

# Metropolitan Nashville Airport Authority

## MEMORANDUM

**TO: Raul Regalado, President and CEO**

**CC: Monty Burgess, Senior Vice President and COO**  
**Stan Van Ostran, Vice President and CFO**  
**John Howard, Assistant Vice President of Properties and Business Development**  
**Amber Gooding, Director of Business Diversity Development**  
**Jami McLeod, Controller**  
**Lynne Steck, Director of Purchasing**  
**Steve P. Heim, Chief of Public Safety**  
**Chad Beasley, Captain**

**FROM: Basil A. Dosunmu, Internal Auditor**

**DATE: September 11, 2009**

**SUBJ: Walden Security - Security Guard Services Contract Audit Results**

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### Background

On July 21, 2004, Walden Security (“Walden Security”) entered into a Security Guard Services Contract (“Security Contract”) with the Metropolitan Nashville Airport Authority (“Authority”). Walden Security was contracted to provide Landside and Air Operations Area (“AOA”) Security Guard Services. The Contract was for a period of three (3) years, effective August 1, 2004 through July 31, 2007, with two additional one-year renewal options. The Authority would have the right to exercise the renewal options by providing the Walden Security at least sixty days (60) written notice prior to the expiration of the original term.

The Security Contract scope of services included provision of all management, supervision, employees, equipments (including vehicles) and supplies necessary to perform protection at the specified and added airport locations.

Walden Security would provide sufficient, fully qualified personnel to meet the performance requirement. Walden Security would also obtain, maintain and pay for all licenses, permits and certificates including all professional licenses required by any statutes, ordinance, rule or regulations and certification of on-site guards. The following are some areas of coverage throughout the airport.

<u>Coverage Area</u>	<u>Weekly Hours</u>	<u>Security Coverage Responsibilities</u>
Secured Airside Airfield Gate 9A *	168.0	All areas visible from the gatehouse.
Secured Airside Freight Elevator B concourse	112.0	Controlled inspections of vendor products and employees.
Secured Airside Freight Elevator C concourse	112.0	Controlled inspections of vendor products and employees.
Landside Ground/Valet Level *	112.0	Patrol of the ground level of the interior of the terminal building, traffic curbside, traffic lanes and curbside in the short term parking garage.
Landside Employee Parking Lot *	28.0	The entire area within the parking lot boundaries and the entrance/exit gate areas.
Landside Service Tunnel Entrance *	168.0	Areas visible from the gatehouse.
Landside Car Rental Lots, North *	168.0	Inspection of all vehicles requesting entrance into the car rental lot.
Landside Car Rental Lots, South *	168.0	Inspection of all vehicles requesting entrance into the car rental lot.
Secured Airside Supervisor for AOA Security Guards **	40.0	Airside Supervisor.
International Plaza Building	15.0	Provide escort to building tenants after hours.

Furthermore, the Security Contract, Exhibit A, Bid Form, states the pricing for the Security Contract for the five (5) years period. This pricing clearly dictates the approved rates to be utilized by the Contractor to bill the Authority for security guard coverage hours at each location specified and added to the contract. The rates include straight time rates, holiday rate, overtime rate and additional guard rates. The following rates were extracted from the Bid Form.

<b>PRICING</b>	<b>08/01/04 -</b>	<b>08/01/07 -</b>	<b>08/01/08 -</b>
	<b>07/31/07</b>	<b>07/31/08</b>	<b>07/31/09</b>
<b>GUARD *</b>			
Starting Rate Pay	\$9.00	\$9.25	\$9.25
Billable Straight Time	\$12.68	\$13.03	\$13.03
Billable Holiday/OT	\$17.75	\$18.24	\$18.24
Billable Additional Guard	\$12.68	\$13.03	\$13.03
<b>SUPERVISOR **</b>			
Starting Rate Pay	\$13.00	\$13.40	\$13.40
Billable Straight Time	\$18.24	\$18.79	\$18.79
Billable Holiday/OT	\$25.54	\$26.31	\$26.31
Billable Additional Guard	\$18.24	\$18.79	\$18.79

The SMWBE participation level for the contract was established at seven percent (7%); however, Walden Security was able to achieve approximately nine percent (9%) exceeding the established rate by engaging the services of JWR VIP Security and Secure-care, Inc (“JWR”) as its SMWBE partner.

