

# Department of Homeland Security Office of Inspector General

Costs Invoiced by Sacramento County for a  
Checked Baggage Screening Project Under  
Agreement Number HSTS04-09-H-REC148



American Recovery and Reinvestment Act of 2009

OIG-12-123

September 2012




**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

SEP 14 2012

MEMORANDUM FOR: John P. Sanders  
Assistant Administrator  
Office of Security Capabilities  
Transportation Security Administration

FROM: Anne L. Richard   
Assistant Inspector General for Audits

SUBJECT: *Costs Invoiced by Sacramento County for a Checked  
Baggage Screening Project Under Agreement Number  
HSTS04-09-H-REC148*

Attached for your information is our final letter report, *Costs Invoiced by Sacramento County for a Checked Baggage Screening Project Under Agreement Number HSTS04-09-H-REC148*. We incorporated the formal comments from the Administrator of the Transportation Security Administration in the report.

The report contains two recommendations to (1) resolve unsupported invoiced costs of \$246,479 and (2) ensure that Sacramento County complied with the requirement to buy American goods. The Administrator concurred with the two recommendations and described the corrective actions to be taken by the contracting officer. As prescribed by the 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 or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current 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.

Major contributors to this report are Roger La Rouche, Director of Recovery Act Audits; Robert Leonard, Audit Manager; Gary Greer, Auditor; and Katrina Reuben-Bynes, Report Referencer.

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

Attachment



## Background

The *American Recovery and Reinvestment Act of 2009*, as amended (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 ....” 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. HSTS04-09-H-REC148, dated August 7, 2009, TSA agreed to provide Sacramento County (County) up to \$11,340,000 (90 percent) of estimated project costs of \$12,600,000 for a Checked Baggage Inspection System (CBIS) solution at Sacramento International Airport’s (Airport) new Terminal B.

The OTA requires the County to submit invoices for reimbursement of project costs. TSA will reimburse project costs limited specifically to those associated with the CBIS (defined as that area from the baggage insertion point into the explosives detection system screening matrix to the points where screened baggage is reinserted into the baggage makeup area), the On Screen Resolution room, the Checked Baggage Resolution Area, and the Explosives Detection System network equipment room.

As of May 15, 2012, the County submitted nine invoices to TSA for reimbursement of \$6,393,427 (\$7,103,808 × 90 percent). The invoices covered the period from January 2010 through March 2012. Reimbursement for eligible project costs is based on the scope of the OTA; Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*; and the TSA publication *Reimbursable/Non-Reimbursable Costs for the Electronic Baggage Screening Program, version 1.0, June 2008*.

The OTA also requires the County to comply with 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 iron, steel, and manufactured goods.<sup>1</sup>

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<sup>1</sup> On October 13, 2009, the Department of Homeland Security (DHS) issued a limited waiver of the “buy American” requirements for each TSA Electronic Baggage Screening Program project. The waiver specifies that at least 95 percent 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 percent of total project costs to be used for non-American products.



## **Results of Review**

We questioned \$246,479 of the \$6,393,427 (Federal share) invoiced by the County. The questioned costs represent project management, for which there was inadequate support for the amount allocated to the TSA project. We concluded that the County fulfilled the requirements for submitting quarterly reports and for paying prevailing wages. In addition, we determined that the County's quarterly reports contained accurate expenditure and jobs data. The County could not, however, provide adequate support that it complied with the requirement for buying goods manufactured in America.

### **Unsupported Costs**

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We classified project management costs of \$246,479 as unsupported because the County did not properly allocate the costs to the TSA-funded project.

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 guidelines say 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 May 2008, the County embarked on a modernization program for the Airport, referred to as The Big Build. The Big Build program included the construction of a baggage-handling system (BHS) for the new Terminal B. In addition to the CBIS, the BHS comprises outbound conveyors, airline baggage makeup devices, domestic inbound conveyors and carousels, international inbound conveyors and claim device, a recheck conveyor, and all associated logic and controls.

The County invoiced TSA for project management costs totaling \$246,479 (\$273,865 × 90 percent). The \$273,865 consisted of the salary and expenses for the "BHS/APM [Automated People Mover] Project Manager" (\$167,224) and the salary and expenses for the "Baggage Handling Project Mgr." (\$106,641). The County allocated all such costs to TSA's project for the CBIS. We could not determine how much of the work performed by the two managers was directly related to the TSA-funded CBIS project and how much was applicable to the other BHS features.

