May 12, 2010, TSA agreed to provide the City of Phoenix (City) up to \$26,588,898 (90 percent) of estimated project costs of \$29,543,220 for two Checked Baggage Inspection System (CBIS) solutions at Sky Harbor International Airport (Airport).

According to the OTA, the additional funds are for construction modifications to the building infrastructure for Terminal 3 (T3) and Terminal 4 North Oversize (T4 NO). Terminal modifications include required changes to baggage conveyor components and mechanical, plumbing, electrical, structural, and telecommunications infrastructure to install medium-volume explosive detection system units within the two baggage-screening areas. Other features include providing for explosive trace detection resolution areas, a remote on-screen resolution/control room, and the installation of baggage-screening hardware and software.¹

Table 1 presents the estimated OTA project costs.

¹ TSA initially funded modifications to the Airport for installation of in-line baggage screening equipment at Terminals 2, 3, and 4 under a 2004 Memorandum of Agreement with the City. In the 2004 agreement, TSA agreed to reimburse the City for \$91.5 million (75 percent) of estimated project costs of \$122 million. The City completed modifications to Terminals 2 and 4 and started work at Terminal 3, but ran out of money before it could complete the project. The 2010 OTA does not preclude the City from pursuing additional government funding for the engineering, design, and construction of modifications and reconfiguration of the Phoenix “in-line” baggage systems for Terminals 2, 3, and 4 to install the explosives detection system equipment contained in the 2004 agreement.



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Table 1. Project Costs			
Description	Amount		
	T4 NO	T3	Total
Capital Costs:			
• Direct costs for Checked Baggage Inspection System (CBIS) and other related construction	\$1,781,000	\$21,666,000	\$23,447,000
Administrative and Contingency Costs (at a percentage of capital costs):			
• Design with Construction Administration (8 percent)	142,480	1,733,280	1,875,760
• Design Contingency (5 percent)*	89,050	1,083,300	1,172,350
• Construction Contingency (5 percent)*	89,050	1,083,300	1,172,350
• Project Management (2 percent)	35,620	433,320	468,940
• Construction Management (6 percent)	106,860	1,299,960	1,406,820
Total Project Costs	\$2,244,060	\$27,299,160	\$29,543,220
90 percent TSA Share of Project Costs	\$2,019,654	\$24,569,244	\$26,588,898
*The City did not use design or construction contingency funds.			

As of November 15, 2011, the City submitted six invoices to TSA for reimbursement of costs of \$20,542,009 (\$22,824,455 × 90 percent). The invoices covered the period from October 2009 through July 2011 and listed the costs under two task orders: Guaranteed Maximum Price (GMP) #6 and GMP #7. Reimbursement for eligible project costs is based on the scope of the agreement; Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*; and the TSA publication *Reimbursable and Non-Reimbursable Costs for the Electronic Baggage Screening Program, version 1.0*, June 2008.

The OTA also requires the City to comply with OMB Circular A-133, *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; and use American-made² iron, steel, and manufactured goods.

In this report, we refer to questioned costs that are ineligible or unsupported. Ineligible questioned costs are expenditures that we concluded are contrary to a provision of the

² On October 13, 2009, TSA issued a waiver to the buy American requirements. The waiver specifies that at least 95 percent of each project be built with American-produced products and allows up to 5 percent of total project costs to be used for non-American products.



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OTA. Unsupported questioned costs are expenditures that we believe were not substantiated by adequate documentation.

Results of Review

We questioned \$8,844,377 of the \$20,542,009 invoiced by the City. The questioned costs consist of capital costs of \$7,624,463 and administrative costs of \$1,219,914. The questioned costs are summarized in table 2 and discussed in the following paragraphs. Appendix C lists the individual questioned capital cost items by task order and category. Also, we concluded that the City fulfilled the requirements for submitting quarterly reports and for paying prevailing wages. The City could not, however, provide adequate support that it complied with the requirement for buying goods manufactured in America.

Category	Ineligible Costs	Unsupported Costs	Total
Capital Costs	\$3,825,784	\$4,645,842	\$8,471,626
Federal Share (90 percent)	\$3,443,205	\$4,181,258	\$7,624,463
Administrative Costs	\$612,126	\$743,334	\$1,355,460
Federal Share (90 percent)	\$550,913	\$669,001	\$1,219,914
Total Costs	\$4,437,910	\$5,389,176	\$9,827,086
Federal Share	\$3,994,119	\$4,850,258	\$8,844,377

Questioned Capital Costs

We questioned capital costs of \$7,624,463 because the City invoiced costs that were ineligible (\$3,443,205) or unsupported (\$4,181,258).

Ineligible Costs – \$3,443,205

We classified costs of \$3,443,205 as ineligible because the costs were for activities outside the scope of the OTA.

