



United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-284657

February 29, 2000

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Subject: U.S. Customs Service: Reasonableness of Costs for Processing Air and Sea Passengers Cannot Be Determined

Dear Mr. Chairman:

In your March 11, 1999, letter, you requested that we assess the reasonableness of the U.S. Customs Service's underlying costs supporting its merchandise and air and sea passenger processing user fee. This letter addresses the reasonableness of the costs associated with the passenger processing user fees. We issued a letter to you on the merchandise processing user fee in October 1999.¹

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985² authorized Customs to charge user fees for processing passengers and conveyances, such as commercial vessels and vehicles, entering the United States. The fee established by COBRA for processing international air and sea passenger arrivals in the United States is called the passenger processing user fee. Any adjustments to the passenger processing user fee require an amendment to COBRA.

In its fiscal year 2000 budget, the administration proposed increasing the user fee for air and sea passengers and removing the fee exemption for passengers entering the United States from Canada, Mexico, U.S. territories, and adjacent islands. The

¹U.S. Customs Service: Update on the Merchandise Processing Fee (GAO/GGD-00-21R, Oct. 7, 1999).

²P.L. 99-272 (1986).

proposed increase from \$5.00 to \$6.40 was not submitted to Congress. However, legislation was passed to remove the exemption for sea passengers.³

To address our objective of assessing the reasonableness of the Customs' costs supporting its air and sea passenger processing user fee, we held discussions with officials at Customs' headquarters and the Department of the Treasury's Office of Inspector General (OIG). We also reviewed related prior GAO and Treasury OIG reports (see the list of related reports at the end of this letter), the OIG's audit report on Customs' fiscal year 1998 financial statements and supporting workpapers, related user fee legislation and regulations, and documentation on and data from Customs' cost accounting system. We conducted our review from September 1999 through December 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of the Treasury or his designee. The Customs' Director, Office of Planning, provided us with written comments, which are discussed in the "Agency Comments and Our Evaluation" section of this letter and are reprinted in enclosure 2.

On February 1, 2000, we briefed your staff on the results of our work. This letter describes the information presented at the briefing and includes the briefing slides. The letter provides specific information on why the reasonableness of Customs' costs for its air and sea passenger processing user fee could not be assessed.

Results in Brief

Customs' cost accounting systems use various allocation methods to assign costs to its various programs, subprograms, activities, and outputs. One of its key allocation methods uses labor distribution percentages that measure the amount of time an inspector spends on a particular program, subprogram, or activity within a program. Customs uses surveys to estimate its labor distribution percentages. However, Customs could not provide adequate supporting documentation for its labor percentage estimates used to allocate Customs' costs to its passenger processing air and sea subprograms and activities. Without supporting documentation to substantiate Customs' estimated labor distribution percentages, we cannot determine the reasonableness of Customs' costs for air and sea passenger processing. As such, Congress is hampered in making informed decisions on air and sea passenger processing user fee adjustments that Customs may request.

Because Customs did not have a national system to collect and report inspectors' time spent by program, subprogram, and activity, it used surveys completed by its port managers to estimate labor distribution percentages. While survey estimates are an acceptable means for allocating costs to programs, subprograms, and activities, Customs' surveys, according to the Treasury OIG and our review of the OIG's

³Prior to July 1999, when P.L. 106-36 went into effect, COBRA exempted both air and sea passengers entering the United States from Canada, Mexico, U.S. territories, and adjacent islands from paying the passenger processing user fee. P.L. 106-36 amended COBRA to remove the exemption for sea passengers by establishing a \$1.75 fee. Air passengers entering the United States from Canada, Mexico, U.S. territories, and adjacent islands are still exempted from paying the passenger processing fee.

workpapers, lacked adequate supporting documentation, and the methods used to determine labor distribution percentages were inconsistent among ports. Accurate workload data on the numbers of passengers processed is also a critical component in computing costs per air and sea passenger processed. In the past, the lack of complete passenger volume data associated with the remittances of user fee collections by some air carriers has been a problem for Customs. Moreover, because of insufficient cost data, Customs has not conducted required biennial reviews of its user fees.⁴

Customs is developing a system to capture labor data at the activity level through modifications to its Customs Overtime and Scheduling System (COSS) that should improve the reliability of its labor distribution percentages. Customs also initiated a new audit approach in conjunction with other federal agencies to increase the number of audits at air carriers. These audits should improve the accuracy of Customs' air passenger volume data. Further, Customs is also working with the Treasury OIG to comply with the requirements for biennial reviews of its user fees.