The First Amendment to the Walden Security Contract, effective August 1, 2007, exercised the Authority’s first one-year renewal option to extent the Contract from August 1, 2007 through July 31, 2008, as provided for in the Contractor’s bid.

On August 23, 2007, Walden Security entered into a Subcontract Agreement with Compliance Security Services, LLC to provide a portion of the uniformed security guard service to the Authority.

On August 24, 2007, Walden Security informed JWR through a Letter of Notification that Walden Security is cancelling the Subcontracting Agreement for Security Officer Service Provided to the Authority effective September 30, 2007.

The Second Amendment to the Walden Security Contract, effective August 1, 2008, exercised the Authority's first one-year renewal option to extend the Contract from August 1, 2008 through July 31, 2009, as provided for in the Contractor's bid.

It should be noted that the Authority's Chief of the Department of Public Safety ("DPS") is responsible for the oversight of the Security Contract.

### **Objectives**

The objectives of the audit were as follows:

1. Determine Walden Security is complying with contract terms and operational requirements.
2. Determine the Authority is adequately monitoring the Airport Security Contract to ensure compliance with contract terms and operational requirements.
3. Determine the validity of the payments made to Walden Security.
4. Document and evaluate existing internal controls.

### **Testing**

In order to satisfy the audit objectives, the following tests were performed:

1. Determined Contractor maintained adequate insurance coverage.
  - a. Obtained a copy of the current certificate of insurance on file.
  - b. Verified that the comprehensive general liability insurance coverage met the amount specified in the contract.
  - c. Verified that the commercial general liability insurance coverage met the amount specified in the contract.
  - d. Verified that the worker's compensation insurance coverage met the amount specified in the contract.
  - e. Verified that the comprehensive automobile liability insurance coverage met the amount specified in the contract.
  - f. Verified that the certificate of insurance was current and adhered to all other contract terms.
2. Determined Contractor's employees were dressed in appropriate uniforms with Airport photo identification security badge properly displayed.
  - a) Determined employees were adequate, trustworthy and fully qualified and met performance requirements.

3. Determined Contractor maintained all licenses, permits, certificates, including all professional licenses required of on-site guards.
  - a. Verified the Contractor had no suspension, revocation or other negative action involving its operational license.
4. Determined procedures were in place to ensure the following.
  - a. Adequate and appropriate security measures were in place to protect assets, persons and airport activities.
  - b. Properties were adequately protected from theft, loss and damage.
  - c. Adequate operational equipment were provided, tested and maintained.
  - d. Security personnel were aware of their responsibilities in respect airport security.
  - e. Security personnel prevented unauthorized access to airport premises.
  - f. Security personnel accounted for the movement and access of visitors to secured areas around the airport.
5. Determined Contractor was complying with airport security and safety requirements.
  - a. Verified Contractor reimbursed Authority for penalties assessed by the Federal Aviation Administration (“FAA”) because of Contractor’s non-compliance with airport security and safety requirements.
6. Determined Contractor complied with applicable Environmental Regulations.
7. Determined Contractor submitted to DPS an affidavit attesting that the Contractor operates a drug-free workplace program.
8. Determined DPS administered the Walden Security contract to ensure compliance with contract terms and operational requirements. Test included, but not limited to the following:
  - a. Documented and evaluated the DPS’ current procedures in place to monitor contract and operational requirements.
  - b. Determined DPS was not performing periodic review of Walden Security’s operations to ensure compliance with contract requirements.
  - c. Verified that Contractor met the SMWBE requirement in the contract.
    - i. Obtained SMWBE reports submitted and verified that Walden Security was correctly calculating SMWBE participation level.
    - ii. Confirmed with the Director of Business Diversity Development (“BDD”) that the SMWBE used by the Walden Security was certified by the Authority.
  - d. Determined contract renewal and amendments complied with contract terms and were properly stated.
  - e. Identified areas of concern and instances of Walden Security’s non-compliance with contract terms and operational requirements.
9. Obtained payment history from April 2008 through March 2009 and performed the following:
  - a. Randomly selected 3 months invoices for detailed testing.
  - b. Reviewed each invoice for mathematical accuracy.
  - c. Determined that invoices were not prepared in accordance with the terms of the contract.
  - d. Verified that the contractor was billing for actual services performed during the invoicing period.
  - e. Verified that invoices were properly coded and approved.
  - f. Determined that documentation required to support billing were attached to the invoice including SMWBE pay request reports.