The OTA specifies that the project costs which TSA will reimburse are limited to costs associated with the CBIS,³ the on-screen resolution room, the checked

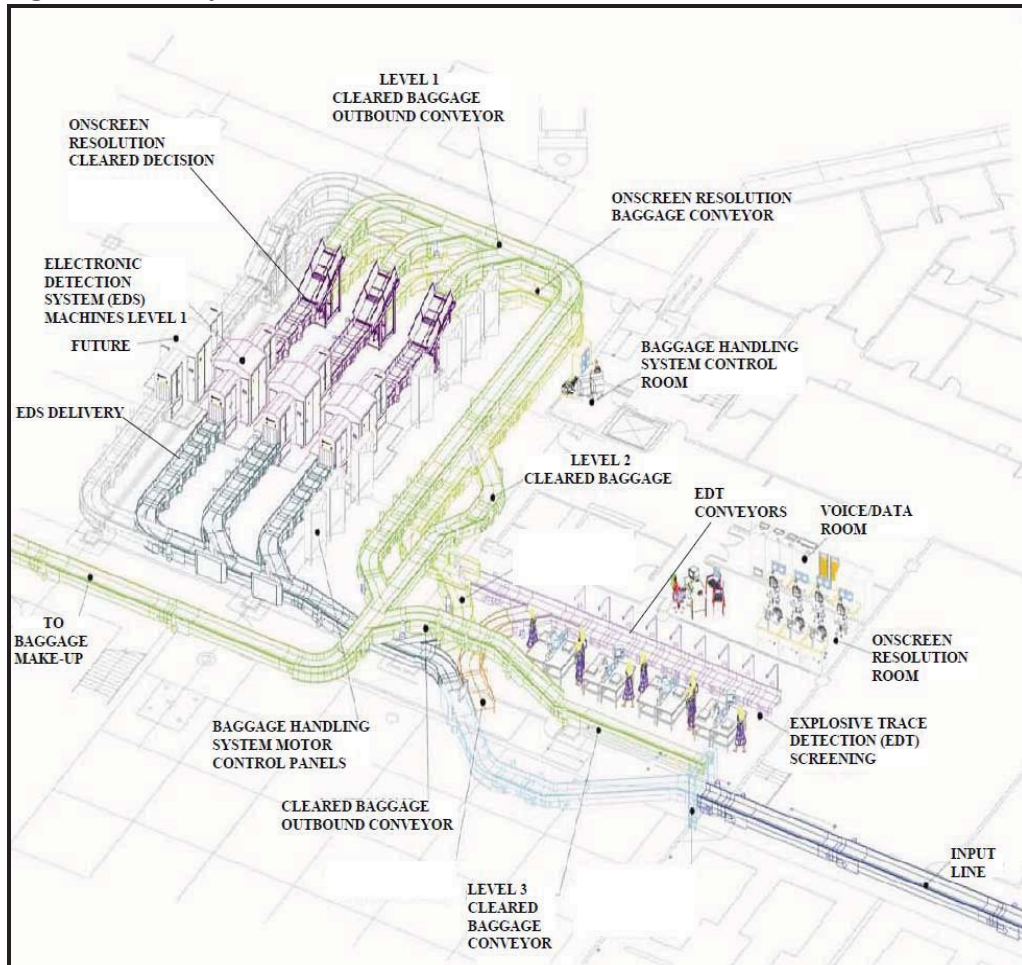
³ The CBIS is defined as the area from the baggage insertion point into the electronic detection system screening matrix to the point where screened baggage is reinserted into the baggage makeup area.



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baggage resolution Area(s), and the electronic detection system network equipment. Figure 1 presents an example of an automated CBIS.

Figure 1. Example of an Automated CBIS



Source: *TSA Electronic Baggage Screening Program, Program Specific Recovery Act Plan*, dated May 15, 2009.

The OTA also says that construction costs that are not considered reimbursable include the baggage-handling system (BHS) portion prior to the explosive detection system screening matrix area and the BHS portion exiting the electronic detection system screening matrix area. Maintenance, repair parts or spare parts, and extended warranties beyond 1 year are also not considered reimbursable. We classified as ineligible costs incurred for items and services we considered not part of the CBIS or not otherwise provided for in the OTA.



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The largest amount of ineligible costs pertains to the replacement of the legacy⁴ BHS. We identified legacy BHS replacement costs totaling \$2,338,554, which consisted of the equipment purchases (\$1,360,000), system controls (\$297,809), and installation (\$680,745).

City officials and their representatives believed that replacement of the legacy BHS was necessary to incorporate the electronic detection system matrix into the T3 BHS and invoiced TSA for 85 percent of the replacement costs.⁵ The officials also said that they discussed this in numerous telephone conversations and emails with TSA officials, and that they believed that the T3 diagram included in the OTA shows the legacy BHS as part of the project.

Although the area on the OTA diagram of the funded project appears to include the legacy BHS, the OTA specifically limits reimbursement to that portion of the BHS contained within the CBIS. We could not locate any evidence of TSA authorizing the replacement of the legacy BHS as part of the OTA project. However, we obtained a February 25, 2010, email from TSA's Southwest Deployment Manager (who served as the Contracting Officer's Technical Representative) to the City and their representatives that stated,

“The entire ticket conveyor lines were colored green and I am assuming Phoenix is stating these are eligible costs. This is incorrect. If there was a decision to replace conveyor due to obsolescence, that was a preference of the airport and was not required for the CBIS. As Appendix F states, TSA does not reimburse costs associated with airport enhancements.”