Background

The U.S. Customs Service enforces customs and related laws, including collecting duties and processing people, vehicles, and goods entering or departing the United States. Customs performs its mission with a workforce of nearly 20,000 personnel at its headquarters and over 300 ports of entry located throughout the country. Customs processes air and sea passengers at 50 major airports and 17 major seaports as well as at other smaller airports and seaports. Passenger processing generally involves targeting, identifying, and examining high-risk travelers while expeditiously moving low-risk travelers out of the port.

In 1985, Congress, through COBRA, established a system of fees to recover a significant portion of the costs of Customs' activities.⁵ COBRA established processing user fees for certain passengers and conveyances entering the United States. One of these fees is for processing passengers arriving in the United States by either air carrier or sea vessel. The current \$5.00 fee⁶ is included in each passenger's ticket. The fee is set legislatively, and any adjustment to the fee requires a statutory

⁴The Chief Financial Officers Act of 1990, as amended, P.L. 101-576 requires that 24 federal agencies, including Customs as part of the Department of the Treasury, review, on a biennial basis, fees they charge for services rendered. These reviews are to recommend user fee revisions to the head of the respective agency that reflect the costs incurred by the agency in providing the services. Similarly, COBRA requires Customs to biennially review COBRA user fees and submit reports on COBRA user fee adjustments to the House Committee on Ways and Means and the Senate Committee on Finance.

⁵COBRA established a schedule of fees for inspectional activities to offset the cost incurred by Customs for processing air and sea passengers, commercial vessels, commercial trucks, rail cars, private aircraft and vessels, and dutiable mail packages, and for licensing of Customs brokers.

⁶As of July 1999, Customs was authorized by P.L. 106-36 to charge a \$1.75 per person fee to sea passengers entering the United States from Canada, Mexico, U.S. territories, and adjacent islands that were previously exempted from paying any fee.

change. For fiscal year 1998, Customs reported collecting approximately \$284.4 million in air and sea passenger processing user fees.

COBRA requires the Secretary of the Treasury to submit to the House Committee on Ways and Means and the Senate Committee on Finance biennial reports on COBRA user fee adjustments. These reports were to be submitted every 2 years starting at the close of fiscal year 1988, and any recommendations on fee adjustments were to reflect actual costs to the United States government for commercial services provided by Customs. Similarly, the Chief Financial Officers (CFO) Act of 1990, as amended, requires biennial reviews by Customs of its user fees. These reviews are to recommend user fee revisions that reflect the costs incurred by Customs in providing services, such as processing air and sea passengers.

In fiscal year 1997, Customs began using an activity-based cost accounting system, referred to as Customs' Cost Management Information System (CMIS). The major processes for an activity-based costing system like CMIS are to (1) identify the activities performed to produce outputs, (2) assign or map resources to activities, (3) identify the outputs for the activities performed, and (4) assign activity costs to the outputs. CMIS can assign costs to Customs programs, subprograms, and activities.⁷ The three main sources of data used in CMIS are various Customs information systems, selected subsystems, and surveys of inspectors' time.

Along with CMIS, Customs maintains other financial management systems that relate to identifying cost data for its programs. For example, in May 1998, Customs implemented COSS to monitor and manage inspectors' overtime and premium pay and schedule overtime work assignments at all ports. COSS also generates time and attendance records. In 1999, Customs began using COSS data to assist in developing labor percentage estimates to allocate costs to its core programs, including passenger processing program costs.

CMIS was implemented in fiscal year 1997 and used to prepare Customs' fiscal year 1998 Statement of Net Costs.⁸ CMIS assigns costs to Customs' four core programs: passenger processing, trade compliance, outbound, and enforcement.⁹ CMIS uses various allocation methods and estimates for assigning costs to these core programs.

⁷Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting* sets forth managerial cost accounting standards aimed at providing reliable and timely information on the full cost of federal programs, their activities, and their outputs.

⁸The Statement of Net Costs is a required financial statement included in an entity's principal financial statements. The purpose of the Statement of Net Costs is to provide the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operation activities by each organization or program. The Statement of Net Costs also provides the related revenue earned by each of the organizations or programs.

⁹In its Statement of Net Costs for fiscal year 1998, Customs identifies passenger processing, trade compliance, outbound, and enforcement as "program" costs. Customs also refers to these programs as core processes. Throughout this letter, we will refer to them as "core programs."