The County's Associate Administrative Analyst II/Special Projects disagreed with our position and said that both of the project managers were mandated to work specifically on the CBIS. However, project reports from the subcontractor that performed the BHS work to one of the project managers discussed all of the BHS features, not just the CBIS. Therefore, we believe that the project managers' costs should have been allocated to



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Department of Homeland Security

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both the TSA project and the BHS project in proportion to the benefits actually derived. Therefore, we classified the \$246,479 as unsupported.

### **Use of American Iron, Steel, and Manufactured Goods**

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Section 1605 of the Recovery Act requires the use of American iron, steel, and manufactured goods in the construction of Recovery Act projects. Under 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 for the purchase of non-American goods. However, the County's support to demonstrate compliance with the "buy American" requirement was incomplete.

The County submitted invoice packages to TSA that included "Buy American Exceptions" forms. The final submittal, dated March 21, 2012, showed that the total CBIS materials cost to date was \$3,204,782, and contained the statement "None of the materials delivered to-date [were foreign]." Although this submittal appeared to have been signed by the BHS subcontractor, most of the earlier submittals we reviewed were not signed or dated. In addition, the County did not obtain any letters or other documents from the BHS subcontractor or the individual BHS vendors certifying the source of the components that were used for the CBIS. Therefore, we could not determine whether the County complied with the requirement to use American manufactured goods.

TSA officials told us that they have not examined the County's compliance with the requirement to use American goods. TSA did publish an administrative checklist on February 3, 2011, to aid contracting officials in determining "buy American" compliance. 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 County complied with the buy American requirement for the CBIS. The County's Associate Administrative Analyst II/Special Projects told us that she believed the County had complied with the buy American requirement because it had used the form specified in the OTA.

### **Recommendations**

We recommend that TSA's Contracting Officer:

**Recommendation #1:** Resolve the \$246,479 of unsupported project management costs.



**Recommendation #2:** Review the iron, steel, and manufactured goods used in the CBIS to determine whether the County 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 that it “will work with the County to determine the extent to which the invoiced project management costs were related to the CBIS.”

### **OIG Analysis**

Although TSA concurred with the recommendation, it 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 #2**

TSA concurred with the recommendation and said that it will work with the Contracting Officer’s Technical Representative and the County to obtain certification from the subcontractor and vendors that the materials used were buy American compliant.

### **OIG Analysis**

TSA’s decision sufficiently 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**

### **Objectives, 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 the Department.

The objectives of this audit were to determine whether (1) costs invoiced by Sacramento County were allowable, allocable, and reasonable according to the funding agreement and applicable Federal requirements and (2) expenditure and jobs data contained in the most recent quarterly recipient reports were adequately supported. Our audit covered invoiced costs of \$7,103,808 (Federal share of invoiced costs is \$6,393,427) for the period January 1, 2010, to March 31, 2012. This represents the total amount invoiced as of May 15, 2012.

Our tests and procedures included the following:

- Reviewing the Recovery Act, OTA, TSA, and OMB guidelines
- Interviewing TSA officials to obtain an understanding of the project and project management
- Interviewing County officials to obtain an understanding of the project, project management, accounting, and invoicing
- Examining County accounting records and supporting documents for the amounts invoiced to TSA
- Reviewing the eligibility of 100 percent of the costs submitted for reimbursement, and discussing our findings with County officials
- Inspecting the CBIS
- Reviewing the audit working papers of the certified public accounting firm that performed the Single Audit of the County for the fiscal year ending June 30, 2011

The Single Audit of the County was performed by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants. However, in OTA Modification P00003, TSA deleted the requirement for the County to comply with OMB Circular A-133, *Audits of States, Local*



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*Governments, and Nonprofit Organizations.* As a result, the certified public accountants did not subject the Federal funds for the CBIS to financial or compliance testing.