The remaining ineligible capital costs of \$1,104,651 consisted principally of the renovation of structures and replacement of systems that were outside the CBIS and the transporting of baggage. Examples follow:

- \$54,485 for the heating, ventilation, and air conditioning system extended warranty for T3,
- \$84,613 for removal and salvage of six curbside podiums and overhead ceiling doors,
- \$31,964 for relocating the USAirways ticket counter, and

⁴ “Legacy” refers to the City’s designation of the section of the T3 BHS running from the ticket counters into the beginning of the explosive detection system matrix. The City replaced the legacy conveyance systems and manufactured components as part of the overall T3 explosives detection system project.

⁵ Notwithstanding the fact that we questioned all the legacy BHS costs, the City could not provide support for its invoicing legacy costs at a rate of 85 percent.



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- \$48,771 for paying porters to carry bags from the ticket counters to the collection point for transferring bags to the planes.

At the exit conference and during followup discussions, City officials and their representatives agreed that \$415,423 of the \$1,104,651 was not eligible (see appendix C).

Unsupported Costs – \$4,181,258

We classified costs of \$4,181,258 as unsupported because the City did not properly allocate the costs to the OTA-funded project.

The basic guidelines in OMB Circular A-87 say that to be allowable, a cost must be properly documented and be allocable to the Federal award. The circular says that “a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

In conjunction with work under the OTA project, the City elected to replace the entire BHS in T3 as well as install a new extension for oversized baggage to the existing BHS in T4. The T4 extension included new segments both inside and outside of the CBIS. Although the unsupported costs benefited the OTA project as well as the other BHS work, the City either fully charged the costs to the OTA project or partially charged (86 percent to 88 percent) the costs on the basis of an unsupported allocation methodology.

We believe that the costs should have been allocated to the OTA project in proportion to the benefits actually derived. As such, we classified all of these costs as unsupported because we could not determine and the City could not support the correct allocation for each of the charges. Examples of the allocations follow:

- The full amount of the \$1,205,086 cost of the layout and installation of the electrical and mechanical system in T4,
- The full amount of the \$682,928 cost of testing and warranties for equipment layout and installation in T3,
- The full amount of the \$300,000 cost of fabricating complete system conveyor for T4 BHS row,



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- The full amount of a \$211,924 redesign of T4, and
- Eighty-seven percent of the \$353,439 cost of electrical work for relocating conduits and data cable for the BHS row.

At the exit conference and during followup discussions, City officials agreed that many of the unsupported costs should not have been charged in full to the OTA but should have been allocated between the OTA project and the other BHS work performed outside the CBIS.

Questioned Administrative Costs

We questioned administrative costs of \$1,219,914 related to the questioned capital costs of \$7,624,463. The OTA authorized the following administrative and contingency cost allowances as a percentage of the direct costs for the CBIS and other related construction costs: design with construction administration (8 percent); construction management (6 percent); design contingency (5 percent); construction contingency (5 percent); and project management (2 percent).

The City invoiced administrative costs for only design with construction administration, construction management, and project management. We computed the questioned administrative costs as follows.

Ineligible Administrative Costs – \$550,913

We classified administrative costs totaling \$550,913 as ineligible. We determined the ineligible amounts by applying the appropriate administrative cost percentages to the ineligible capital costs. For example, we calculated ineligible design with construction administration costs of \$306,063 by applying 8 percent to the \$3,825,784 of ineligible capital costs. We made similar calculations for the other categories, which resulted in ineligible construction management costs of \$229,547 ($\$3,825,784 \times 6$ percent) and ineligible project management costs of \$76,516 ($\$3,825,784 \times 2$ percent). The Federal share of ineligible administrative costs of \$550,913 was computed by taking 90 percent of \$612,126 ($\$306,063 + \$229,547 + \$76,516$).



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Unsupported Administrative Costs – \$669,001

We classified administrative costs totaling \$669,001 as unsupported. We determined the unsupported amounts by applying the appropriate administrative cost percentages to the unsupported capital costs. For example, we calculated unsupported design with construction administration costs of \$371,667 by applying 8 percent to the \$4,645,842 of unsupported capital costs. We made similar calculations for the other categories, which resulted in unsupported construction management costs of \$278,751 ($\$4,645,842 \times 6$ percent) and unsupported project management costs of \$92,917 ($\$4,645,842 \times 2$ percent). The Federal share of unsupported administrative costs of \$669,001 was computed by taking 90 percent of \$743,335 ($\$371,667 + \$278,751 + \$92,917$).