10. Determined that service outside of the contract was performed.
  - a. Confirmed that the service were requested, justified and authorized by appropriate Authority personnel.
  - b. Randomly selected 3 invoices for service outside of the contract.
11. Through inquiry and observation, reviewed the existing internal controls in place.

## **Conclusion**

Based upon the audit, the following was determined with respect to the stated objectives:

1. DPS does not perform formal periodic review of Walden Security personnel to ensure they meet the Authority Airport Security requirements as noted in finding #1.
2. BDD should develop a comprehensive process for addressing and remediating performance concerns of SMWBE/DBE firms as noted in finding #2.
3. BDD should monitor the Security Contract to ensure the SMWBE participation level is consistent throughout the term of the contract as noted in finding #3.
4. DPS should properly document revisions to the Security Contract as noted in finding #4.
5. The billing rates in some of Walden Security's invoices are inconsistent with the Security Contract as noted in finding #5.
6. DPS should oversee all security firms engaged to provide security services at the airport as noted in finding #6.

## **Finding #1**

### **Observation**

DPS does not perform formal periodic review of Walden Security personnel to ensure they meet the Authority Airport Security requirements.

### **Background**

The objective of this Audit includes determining if DPS is performing periodic review of Walden Security's operations to ensure compliance with contract requirements.

Through audit inquires, it was determined that Walden Security's personnel stationed at the airport are required to attend the Authority's Security Identification Display Area ("SIDA") training, which includes Air Operation Area ("AOA"). They also submit to Transportation Security Administration ("TSA") ten (10) years security background check.

In addition, according to DPS personnel and the attendance records provided, Walden Security Account Operation Manager attends DPS' monthly security meeting which addresses ongoing security concerns in and around the airport. In this meeting security updates are discussed and shared with the appropriate individuals.

However, DPS does not perform periodic formal review of Walden Security's personnel to ensure compliance and adherence to Airport Security requirements and other agencies regulatory

requirements. Between FY07 and FY09, Walden Security was cited by TSA for incidents which included unauthorized entries to secured area and failure to inspect products delivery by tenant into secured area.

Furthermore, due to Walden Security's failure to inspect the delivery of merchandise prior to its entry into the sterile, the Authority was assessed a civil penalty in the amount of Eight Thousand Dollars (\$8,000.00) by TSA which has been reimbursed to the Authority by Walden Security.

### Recommendation

To ensure efficient operation and compliance with contract and regulatory requirements, DPS should perform periodic formal review of Walden Security personnel.

### Management Response

*DPS will conduct formal and informal reviews of all Security Contract functions through various means and will document those reviews. DPS will regularly and periodically conduct spot checks through patrol units, the detective, the police trainer, and members of executive staff.*

*The DPS Chief, along with the Authority's Director of Construction, have recently begun inspecting all construction sites along with security sites as a team effort. DPS is confident that through these inspections and documentations, no deviations will occur. Security is a shared responsibility by all departments and together we will keep efficient operations and compliance.*

## **Finding #2**

### Observation

BDD should develop a comprehensive process for addressing and remediating performance concerns of SMWBE/DBE firms.

