



**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

The Inspector General

Office of Inspector General
Washington, DC 20590

April 9, 2014

The Honorable Tom Latham
Chairman
Subcommittee on Transportation,
Housing and Urban Development, and
Related Agencies
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

The Honorable John Garamendi
United States House of Representatives
Washington, DC 20515

The Honorable Gary G. Miller
United States House of Representatives
Washington, DC 20515

The Honorable Lois Capps
United States House of Representatives
Washington, DC 20515

Dear Chairman Latham, Congressmen Garamendi and Miller, and Congresswoman Capps:

We were asked by Congressmen Daniel Lungren and Elton Gallegly in 2011 to review anonymous allegations of revenue diversion at the Los Angeles World Airports (LAWA) made by LAWA employees. The allegations concern LAWA's payments to the City of Los Angeles (City) for the use of Los Angeles Police Department (LAPD) personnel for security services at Los Angeles International Airport (LAX).

Under 49 U.S.C. § 47107(b), an airport must expend its revenues for purposes related to the airport, and the Federal Aviation Administration (FAA) is responsible for ensuring airports comply with the statute. The LAWA employees allege LAWA, in violation of the statute, engaged in revenue diversion to: (1) pay overtime to LAPD officers assigned to LAX; (2) deploy LAPD officers assigned to ostensibly temporary positions to, in practice, long-term positions; (3) pay for LAPD officers whose wage and benefit costs are significantly greater than LAWA police officers; and (4) pay LAPD officers even when they performed off-airport duties.

Initially, our Complaint Center asked FAA to conduct an inquiry into the allegations. The FAA forwarded the allegations to LAWA, which, in turn, asked the Los Angeles City Attorney's office and LAWA's outside counsel to review them. LAWA and its

counsel submitted reports, including supporting documentation, on the allegations to FAA. After reviewing the reports, FAA provided its findings to our Complaint Center in a June 27, 2012, memorandum.

The FAA concluded that LAWA's payment of overtime to LAPD officers, the length of assignments for LAPD officers, and the decision to deploy higher paid LAPD officers did not constitute revenue diversion. According to FAA, LAWA has the managerial authority to determine the security services and staffing LAX requires and, pursuant to a Memorandum of Agreement with the City, may use LAPD personnel. We concur that LAWA possesses the authority to determine how it deploys security personnel and that it may use LAPD officers to meet its security needs, even if those officers work overtime or cost more than their LAWA counterparts.

However, LAPD officers deployed to LAX may not charge LAWA for duties unrelated to the airport. For example, in its memorandum, FAA found instances of such revenue diversion. The FAA reported that LAPD officers assigned to the airport provided security during special events, but the City did not credit or reimburse LAWA for their time.

The FAA also found that for fiscal years ending 2005 through 2010, the City charged LAWA for LAPD Bomb Squad K-9 teams deployed off-airport for events such as dignitary protection details, major public events susceptible to terrorism, and reports of a potential explosive device. In a May 31, 2012, report to FAA, LAWA's outside counsel determined that the Bomb Squad K-9 Unit's charges for non-airport assignments totaled \$1,734,060, including statutory interest. The LAWA withheld this amount from a bi-monthly payment to the City in June 2012.¹

According to FAA's memorandum, given the lack of adequate detail contained in the records it received from LAWA's counsel, it could not quantify the full extent of the LAPD's off-airport duties. According to LAWA counsel's February 15, 2012, report to FAA, LAWA would require LAPD to track and credit LAWA for any use of LAWA-paid officers for non-airport purposes. Later, in its May 31, 2012, report to FAA, LAWA's counsel stated all LAPD personnel assigned to LAX on a full-time or full-time equivalent basis would, beginning July 2012, track their off-airport and total deployment time using the Bomb Squad K-9 Unit's daily log system.

¹ The \$1,734,060 non-airport overcharge figure appears to be incorrect. In determining the overcharge, LAWA's counsel used LAWA spreadsheets from the fiscal years ending 2005 through 2010. (LAWA's counsel identified the spreadsheets as Tab E in a May 8, 2012, report to FAA. The total cost of the LAPD Bomb Squad K-9 Unit is found in Column L of the spreadsheets.) In calculating the non-airport overcharge, LAWA's counsel reused the 2006-2007 Bomb Squad K-9 Unit's total cost figure of \$3,348,018 for the 2007-2008 total cost figure. According to the spreadsheets, however, the 2007-2008 total cost figure is \$3,567,943 – a discrepancy of \$219,925. We will pass this information on to FAA, LAWA, and the City to determine the correct non-airport overcharge figure.