Use of American-Made Iron, Steel, and Manufactured Goods

Section 1605 of the Recovery Act requires the use of American-made iron, steel, and manufactured goods in the construction of Recovery Act projects. Under the Department of Homeland Security's (DHS) limited waiver of the requirement for TSA's Electronic Baggage Screening Program projects, up to 5 percent of the total project costs may be used to purchase non-American goods. However, the City's support to demonstrate compliance with the "buy American" requirement was incomplete.

The City, the contractor, and the BHS subcontractor did not obtain any letters from the individual BHS vendors regarding the source of the components that were used for the CBIS. The BHS subcontractor did prepare a spreadsheet for the contractor that included a description of 15 iron, steel, and manufactured components used on the CBIS; the names of the vendors that provided the components, and the identification of American and foreign products used. Based on the calculations provided by the subcontractor, the contractor provided a letter to the City which stated that approximately 95 percent of the iron, steel, and manufactured goods used on the CBIS appeared to comply with its understanding of the "buy American" requirements. However, without letters or other documents from the individual vendors certifying the source of the materials used on the CBIS, we could not validate the data shown on the subcontractor's spreadsheet and in the contractor's letter.

TSA officials have not examined the City's compliance with the requirement to use American goods. TSA did publish an administrative checklist to aid contracting officials in determining "buy American" compliance on February 3,



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2011. TSA's Director, Security Technology Acquisition Division, told us that TSA is developing procedures to implement the checklist. We believe that TSA should use the checklist to help determine whether the City complied with the "buy American" requirement for the CBIS.

Recommendations

We recommend that TSA's Contracting Officer:

Recommendation #1:

Resolve the \$7,624,463 of ineligible and unsupported capital costs.

Recommendation #2:

Resolve the \$1,219,914 of ineligible and unsupported administrative costs.

Recommendation #3:

Review the iron, steel, and manufactured goods used in the CBIS to determine whether the City complied with applicable "buy American" requirements.

Management Comments and OIG Analysis

TSA provided formal comments to our draft report, which are included as appendix B.

TSA Comments to Recommendation #1

TSA concurred with the recommendation and said it "will work with the City to properly assess and resolve the questioned capital costs" and provide OIG with further details in 90 days.

OIG Analysis

While it concurred with the recommendation, TSA did not identify specific corrective actions. Therefore, the recommendation will remain unresolved and open until TSA provides a corrective action plan including target completion dates and responsible parties.



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TSA Comments to Recommendation #2

TSA concurred with the recommendation and said it “will work with the City to properly assess and resolve the questioned administrative costs” and provide OIG with further details in 90 days.

OIG Analysis

While it concurred with the recommendation, TSA did not identify specific corrective actions. Therefore, the recommendation will remain unresolved and open until TSA provides a corrective action plan including target completion dates and responsible parties.

TSA Comments to Recommendation #3

TSA concurred with the recommendation and said it will work with the City to obtain certification from the vendors that the materials used were “buy American” compliant. TSA also said it would use a checklist that it developed for assessing and monitoring “buy American” compliance to help resolve this recommendation.

OIG Analysis

TSA’s decision responds to the recommendation. However, the recommendation will remain unresolved and open until TSA provides a corrective action plan including target completion dates and responsible parties, or evidence that it has obtained the certifications.



Appendix A

Objective, 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 DHS.

The objective of this audit was to determine whether costs invoiced by the City of Phoenix were allowable, allocable, and reasonable according to the funding agreement and applicable Federal requirements. Our audit covered invoiced costs of \$20,542,009 for the period October 1, 2009, to July 31, 2011. This represents the total amount invoiced as of November 15, 2011.

Our tests and procedures included the following:

- Reviewing the Recovery Act, OTA, and TSA and OMB guidelines
- Interviewing TSA officials to obtain an understanding of the project and project management
- Interviewing City officials and representatives to obtain an understanding of the project, project management, accounting, and invoicing
- Examining City accounting records and supporting documents for the amounts invoiced to TSA
- Reviewing the eligibility of 100 percent of the invoiced charges for reimbursement, and discussing our findings with City officials and its representatives
- Inspecting the CBIS
- Reviewing the audit working papers of the certified public accounting firm that performed the Single Audit of the City for the fiscal year ending June 30, 2010

The Single Audit of the City was performed by Clifton Gunderson LLP and included Recovery Act-funded CBIS costs totaling \$10,120,483 (about 49 percent of invoiced costs). The Single Audit report classified the CBIS as a major program. The Single Audit report did not identify any questionable costs related to the CBIS or any deficiencies in internal controls that were identified as material weaknesses. In providing us access to



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its audit working papers, Clifton Gunderson LLP wrote that “Our audit, based on selective testing, is subject to inherent risk that material errors or fraud, if they exist, will not be detected. . . . Our use of professional judgment and the assessment of materiality means that matters may exist that might be assessed differently by you.” Based on issues identified during our preliminary work, we included the invoiced costs covered by the Single Audit in our audit tests.

We tested City records to determine compliance with OMB Circular A-87 and with other terms and conditions of the agreement. We considered the City’s 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 of the materials and manufactured components used in the construction of the CBIS; 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 June 2011 and March 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.