### Background

During audit inquiries, it was determined that the initial proposal submitted by Walden Security and approved by the Authority included JWR as the SMWBE participation firm on the Security Contract. However, due to the Authority and Walden Security's dissatisfaction with JWR's poor staffing and performance, Walden Security terminated the subcontracting agreement with JWR on August 24, 2007.

Thereafter, Walden Security entered into another subcontracting agreement with Compliance Security Services, LLC to support Walden Security by furnishing a portion of the uniformed security guards necessary to meet the SMWBE participation requirements of the Security Contract. The services of Compliance Security, LLC has been satisfactory to the Authority and Walden Security.

However, the details of Walden Security change from JWR to Compliance Security Compliance, LLC was not properly documented and retained by the BDD.

### Recommendation

BDD should revise its operating process to include formal documentation of disputes, disagreement, or concerns raised by or about firms approved by the office for operation with the Authority.

### Management Response

*BDD has developed a process for documenting requests for SMWBE/DBE substitution due to negative performance. This particular incident surfaced in the early months of new personnel establishing the BDD office.*

### **Finding #3**

#### Observation

BDD should monitor the Security Contract to ensure the SMWBE participation level is consistent throughout the term of the contract.

#### Background

The requirement of the Security Contract included the participation of an SMWBE firm approved by the Authority. To meet this requirement, Walden Security engaged the services of Compliance Security Services, LLC to provide security guard services in and around the airport. Compliance Security Services, LLC was assigned to provide security coverage for the Landside Ground/Valet area, which is one of the areas identified in the original Security Contract.

During the course of the Security Contract, the Authority's security needs increased due to revised TSA regulatory requirements and increase security coverage for constructions sites. As the Authority's security needs increased, the areas assigned to Walden Security also increased. However, the proportionate share of the increase in the Security Contract was not assigned to the Compliance Security Services, LLC.

The following is an analysis of the cumulative weighted average of the SMWBE participation in the overall Security Contract from FY05 through FY09. It should be noted that the contract amounts have increased annually, while the SMWBE participation has decreased steadily.

<u>Period</u>	<u>Annual Contract Amount</u>	<u>Annual SMWBE Amount</u>	<u>SMWBE % of Annual Contract</u>
FY05	\$693,646	\$57,005	8.22%
FY06	\$747,398	\$75,086	10.05%
FY07	\$751,884	\$74,538	9.91%
FY08	\$816,158	\$76,095	9.32%
FY09	\$905,931	\$76,429	8.44%
	<u>\$3,915,018</u>	<u>\$359,153</u>	9.17%

Recommendation

BDD should periodically review the Security Contract along with similar contracts with participation level to ensure that the established SMWBE participation level is consistent throughout the term of the Security Contract.

In addition, DPS should promptly notify BDD of changes to the Security Contract to allow proper continuous monitoring of SMWBE participation level.

Management Response

*BDD agrees that it can improve upon the monitoring of SMWBE participation especially with the assistance of the department head or designated personnel responsible for changes to the scope of work in any given period of time.*

*Furthermore, DPS will immediately notify BDD of any changes to the security contract as it pertains to their department. Bi-Annually, DPS and BDD will meet to discuss any significant changes to the contract that is relevant to SMWBE participation. DPS will also meet quarterly with Security Contractor to review any questions raised on billing issues and/or SMWBE participation. All these meetings will be documented and kept on file.*

**Finding #4**

Observation

DPS should properly document revisions to the Security Contract.

Background

The Security Contract, Exhibit A, Bid Form, states the pricing for the Security Contract. This pricing clearly dictates the approved rates to be utilized by the Contractor to bill the Authority for security guard coverage hours at each location specified and added to the contract. The rates include straight time rates, holiday rate, overtime rate and additional guard rates. This is to ensure

that the invoices submitted by the Contractor are based on the rates agreed to by the Authority and the Contractor.

