

Department of Homeland Security Office of Inspector General

Review of Costs Invoiced by Jackson Hole Airport
Board Relating to Jackson Hole Airport Checked
Baggage Screening Project Under Other
Transaction Agreement Number
HSTS04-09-H-REC125 Awarded by the
Transportation Security Administration



American Recovery and Reinvestment Act of 2009

OIG-12-41

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**Homeland
Security**

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MEMORANDUM FOR: Robin Kane
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: *Review of Costs Invoiced by Jackson Hole Airport Board
Relating to Jackson Hole Airport Checked Baggage
Screening Project Under Other Transaction Agreement
Number HSTS04-09-H-REC125 Awarded by the
Transportation Security Administration*

Attached for your information is our final report, *Review of Costs Invoiced by Jackson Hole Airport Board Relating to Jackson Hole Airport Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC125 Awarded by the Transportation Security Administration*. Since the report contains no recommendations to Transportation Security Administration management, we did not solicit formal comments.

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

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

Attachment

Background

On February 17, 2009, Congress enacted the *American Recovery and Reinvestment Act of 2009* (Recovery Act), as amended, to preserve and create jobs, promote economic recovery, and invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits. The Recovery Act appropriated \$1 billion to the Transportation Security Administration (TSA) for “procurement and installation of checked baggage explosive detection systems and checkpoint explosives detection equipment....” According to TSA, it awarded \$574,023,483 of that amount to 25 airport organizations for 29 projects related to modifying airports to accommodate new baggage-screening equipment.

Under Other Transaction Agreement (OTA) No. HSTS04-09-H-REC125, TSA agreed to reimburse the Jackson Hole Airport Board (the Board) for allowable, allocable, and reasonable costs to support installation of a Checked Baggage Inspection System (CBIS) at the Jackson Hole Airport. The OTA cost ceiling is \$6,212,437 and covered 95% of project design, management, and construction for the CBIS portion of the Airport’s overall baggage handling system (\$6,175,437) plus the costs of screening equipment relocation up to \$37,000.

The OTA was signed on June 18, 2009, and specified a project period from March 23, 2009, through December 31, 2010. The OTA required the Board to submit invoices for reimbursement of project costs to TSA. Reimbursement for eligible project costs is based on the scope of the agreement; Office of Management and Budget (OMB) Circular A-87, Revised, *Cost Principles for State, Local and Indian Tribal Governments*; and the TSA publication *Reimbursable and Non-Reimbursable Costs for the Electronic Baggage Screening Program, version 1.0*, June 2008. As of December 6, 2010, the Board invoiced costs of \$6,212,437 for installation of the CBIS, which represented 95% of the costs incurred.

The agreement also required the Board to comply with OMB Circular A-133, Revised, *Audits of States, Local Governments, and Non-Profit 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 American¹ iron, steel, and manufactured goods.

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

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

Results of Review

We determined that that the Board invoiced sufficient allowable, allocable, and reasonable costs to earn the funds provided under the OTA, as follows:

Description	Invoiced Cost
Construction, Design, and Management	\$6,500,460
TSA Share	95%
	6,175,437
Equipment Relocation	37,000
Total TSA Share	<u>6,212,437</u>

In addition, we verified that the Board submitted the required quarterly reports on project activities to the federal government. We also determined that the Board complied with the OTA requirements for paying prevailing wages and using American iron, steel, and manufactured goods in the construction of the project.

Appendix A

Purpose, Scope, and Methodology

The objective of this audit was to determine whether costs invoiced by the Board are allowable, allocable, and reasonable according to the funding agreement and applicable federal requirements. Our audit covered invoiced costs of \$6,212,437 for the period March 23, 2009, through December 6, 2010. This project is completed, and as such this amount represents the total reimbursable and invoiced amount.

Our tests and procedures included the following:

- Reviewing TSA project files, the OTA and modifications, the Recovery Act, and TSA and OMB guidelines;
- Interviewing TSA officials to get an understanding of the project and project management;
- Examining Board accounting records supporting amounts invoiced;
- Interviewing Board officials to obtain an understanding of project management, accounting, and invoicing;
- Inspecting the CBIS project; and
- Reviewing the audit working papers of the certified public accounting firm that performed the Single Audit of the Airport for the fiscal year ending June 30, 2010.

The Single Audit of the Board was performed by Porter, Muirhead, Cornia, & Howard, and included Recovery Act-funded CBIS project costs totaling \$5,687,696 (or about 92% of invoiced costs). The Single Audit report classified the CBIS as a major program and assessed the Board as a low risk.² 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.

We also tested the Board records supporting costs invoiced to determine compliance with OMB Circular A-87 and with other terms and conditions of the agreement. We considered the Board's internal controls over the administration of TSA funds in determining our audit procedures.

We conducted this performance review between June 7, 2011, and January 20, 2012, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government

² A low-risk assessment results from the preceding annual Single Audit with an unqualified opinion on the entity's financial statements and the schedule of expenditures of federal awards, and no deficiencies in internal controls that were identified as material weaknesses under the requirements of generally accepted government auditing standards. This assessment allows for reduced audit coverage.

Appendix A
Purpose, Scope, and Methodology

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. The evidence we obtained from our tests and procedures provides a reasonable basis for our findings and conclusions based upon our audit objectives.

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 project; therefore, our conclusions are qualified to the extent that a technical evaluation may affect the allowability of invoiced costs. However, we coordinated our review with appropriate contracting officials.

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

Appendix B
Major Contributors to this Report

Roger LaRouche, Director
Karl Gallagher, Audit Manager
Sandra Ward-Greer, Report Referencer

Appendix C
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