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Appendix B
Management Comments to the Draft Report


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



Transportation
Security
Administration

JUN 27 2012

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

FROM: John S. Pistole 
Administrator

SUBJECT: Transportation Security Administration's Response to U.S. Department of Homeland Security Office of Inspector General's Draft Report: *Review of Costs Invoiced by the City of Phoenix Relating to Checked Baggage Screening Projects at Terminal 3 and Terminal 4 North Oversize at the Phoenix Sky Harbor International Airport Under Other Transaction Agreement Number HSTS04-10-H-REC128*

Purpose

This memorandum constitutes the Transportation Security Administration's (TSA) formal response to the U.S. Department of Homeland Security (DHS), Office of Inspector General's (OIG) draft report of May 2012, *Review of Costs Invoiced by the City of Phoenix Relating to Checked Baggage Screening Projects at Terminal 3 and Terminal 4 North Oversize at the Phoenix Sky Harbor International Airport Under Other Transaction Agreement Number HSTS04-10-H-REC128* – For Official Use Only, received by e-mail on May 18, 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 (Recovery Act), TSA was appropriated \$1 billion for the "procurement and installation of checked baggage explosives detection systems and checkpoint explosives detection equipment . . ." TSA has awarded more than \$500 million in Recovery Act funding to airport organizations for modifying facilities to accommodate new baggage-screening equipment through the Electronic Baggage Screening Program.

One of these Recovery Act awards was to the City of Phoenix (the City) for a Checked Baggage Inspection System (CBIS) project at Terminal 3 and Terminal 4 North Oversize at Phoenix Sky Harbor International Airport through an Other Transaction Agreement (OTA) dated May 12, 2010. In conjunction with the Recovery Act CBIS project, the City elected to also replace its



Appendix B Management Comments to the Draft Report

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Legacy Baggage Handling Systems (Legacy BHS) in Terminal 3 and Terminal 4 under a project not funded by TSA. Under the OTA, TSA agreed to reimburse the City up to \$26,588,898, representing 90 percent of the estimated costs of \$29,543,220 for designing, managing, and building the project. At the time the OIG conducted its audit, the City had submitted invoices for costs through July 31, 2011, totaling \$22,824,454, of which \$20,542,009 represented TSA's 90 percent share.

Discussion

The draft OIG report questions \$9,827,086 of incurred and billed costs, of which \$8,844,377 represents TSA-questioned costs consisting of capital and administrative costs invoiced by the City. Specifically, the OIG questions \$7,624,463 of the invoiced capital costs, classifying \$3,443,205 as ineligible because these costs were for activities that were not within the scope of the OTA. The majority of these costs were for the replacement of the Legacy BHS. The remaining \$4,181,258 of the invoiced capital costs were classified as unsupported because the City did not properly allocate these costs between the TSA-funded CBIS project and the City's non-TSA funded projects. The draft report notes that the City either fully or partially (86-88 percent) charged these costs to the CBIS project on the basis of an unsupported allocation methodology.

The OTA authorized administrative cost allowances as a percentage of the direct costs for the CBIS project. The City invoiced TSA for three cost allowances: design with construction administration (8 percent); construction management (6 percent); and project management (2 percent). By applying these administrative cost percentages to the above noted ineligible and unsupported capital costs, the OIG questions \$1,219,914 of the invoiced administrative costs. Specifically, the OIG classifies \$550,913 of the invoiced administrative costs as ineligible and the remaining \$669,001 as unsupported.

TSA will review all of the information regarding this project, including cost eligibility guidance, and will work with the City to properly assess and resolve the questioned capital and administrative costs. TSA will also request additional documentation from the City and obtain documentation that the OIG has collected during the audit.

The draft report also finds that TSA officials did not examine the City's compliance with the Buy American Act. As the OIG notes, the subcontractor did provide the contractor with a spreadsheet that included a description of iron, steel and manufactured components, the names of vendors who provided the components, and the identification of the American and foreign products used. Based on these calculations, the contractor provided the City with a letter indicating that approximately 95 percent of the iron, steel and manufactured goods used in the CBIS project complied with Buy American Act requirements. However, the OIG was unable to validate the information without documentation from the vendors certifying the source of the materials used. In order to verify that the goods used are in fact Buy American Act compliant, TSA will work with the City to obtain certification of the sources of materials used in the CBIS project.



Appendix B Management Comments to the Draft Report

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TSA concurs with 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 \$7,624,463 of ineligible and unsupported capital costs.

TSA Concurs: As indicated above, TSA will work with the City to properly assess and resolve the questioned capital costs. TSA intends to provide the OIG with information regarding resolution of this issue in the 90-day update to the final report.

Recommendation 2: TSA’s Contracting Officer resolve the \$1,219,914 of ineligible and unsupported administrative costs.

TSA Concurs: As indicated above, TSA will work with the City to properly assess and resolve the questioned administrative costs. TSA intends to provide the OIG with information regarding resolution of this issue in the 90-day update to the final report.