The Treasury OIG audited Customs' fiscal year 1998 Statement of Net Costs and other financial statements and issued an unqualified opinion on the statements.

In its fiscal year 1998 Statement of Net Costs, Customs reported all its costs at each core program level. Thus, all costs for processing air, sea, and land passengers were reported under the passenger processing core program. For fiscal year 1998, Customs reported net passenger (air, sea, and land) processing program costs of about \$501.2 million.

Below the program level, Customs identified subprograms and activities for which CMIS assigns costs. For example, the passenger processing core program consists of three subprograms: air, sea, and land passenger processing.¹⁰ Further, within its air and sea subprograms, Custom has identified nine activities.¹¹ For example, Customs has identified "examine compliant passengers" as one of the activities and defined it as processing compliant passengers, including expediting low-risk passengers out of the port. Customs' costs for these subprograms and activities were not identified separately in Customs' fiscal year 1998 Statement of Net Costs.

Reasonableness of Air and Sea Passenger Processing User Fee Costs Cannot Be Determined

Customs lacks adequate supporting documentation to verify estimated labor distribution percentages for its air and sea passenger processing subprograms. As a result, Customs' costs supporting its air and sea passenger processing user fee cannot be reasonably determined. In addition, the lack of complete passenger volume data has been a problem for Customs in the past. Therefore, Customs per passenger costs may not be reliable. Further, Customs has not conducted required biennial reviews of its user fees due to the lack of adequate cost data.

Customs' Estimated Labor Distribution Percentages

The use of labor distribution percentages is a key allocation method in CMIS for assigning costs to Customs' programs, subprograms, activities, and outputs. For its fiscal year 1998 Statement of Net Costs, Customs estimated its labor distribution percentages based on surveys completed by Customs' port and field office managers. Customs used surveys to estimate the labor distribution percentages because it does not yet have a fully implemented system for capturing and recording inspectors' time by programs, subprograms, and activities.

¹⁰Pedestrians and persons entering the United States at land border ports and crossings are not charged a user fee.

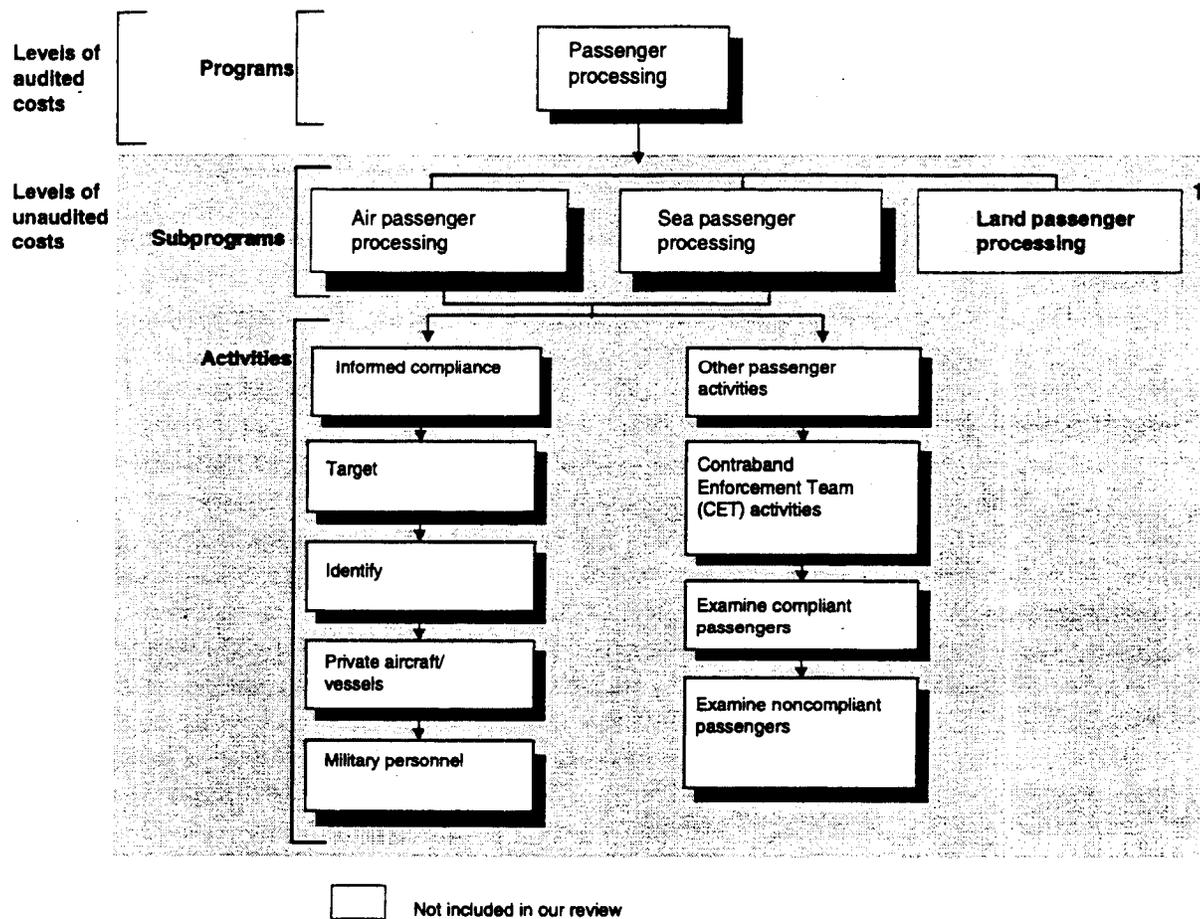
¹¹Customs has identified and defined the following nine activities for its passenger processing core program: informed compliance, target, identify, examine compliant passengers, examine noncompliant passengers, process military personnel, process passengers on private aircraft/vessel, related Contraband Enforcement Team activities, and other passenger activities.