As noted earlier, during the course of the Security Contract, the Authority's security needs increased due to revised TSA regulatory requirements and increase security coverage for constructions sites. As the Authority's security needs increased, DPS extended Walden Security's Security Contract to provide additional security coverage.

However, the terms of the extension such as the impact to the existing agreement, were not properly clarified and documented. As a result, Walden Security applied different rates during the course of the Security Contract. The following is an example of the inconsistent billing submitted by Walden Security. The service provided was incorrectly billed at an incorrect overtime rate of \$18.50 instead of the regular time rate of \$13.03, thus resulting in the overpayment of \$5,865 by the Authority to Walden Security.

<u>Coverage Location</u>	<u>Invoice Period</u>	<u>Regular Rate</u>	<u>Over</u>	<u>Description</u>	<u>Regular Hours</u>	<u>Overtime Hours</u>	<u>Holiday Hours</u>	<u>Invoiced Amount</u>	<u>Recalculated Amount</u>	<u>Total Overcharge</u>
			<u>Time/Holiday Rate</u>							
Freight Elevators	07/01 - 07/15/08	\$13.03	\$18.24	Walden Security	0.00	310.50	24.00	\$6,214	\$4,484	\$1,731
Freight Elevators	07/15 - 07/30/08	\$13.03	\$18.24	Walden Security	0.00	386.50	0.00	\$7,151	\$5,036	\$2,115
Freight Elevators	08/01 - 08/15/08	\$13.03	\$18.24	Walden Security	0.00	369.00	0.00	\$6,827	\$4,808	\$2,019
								\$20,193	\$14,328	\$5,865

As a support for billing for service provided, Walden Security provides semi-monthly invoices to the Authority that comprehensively detailed the invoice date, invoice period, description of services, service date, hours of service, hourly rate, SMWBE participation amount, and total invoice amount.

During audit inquiries it was determined that the DPS' requests for additional security services were billed inconsistently. From the inception of the Security Contract until March 31, 2007, the additional security services were billed to the Authority using the established regular rates in the Security Contract. However, from April 1, 2007 to date the billings rates were not consistent with the Security Contract. The additional security services were incorrectly billed at an overtime rate, which was higher than the Security Contract overtime rate.

Recommendation

Going forward, the Security Contract should be revised to specify rates that would be assessed by the Contractor for other areas of service that were not specified in the Security Contract.

In addition, if unique needs arise that are not specifically addressed in the Security Contract, DPS should ensure the terms of the contract are revised to properly address the additional needs.

Management Response

*The Security Contract that is expected to be approved at the September 23<sup>rd</sup>, 2009 board meeting has been revised to show the specific rate that will be assessed by the Contractor for areas of service that were not specified in the set designated posts. This practice will be monitored closely by DPS. DPS will hold quality security contract quarterly meetings (face to face) with the security contractor to ensure compliance.*

*In the past, monthly bills were quickly reviewed to ensure we would meet our monthly and yearly approved security services budget. This was how it was always done which created opportunities for errors and over billing. The monthly billing submitted by the security contractor will now be reviewed closely and each position will be reviewed to ensure contractual compliance. Each line item submitted for reimbursement will be reviewed closely, which did not take place in the past. Any issues that may arise will be dealt with immediately and documented.*

**Finding #5**

Observation

The billing rates in some of Walden Security’s invoices are inconsistent with the Security Contract.

Background

The objective of this Audit includes determining the validity of the payments made by the Authority to Walden Security. To achieve this objective, the Authority’s payments to Walden Security from April 2008 through March 2009 were reviewed and three (3) months of BNA and MPC invoices were randomly selected for detailed testing. During the detailed testing of the invoices, Internal Audit determined that the rate assessed by Walden Security on some of the invoices were inconsistent with the Security Contract bid form. As a result of discrepancy noted, the scope of the detailed testing was expanded to include invoices from the inception of the Security Contract.