Recommendation 3: TSA’s Contracting Officer review the iron, steel and manufactured goods used in the CBIS project to determine whether the City complied with applicable “Buy American” requirements.

TSA Concurs: In order to verify that the materials used are compliant with Buy American Act requirements, the Contracting Officer will work with the TSA Contracting Officer’s Representative and the City to obtain certification from the vendors.

Additionally, the TSA Office of Acquisition has begun using a checklist to assist acquisition workforce staff in assessing and monitoring Recovery Act recipient compliance with Buy American Act requirements. This checklist was provided to the OIG in TSA’s 90-day 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). This checklist has previously been agreed to by the OIG as a beneficial tool in the resolution of similar recommendations on other Recovery Act-related audits.



Appendix C

Questioned Capital Costs by Task Order and Category

Legend:				
A - Charges benefited both CBIS work and overall BHS work.				
B - Charges appeared to be for BHS work outside the CBIS.				
C - Charges for preventive maintenance and/or extended warranties that are not allowed by the OTA.				
D - Charges for fencing which the City agreed was not installed in the building containing the CBIS.				
* - Charges that the City and its representatives agreed were ineligible (\$415,423).				
	Category	Questioned Costs		
		Ineligible	Unsupported	Explanation
Task Order GMP #6				
01000				
General Requirements				
	Small tools		\$1,732	A
	Miscellaneous materials		40	A
	Scaffolding base		1,376	A
	Light plants – plants and fuel		1,273	A
	Temporary utilities – light towers		12,518	A
	Temporary toilets		1,560	A
	Construction building cleaning		15,128	A
	General labor – miscellaneous cleaning		29,066	A
	Housekeeping, trash removal		25,041	A
	Rubbish removal dumpsters		11,940	A
	Dumpsters 45 yd. capacity		2,738	A
	General protection/safety		6,352	A
	Temporary protection		106	A
	Escort of unbadged subcontractors		8,472	A
	Modification of gate panels at western laydown		2,780	A
	Base temporary fencing and relocation		1,504	A
	Security site fencing		6,868	A
	Relocate/modify fencing		3,530	A
	Temporary protection at roof expansion joint	\$2,212	*	B



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	Category	Questioned Costs		
		Ineligible	Unsupported	Explanation
	General labor		\$5,483	A
	Equipment maintenance		4,644	A
	Miscellaneous consumables/general safety items		5,216	A
	First aid supplies		91	A
	Installation of benches at medium	\$270	*	B
02000 Sitework				
	Demo block at ticket counter (TC) 2 Line	3,521		B
	Demo doghouse behind Jet Blue	1,142		B
	Remove concrete masonry unit (CMU) wall at service level	6,994		B
	Removal and salvage six curbside podiums and overhead coiling doors.	84,613		B
	T3 Remove concrete curb below existing baggage makeup units (MU) at Northeast (NE) corner of service level	6,774	*	B
03000 Concrete				
	Base concrete		63,057	A
05000 Metals				
	Base conveyor support steel		68,377	A
	Damaged ceiling under bridge #7	3,478	*	B
	Base stainless steel and wainscot scope	66,862		B
6100 Rough Carpentry				
	T3 Roadway (R) general labor and materials		71,425	A
	T3R general labor sat work		4,764	A
	Exterior wall furring and shelf	3,119		B
	Revised protection for future BHS row	22,459	*	B



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		Ineligible	*	Unsupported	Explanation
	T3R equipment maintenance	\$1,822	*		C
	Replace AirTran graphic at ticket counter	5,030			B
09000					
Finishes					
	Exterior painting	19,231	*		B
	Paint the new median fence	7,388	*		B
	Field paint roof expansion joint	1,692	*		B
	Paint all new steel at service level	2,214	*		B
	T3 painting of roof accessories	2,635	*		B
	New wallpaper: American Airlines ticket counter	650			B
	Paint wall at TC5 conveyor at ticket counter	186			B
	Painting: Delta Airlines sign relocation	121			B
	Paint wall behind AirTran ticket counter	229			B
15300					
Fire Protection System					
	Relocate 4-inch main around conveyor motor in T3 basement tunnel	1,287			B
	Relocate 4-inch main for BHS row in T3 basement tunnel	10,418			B
	T3R sprinkler pipe conflict with BHS at service level	7,491			B
	Fire sprinkler relocation for BHS Row	779			B
15700					
HVAC					
	Provide new filters and perform scheduled preventative maintenance	2,549	*		C
	Cleanout cover at T3 elevator lobby	289	*		B
	Heating, ventilation, and air-conditioning (HVAC) relocation	25,536			B