Because we are concerned about revenue diversion at the nation's airports, the Office of Inspector General's (OIG) Office of Aviation Audits conducted its own inquiry into the use of airport revenues at LAX. The scope of the audit included analyzing LAPD's charges to LAX for police services

We found, among other things, that LAPD charged LAWA approximately \$192,000 for unauthorized overtime and personnel for the five fiscal years ending 2008 through 2012. Specifically, we found that LAPD's LAX Field Services Division charged LAWA \$100,551 for overtime that LAPD should have paid, and that LAPD's Gang and Narcotics Division charged LAWA approximately \$48,680 in overtime for detectives not assigned to LAX. We also found that for fiscal year 2011-2012, LAPD billed LAWA for 39 positions even though LAWA authorized and funded only 38 positions – resulting in a \$42,665 overcharge. Despite being aware of other revenue use problems at LAX, FAA's oversight failed to detect these unauthorized overtime and personnel charges.

Additionally, we found the City failed to accurately document the airport-related police services LAPD provides to LAX. Our enclosed Audit Report shows, for example:

- Under FAA's Airport Revenue Use Policy, the City can charge LAWA for the direct cost of goods and services as supported by adequate documentation. For the five fiscal years ending 2008 through 2012, however, the City charged the airport approximately \$7.87 million for police services without providing adequate documentation to support the charges. As an example, during those five years, the City charged LAWA for 20 percent of the costs for the services of the LAPD Forgery Unit. This amounted to \$968,742, not including divisional overhead. However, the City did not provide adequate documentation demonstrating that 20 percent of the unit's work was airport-related; and should not have charged LAWA for these costs.
- Of the \$7.87 million charged, LAWA paid approximately \$6.2 million in unsupported costs for divisional overhead rates for LAPD. (The divisional overhead rate is a percentage that is applied to the salaries of each police division or unit assigned to LAX.) Instead of determining the actual overhead rates for each year the City charged LAWA the overhead rates calculated more than 15 years ago. Consequently, OIG considers the entire amount of divisional overhead rates charged over the five fiscal years to be unsupported costs.

We also found that despite the City's assurance it would require LAPD to track the non-airport activities of its officers, the City has, to date, failed to fully implement such a system. In fact, only two of the four LAPD units OIG analyzed – the Bomb Squad K-9

and non-K-9 Units – track non-airport time.² Therefore, like FAA, we cannot estimate the full extent of airport revenue LAWA expends for non-airport work. As such, LAWA could still be paying the City for police services not related to the airport, which would be a diversion of revenue for non-airport purposes.

As noted in our Audit Report, we made several recommendations to FAA that address the issues we found. Concerning LAPD personnel, we recommended FAA:

- Determine the recoverable amount, if any, of airport revenue LAWA spent on unsupported or unauthorized LAPD police services and require LAWA to recover such expenditures, plus interest, from the City.
- Ensure the City fully implements a recordkeeping system that accurately tracks when LAPD personnel deployed to the airport conduct non-airport activities.
- Ensure LAWA develops a system that verifies payments for LAPD police services involve only airport-related purposes and that guarantees any charges for time spent on non-airport assignments is credited back to LAX.

In a March 19, 2014, memorandum, FAA responded to our audit's findings and recommendations. Among other things, FAA concurred with the above recommendations and agreed to take corrective action. In its memorandum, FAA advised:

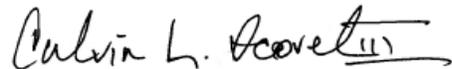
- FAA will ask the City to provide – by September 30, 2014 – documentation justifying the positions OIG identified as unsupported and a full accounting of the LAPD divisional overhead rate. Any diverted revenue and charges for unsupported or unauthorized police services should be refunded to LAWA.
- LAWA expects to implement – by September 30, 2014, - an upgraded recordkeeping system that tracks when LAPD officers are assigned to airport security and when they are assigned to off-airport duties.
- The LAWA recordkeeping system will also ensure that LAX pays LAPD for airport security-related services only.

² Although the Bomb Squad K-9 Unit provided information on non-airport time to the Police Fiscal Operations Division to ensure LAWA was not billed for this time, the non-K-9 Bomb Squad Unit stated it does not provide information on non-airport time to other entities. Thus, it is unclear if LAWA is being billed for the non-K-9 Bomb Squad Unit's non-airport time.

The OIG's Office of Aviation Audits will be available to provide you with a status update of FAA's efforts to address these recommendations, at your request, upon completion of FAA's planned corrective actions.

We are thankful to those who brought this matter to our attention. If you have any questions or we can be of further assistance, please contact me at (202) 366-1959 or Jeffrey Guzzetti, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

Sincerely,

A handwritten signature in black ink that reads "Calvin L. Scovel III". The signature is written in a cursive style with a horizontal line underlining the name.

Calvin L. Scovel III
Inspector General

Enclosure