



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

The Inspector General

Office of Inspector General  
Washington, D.C. 20590

September 13, 2002

Ms. Carol B. Hallett  
President and CEO  
Air Transport Association  
1301 Pennsylvania Avenue, NW, Suite 1100  
Washington, DC 20004-1707

Dear Ms. Hallett:

We are writing to you concerning the airlines' security costs provided in certified cost submissions to the Transportation Security Administration (TSA). Because TSA has assumed certain civil aviation security functions, TSA regulations require an amount equal to the security costs incurred by the airlines in calendar year 2000 for screening passengers and property be remitted to the U.S. Government. These costs represent the basis for the air carrier security fee imposed by the Aviation and Transportation Security Act (the Act).

Prior to the Act and before the September 11 terrorist attacks, in a letter to the General Accounting Office (GAO) on August 22, 2001, the Air Transport Association (ATA) estimated the annual security requirements for the airline industry totaled about \$1 billion. This letter specifically identifies \$462 million annually for direct costs related to screening activities and personnel, another \$50 million for security technology and training costs, and \$110 million for acquisition of security equipment which was funded by the Government. Also, in testimony before Congress on September 19 and 25, 2001, executives of major United States air carriers testified that the industry spent about \$1 billion on security.

Subsequent to these representations, Congress passed the Act transferring the bulk of the security mission for processing passengers and property to TSA. However, now that the airlines are required by TSA regulations to remit an amount equal to their costs related to screening passengers and property during calendar year 2000, they have certified to TSA that only about \$300 million was incurred. This needs to be reconciled with the \$1 billion presented in congressional testimony and in the ATA letter to GAO, and with the \$462 million of direct costs identified in the ATA letter. The fee was to include both direct and indirect costs incurred by the airlines for screening passengers and property. Under these circumstances, this large difference is of concern to us. We believe it is in the best interest of both the taxpayers and the

airline industry that this disparity be resolved and the accounting methods supporting these varying estimates be explained.

We understand that an explanation that may be offered for the disparity is that some portion of the amount over \$300 million includes security costs that are not required by the Act to be remitted to the Government. If that is the case, then the airlines' independent accounting firms should be prepared to document these amounts when determining the costs that must be reported in accordance with TSA regulations. These regulations required that by July 1, 2002, air carriers were to obtain independent audits of their certified security cost submissions and provide these results to TSA. This has not happened yet; the date for enforcement of this requirement has been deferred until October 31, 2002.

We understand that the Department has proposed a \$750 million annual fee, which would be apportioned among the airlines by TSA in accordance with a statutory formula. This legislative proposal, if approved by Congress, would replace the current cost allocation methodology based on costs incurred by the airlines in calendar year 2000.

In your August 7, 2002 letter to the Deputy Secretary of Transportation, you responded to a proposed annual security fee of \$750 million by stating:

While it is too early to give you a definite answer, I think it fair to say that if we (the industry and DOT/TSA) could agree on a lower figure (e.g. \$500 million), there is a general recognition that such an approach would be far more practical.

In the absence of audits by independent accounting firms and in light of the differing estimates, we, at this point, do not see the basis for viewing the \$500 million as credible nor supportable. We have so advised the Secretary and Deputy Secretary. The \$500 million is half the amount represented in congressional testimony, yet ironically, it is about \$200 million more than the amount the air carriers reported in their certified cost submissions.

To allow time for congressional action on the Department's proposal, TSA stated that it will not enforce the audit requirement on the airlines' independent accounting firms until October 31, 2002. If Congress neither approves the legislative proposal for an annual fee nor adopts some other alternative approach, these audits will need to be performed.

Because of the disparity between the amounts presented by the airlines and the impact it will have on the budget, the Secretary requested that the Office of Inspector General review a sample of air carriers' cost submissions. At this time, we do not believe it is appropriate to expend Federal resources to perform audits that

TSA regulations require the air carriers to obtain using independent accounting firms. However, I must tell you that we plan to review the audit workpapers for the work that independent accounting firms perform for the air carriers. This would be unnecessary in the event Congress changes the existing law and establishes an annual fee for the industry, such as that proposed by the Department, or adopts some other alternative approach.

In light of the budget decisions that must be made for Fiscal Year 2003, we would appreciate receiving your views on this matter in an expeditious response. If we can answer any questions, please feel free to contact me at (202) 366-1959, or my Deputy, Todd J. Zinser, at (202) 366-6767.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth M. Mead". The signature is fluid and cursive, with a prominent initial "K" and a long, sweeping tail.

Kenneth M. Mead  
Inspector General