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		Ineligible	Unsupported	Explanation
	Relocate conduits	\$562		B
	Plumbing relocation	1,526		B
	Relocate plumbing for BHS row	214		B
	Relocate ductwork for BHS row	2,646		B
	Reroute roof drain to avoid BHS motors	1,152		B
	Clean clogged drain at existing canopy time and materials (T&M) work	2,649	*	B
	Relocate storm drain cleanout for BHS row	506		B
	Relocate roof drain leader/overflow drain leader at west bridge for BHS row	1,946		B
	Relocate existing condensate at BHS row	4,377		B
	Relocate existing 4-inch copper water line for BHS row	5,458		B
16000 Electrical				
	Relocate plumbing fixture	2,505		B
	T&M work to relocate waste and storm lines in conflict with BHS service level	25,539		B
	T3 relocation of conduit for BHS row	39,611		B
	Base contract – T3 electrical demolition	4,250		B
	Light fixture relocation due to BHS installation	1,299		B
	Relamp existing light fixtures in service level	902	*	B
	Relocate electrical because of new layout	418		B
	T3 investigation of data conduits for BHS row	40,435		B
Task Order GMP #7				
14000 T3 Equipment				
	Legacy TC (85 percent)	1,360,000		B



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		Ineligible	Unsupported	Explanation
14000				
T3 Controls				
	Legacy TC (85 percent)	\$297,809		B
14000				
T3				
Engineering				
	BHS design changes per DWL Architects + Planners, Inc., coordination		\$5,306	A
	Electrical installation drawings		18,000	A
	Mechanical drawings with plan elevations bill of materials (BOM) – Legacy	18,000		B
	Typical control device description		15,000	A
	Motor control panel (MCP) locations and programmable logic controller (PLC) zones		12,000	A
	Product data – high load capacity components		6,000	A
	Functional design specifications (FDS) remote work station		18,000	A
	Sequence of operations		12,000	A
	Emergency stop (E-stop) zone drawings		18,000	A
	PLC programming code		40,000	A
	Facilities acceptance testing (FAT) plans for emulation and simulation		50,000	A
	Static, dynamic, load, functional test plan		\$20,000	A
	CAGE Inc., specific tests		10,000	A
	Mechanical installation drawings		40,000	A
	Spare parts list		10,000	A
	Operation and maintenance manual – draft		20,000	A
	Operation and maintenance manual – final		20,000	A
	Training plans (airlines, TSA, operation and maintenance)		20,000	A
	T3 removal of legacy conveyor and catwalk with lead paint	49,414		B



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	Category	Questioned Costs		
		Ineligible	Unsupported	Explanation
	Provide engineering, materials, installation for in-line configure TC1, TC2, TC3, TC4, TC5	\$80,640		B
14000				
T3 Install				
	Legacy TC (85 percent)	680,745		B
	Provide and buy preventative maintenance on the matrix	4,301	*	C
	Relocate delta conduit in basement for BHS install	8,362		B
	Overtime wages for legacy, phase 2	12,590		B
	Overtime wages for legacy install	6,754		B
	Integration of curbside security doors to T3 BHS	47,555		B
	Provide porters at MU to help airlines w/bags going to default makeup	1,066	*	B
	Provide porters to monitor/correct baggage hygiene at ticket counters	11,657	*	B
	Labor Day weekend coverage (Change Order [CO] #12, same as prior two charges)	8,991	*	B
	Bag porters in T3 ticket lobby to makeup area	48,771	*	B
	T3 South (S) and T4 North (N) FAT		\$118,150	A
	Engineering labor for new reports, human machine interface graphic and PLC changes, internal FAT, E-stops		256,445	A
	Extend conveyor TC3		27,372	A
	Balance of costs for extension of TC3		4,811	A
	Add limit switches to eight existing curbside doors		7,401	A
	Modify railing around makeup units	8,894	*	B
	Revise BHS logic		6,120	A
	Replace motor at TC3-02		4,812	A



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	Site-specific test plan (SSTP) and Batelle testing support		\$871	A
	BHS modification at T4 N		4,324	A
	Program ticket counter service door alarm signal		3,696	A
	T4 one programmer and one engineer for 30 days		43,966	A
	Evaluate makeup units sortation rates	\$762	*	B
14000 T3 Testing				
	Overtime hours for schedule acceleration – T3 S Phase 3 Legacy	16,199		B
	Portering bags from CTX explosive detection machines to TC3 for Delta	3,708		B
	CAGE Inc., testing – punch list complete		245,978	A
	Pre-integrated site acceptance testing (ISAT)		57,873	A
	CAGE Inc., pre-ISAT		202,555	A
	Battelle ISAT – Category 1		9,646	A
	Battelle ISAT – Category 2		9,646	A
	Battelle ISAT – Category 3		9,646	
	BHS modifications due to point loads		69,727	A
	Overtime hours for schedule acceleration		20,973	A
	Bag portering	3,435		B
	Warranties		147,584	A
	30-day technical support		16,400	A
14000 T4 Engineering				
	PLC programming code		20,000	A
	FAT plans for emulation and simulation		25,000	A