Internal Audit with the assistance of DPS staff reviewed prior invoices submitted by Walden Security. The rates quoted in the Security Contract were reconciled to invoices submitted to the Authority. It was determined that the billing rates from the inception of the Security Contract until March 31, 2007 were consistent with the Security Contract bid form. However, the billing rates from April 1, 2007 to date were inconsistent with the Security Contract. The following is an analysis of the overcharges noted during the review from April 1, 2007 through June 30, 2009.

<u>Period</u>	<u>Regular Hours</u>	<u>Overtime Hours</u>	<u>Holiday Hours</u>	<u>Invoiced Amount</u>	<u>Recalculated Amount</u>	<u>Total Overcharge</u>
FY07	13,262.25	690.50	150.00	\$190,169	\$185,751	\$4,418
FY08	50,309.75	6,375.25	864.00	\$816,158	\$778,543	\$37,615
FY09	59,271.25	5,012.75	992.00	\$905,931	\$878,414	\$27,517
				<u>\$1,912,258</u>	<u>\$1,842,708</u>	<u>\$69,550</u>

Walden Security overcharged the Authority for additional security coverage that were requested during the years and for existing location identified in the Security Contract. The amount of overcharge on additional request during the years and areas identified in the Security Contract amounted to \$69,550.

## Recommendation

DPS should request the Authority's Finance Department to issue Walden Security an invoice for the overcharge in the amount of \$69,550 determined from the analysis above.

## Management Response

*DPS has met with the Authority's Legal and Finance Departments to discuss the overbilled amount, the collection of the overbilled amount has been initiated. DPS has been advised by the Authority's Legal Department to refrain from speaking with Walden Security about the overbilled amount and it will be handled by the Authority's Legal Department.*

## **Finding #6**

### Observation

DPS should oversee all security firms engaged to provide security services at the airport.

### Background

The objective of this Audit includes identifying areas to improve operational efficiency and effectiveness. As part of the Authority's plan to streamline operations, DPS has the primary responsibility for all airport security requirements including the Security Contract.

The Security Contract provides security coverage for all identified security points on the airport and other areas that might arise during the course of business such as construction sites.

Through Audit inquiries, it was determined that the existing process is being changed to allow the construction contractors the flexibility of providing security coverage at construction sites using third party security agreement instead of DPS provision of security coverage. In addition, during recently construction projects such as Bravo South, Apron Repair, 2L-20R, etc., contractors were permitted to enter into third party agreements with security firms to provide construction site security coverage. Contractors are required to submit the security coverage plan along with the contractor's bid package.

It was noted that the Authority's construction agreement with the primary construction contractor includes terms and conditions to monitor security requirements at the airport such as Airport Breach of Rules Policy for Construction Activities and Airport Safety Plan. The construction agreement also included explicit language about contractor responsibility for reimbursement to the Authority of any fines and or penalties assessed on the Authority by the TSA or any other monitoring agency for the contractor or third party breach of airport security rules.

It should be noted that DPS is providing gate guard training to all security personnel stationed at the construction site. This training is in addition to the SIDA training provided to all individuals accessing the secured areas of the airport. DPS plans to manage the third party security agreement through the construction contract agreement.

Currently, some contractors engaged at the airport are utilizing the services of Walden Security through a third party agreement directly with Walden Security. However, as additional constructions projects are performed at the airport, it increases the potential of engaging more third party security firms. This increase in security firm needs to be properly managed to ensure that potential violations are prevented, identified when they occur and addressed in a timely manner.

#### Recommendation

DPS should generate a comprehensive oversight plan to monitor security firms engaged to provide security service at the airport because the Authority still bears the primary responsibility for airport security.

#### Management Response

*DPS will ensure that all security personnel maintain compliance while working on Airport property. All security personnel will complete all necessary training before being assigned to a post and all training, internal and external, will be made readily available for review. Periodic checks will be conducted by members of DPS to ensure proper monitoring of all security companies along with ensuring that these companies are complying with all rules and regulations.*