We tested County records to determine compliance with OMB Circular A-87 and with other terms and conditions of the OTA. We considered the County'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 December 2011 and May 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

AUG 21 2012

INFORMATION

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

FROM: John S. Pistole *JP 8/21/12*  
Administrator

THROUGH: J.W. Halinski *JH*  
Deputy Administrator

SUBJECT: Transportation Security Administration's Response to the  
U.S. Department of Homeland Security Office of Inspector  
General's Draft Report: *Costs Invoiced by Sacramento County for a  
Checked Baggage Screening Project under Agreement No. HSTS04-09-H-REC148 – For Official Use Only*

Purpose

This memorandum constitutes the Transportation Security Administration's (TSA) formal Agency response to the U.S. Department of Homeland Security (DHS), Office of Inspector General's (OIG) draft letter report of July 2012, *Costs Invoiced by Sacramento County for a Checked Baggage Screening Project under Agreement No. HSTS04-09-H-REC148 – For Official Use Only*. 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 over \$500 million in Recovery Act funding to airport organizations for modifying facilities to accommodate new baggage-screening equipment through the Electronic Baggage Screening Program.



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2

One of these Recovery Act awards was to Sacramento County (the County) for a Checked Baggage Inspection System (CBIS) project in the new Terminal B of Sacramento International Airport (SMF) through an Other Transaction Agreement (OTA) dated August 7, 2009. In May 2008, and prior to this OTA, the County started a modernization program for SMF that included the construction of a baggage-handling system (BHS) for the new Terminal B. The CBIS project is a portion of the overall BHS. Under the OTA, TSA agreed to provide the County up to \$11,340,000, representing 90 percent of the estimated project costs of \$12,600,000 for the CBIS project.

#### Discussion

The draft OIG letter report questions approximately 4 percent of the costs invoiced by the County, finding them unsupported because they were not properly allocated to the CBIS project. Specifically, the OIG questions \$246,479, which represents costs for project management, consisting of salary and expenses for a "BHS/APM [Automated People Mover] Project Manager" and a "Baggage Handling Project Mgr." The OIG could not determine which portion of the work performed by the two project managers was directly related to the CBIS project and which portion was applicable to other BHS features. The County informed the OIG that the two project managers were mandated to work specifically on the CBIS. Despite this assertion, the OIG still deems these costs to be unsupported, as one of the project managers received project reports discussing all of the BHS features, not just the CBIS, from a subcontractor that performed the BHS work. Accordingly, OIG believes that costs for project management should have been allocated proportionally to the CBIS project and the BHS project. To resolve these unsupported costs, TSA will work with the County to determine the extent to which the invoiced project management costs were related to the CBIS project.

The draft report also finds that TSA officials did not examine the County's compliance with the Buy American Act. As the OIG notes, the County submitted invoice packages to TSA that included "Buy American Exceptions" forms. The final submittal contained the statement that "[n]one of the materials delivered to-date [were foreign]." While this final submittal was signed by the BHS subcontractor, most of the earlier submittals reviewed by the OIG were not signed or dated. Additionally, the County did not obtain any documentation from the BHS subcontractor or individual BHS vendors certifying the source of the components used for the CBIS. In order to verify that the goods used are in fact Buy American Act compliant, TSA will work with the County to obtain certification of the sources of materials used in the CBIS project.

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

**Recommendation 1: TSA's Contracting Officer resolve the \$246,479 of unsupported project management costs.**

**TSA Concurs:** As indicated above, TSA will work with the County to determine the extent to which the invoiced project management costs were related to the CBIS project.



## OFFICE OF INSPECTOR GENERAL

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3

**Recommendation 2: TSA’s Contracting Officer review the iron, steel, and manufactured goods used in the CBIS project to determine whether the County 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 County to obtain certification from the subcontractor and 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**

### **Report Distribution**

#### **Department of Homeland Security**

Secretary  
Deputy Secretary  
Chief of Staff  
Deputy Chief of Staff  
General Counsel  
Executive Secretary  
Director, GAO/OIG Liaison Office  
Assistant Secretary for Office of Policy  
Assistant Secretary for Office of Public Affairs  
Assistant Secretary for Office of Legislative Affairs  
Acting Chief Privacy Officer  
Recovery Act Coordinator

#### **Transportation Security Administration**

Acting General Manager, Checked Baggage Division/Program Manager  
Electronic Baggage Screening Program, TSA  
Audit Liaison Official, TSA

#### **Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

#### **Congress**

Congressional Oversight and Appropriations Committees, as appropriate

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Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

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