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	Spare parts list		\$10,000	A
	Operation and maintenance manual – draft		10,000	A
	Operation and maintenance manual – final		10,000	A
	Training plans (airlines, TSA, operation and maintenance)		10,000	A
	List of lubricants		3,000	A
	Mechanical installation drawings		20,000	A
	Control systems architecture		10,000	A
	FDS remote work package		20,000	A
	Standard BHS reports		30,000	A
	T4 redesign		211,924	A
	Sequence of operation		6,000	A
	T4 product data: mechanical components		3,000	A
	T4 product data: electrical field devices		3,000	A
	Electric typical control device description		6,000	A
	Electric MCP locations and PLC zones		20,000	A
	Electric motor manifest		6,000	A
	Power requirements, per MCP		4,500	A
	Electrical installation drawings		9,000	A
	Electric E-stop zone drawings		9,000	A
	Remove side guards for install of trilogy locks, TC 1, 2, 3, 4		1,018	A
14000	T4 Equipment			
	Complete system conveyors – procurement and fabrication		300,000	A
14000	T4 Installation			
	Mechanical – site mobilization		100,000	A
	Mechanical – system layout/header install		180,000	A



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	Mechanical – product receipt/storage/inventory		\$150,000	A
	Electrical – site mobilization		90,000	A
	Electrical – system layout/homerun piping and wiring		300,000	A
	Electrical field product submittals		100,000	A
	Mechanical installation – rough-in		112,200	A
	Mechanical installation – finalized		56,100	A
	Electrical installation		116,786	A
14000 T4 Testing				
	Battelle ISAT – Category 1		2,411	A
	Battelle ISAT – Category 2		2,411	A
	Warranties		12,670	A
	Battelle ISAT – Category 3		2,411	A
	100 percent payment and performance bond		166,590	A
01000 Gen. Requirements				
	Temporary lighting and power for basement, street, and curbside		488	A
	Additional rental fencing		8,840	A
	Relocate existing wall for safety at USAirways		1,261	A
	Paint temporary wall at TC-5	\$538		B
	Install temporary wall at TC-5	8,412		B
	Demolish wall at TC-5	1,884		B
02000 Sitework				
	Delta Airlines sign relocation	526		B
	T3 demolition of oversized bag room for BHS installation	6,455		B



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05000 Metals				
	T3 fencing in T3 matrix	\$4,381	*	D
06000 Rough Carpentry				
	Curbside podium inserts (CO #30)	11,879	*	B
	Curbside podium inserts (CO #21)	24,672	*	B
	Additional items at curbside podiums	434	*	B
09000 Finishes				
	T3 stainless steel cladding at dog houses	29,098		B
	Demolition of wall at TC-5	4,782		B
	Cleanup and repair of walls behind TC 5	1,967		B
	Relocate signage behind Delta ticket counter	3,039		B
	Paint wall at new TC-5 conveyor	146		B
	Paint walls at ticket counters	1,927		B
	Paint all impacted areas behind Delta ticket counter	659	*	B
	Install safety signage at T4 International (I), T4 N, T4 S, T4 R, and T2	3,916		B
10000 Specialties				
	T3 relocate fans at service level	1,451		B
14000 Conveying Systems				
	Modification to existing legacy conveyor	28,078	*	B
	Catwalk modification at TC Induction Line #2 in T4 I	4,643	*	B
	Modify PLC logic for T2 alarm line	10,560	*	B
	Furnish and deliver tubs (large gray bins) for T3 airlines	15,987	*	B



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	T3 provide technical oversight and decommissioning		\$22,782	A
	Relocate USAirways ticket counters	\$31,964	*	B
	Work included minor adjustments to T4 east and west matrix	19,992	*	B
	Monitor T3 service level makeup area	882	*	B
	Provide porters at each T3 counter	1,260	*	B
	Baggage monitoring support		169	A
	Engineering support to modify T4 N east and west matrix	36,523	*	B
	High-efficiency motors		180,020	A
	T3 design changes		140,093	A
15400 Plumbing				
	T3 R plumbing relocation for BHS row	3,558		B
	Relocate water line in conflict with BHS at service level-south side	18,752		B
	Relocate waste lines in conflict with BHS at service level-north side	1,221		B
15300 Fire Protection System				
	Repair fire sprinkler caused by Delta	1,126	*	B
	Relocation of sprinklers for BHS row	6,266		B
15700 HVAC				
	Extended warranty for T3	54,485	*	C
	Relocate controls conduit – conflict with BHS	20,623		B
	Relocate HVAC for BHS row	10,248		B
	Chilled water relocation for BHS row	4,387		B



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16000 Electric				
	Monitor ticket counter security door	\$38,040		B
	Relocate conduits for BHS row	246,130		B
	T3 relocation of data cable for BHS row	61,362		B
	New fans at service level	6,892	*	B
Subguard			\$195,785	A
	Total	<u>3,825,784</u>	<u>4,645,842</u>	
	Federal Share (90 percent)	<u>3,443,205</u>	<u>4,181,258</u>	



Appendix D

Major Contributors to This Report

Roger La Rouche, Director
Robert Leonard, Audit Manager
Shawn Cosman, Auditor
Ralleisha Dean, Report Referencer



Appendix E

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