

Department of Homeland Security Office of Inspector General

Review of Costs Invoiced by the City of San Antonio Relating to the San Antonio International Airport Terminal B Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC168 Awarded by the Transportation Security Administration



American Recovery and Reinvestment Act of 2009



Homeland Security

MAR 5 - 2012

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 the City of San Antonio
Relating to the San Antonio International Airport Terminal B
Checked Baggage Screening Project Under Other
Transaction Agreement Number HSTS04-09-H-REC168
Awarded by the Transportation Security Administration*

Attached for your information is our final letter report, *Review of Costs Invoiced by the City of San Antonio Relating to the San Antonio International Airport Terminal B Checked Baggage Screening Project Under Other Transaction Agreement Number HSTS04-09-H-REC168 Awarded by the Transportation Security Administration*. Since the report contains no recommendations to Transportation Security Administration management, we did not solicit formal comment.

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 explosives detection systems and checkpoint explosives detection equipment....” According to TSA, \$574,023,483 of that amount was awarded to 25 airport organizations for 29 projects modifying airports to accommodate new baggage-screening equipment.

Under Other Transaction Agreement (OTA) No. HSTS04-09-H-REC168, TSA agreed to reimburse the City of San Antonio (the City) for allowable, allocable, and reasonable costs to support installation of a Checked Baggage Inspection System (CBIS) at the San Antonio International Airport Terminal. The OTA cost ceiling was \$14,385,466 and covered 90% of project design, management, and construction for the CBIS portion of the airport’s overall baggage handling system.

The OTA was signed on September 28, 2009; specifies a project period from May 1, 2009, through September 30, 2011; and requires the City to submit invoices for reimbursement of project costs to TSA. Reimbursement for eligible project costs is based on the scope of the agreement; Office of Management and Budget (OMB) Circular A-87, *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 July 2011, the City invoiced costs of \$8,994,816 for installation of the CBIS. The costs invoiced by the City represent 90% of the costs incurred.

The agreement 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 American¹ iron, steel, and manufactured goods.

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

¹ The Department of Homeland Security (DHS) granted a limited, nationwide public interest 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 City incurred and invoiced sufficient allowable, allocable, and reasonable costs, as of July 2011, to earn the OTA agreed-upon share, as follows:

Description	Invoiced Cost
Construction, Design, and Management	\$9,994,240
TSA Share	90%
Total TSA Share	\$8,994,816

In addition, we verified that the City submitted the required quarterly reports on project activities to the federal government. We also determined that the City 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 City are allowable, allocable, and reasonable according to the funding agreement and applicable federal requirements. Our audit covered invoiced costs of \$8,994,816 for the period May 1, 2009, through July 21, 2011.

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 the City's accounting records supporting amounts invoiced;
- Interviewing City officials to obtain an understanding of project management, accounting, procurement, 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 City for the fiscal year ending September 30, 2010.

The Single Audit of the City was performed by Grant Thornton and included Recovery Act-funded CBIS project costs totaling \$6,986,912 for fiscal year 2010 (about 78% 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 that would affect the CBIS.

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

We conducted this performance review between August 2 and January 20, 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.

Appendix A
Purpose, Scope, and Methodology

Our audit was conducted without the benefit of a technical evaluation by TSA; therefore, our conclusions are qualified to the extent that a technical evaluation may affect the allowability of invoiced costs. However, we coordinated our review with appropriate contracting officials.

We appreciate the cooperation of the City 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
Garrick Greer, Auditor
Ralleisha Dean, Report Referencer

Appendix C Report Distribution

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ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202)254-4100, fax your request to (202)254-4305, or e-mail your request to our OIG Office of Public Affairs at DHS-OIG.OfficePublicAffairs@dhs.gov. For additional information, visit our OIG website at www.oig.dhs.gov or follow us on Twitter @dhsoig.

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