While survey estimates are an acceptable means for allocating costs,¹² these estimates should be supported by adequate documentation. In its audit of Customs' fiscal year 1998 Statement of Net Costs, the Treasury OIG noted in its workpapers that the labor distribution surveys did not have adequate supporting documentation to corroborate the allocation of time to Customs' programs, subprograms, and activities. For example, according to the OIG, most surveys were completed based on subjective determinations of the percentage of time spent on program activities throughout the fiscal year. In addition, the methods used to determine labor distribution percentages were inconsistent among ports.

As a result of the OIG's concern that Customs' surveys lacked adequate auditable documentation, Customs' Cost Management Group performed other verification procedures on a sample of surveys completed by Customs' managers at small, medium, and large ports. Based on these verification procedures and results and other procedures it performed, the Treasury OIG issued an unqualified opinion on Customs' fiscal year 1998 Statement of Net Costs. In its Statement of Net Costs, Customs reported its costs for four core programs: passenger processing, trade compliance, outbound, and enforcement. However, according to Treasury OIG and Customs officials, the verification procedures performed by Customs' Cost Management Group could not be used as a means for auditing Customs' costs at the subprogram and activity level. Figure 1 depicts Customs' passenger processing program, air and sea subprograms, and activities as well as the levels of costs that have been audited and those that have not.

¹²According to Statement of Federal Financial Accounting Standards No. 4, costs can be assigned to activities in three ways: (1) directly tracing costs wherever economically feasible, (2) assigning costs on a cause-and-effect basis, and (3) allocating costs on a reasonable and consistent basis. When assigning costs, estimation based on surveys, interviews, or statistical samplings can be employed.

Figure 1: Audited and Unaudited Fiscal Year 1998 Costs for Passenger Processing Programs, Subprograms, and Activities



*There are no user fees applicable to individuals crossing U.S. land borders.

Source: U.S. Customs Service.

Customs plans to improve its cost data relating to air and sea passenger processing by enhancing CMIS. For example, while Customs again used surveys to determine its labor distribution percentages for fiscal year 1999, it emphasized in August 1999 the importance of adequate documentation to support each port's labor distribution survey. Further, according to Customs officials, Customs is modifying COSS, which was originally designed to schedule and manage inspector overtime and premium pay, to capture inspector time by subprogram and activity as it occurs during the year at all ports. According to its officials, Customs is establishing a working group that will be tasked with integrating COSS labor data into CMIS by fiscal year 2001.

Accuracy of Air Passenger Processing Data

In addition to providing costs for Customs programs, subprograms, activities, and outputs, CMIS generates information on unit costs, in this case, cost per passenger. Along with reliable cost data, accurate workload data on the number of passengers processed is critical for computing unit costs. For instance, in the past, the lack of complete air passenger volume data associated with the remittances of passenger

processing user fee collections from air carriers has been a problem for Customs. Prior to fiscal year 1998, we and the Treasury OIG have issued reports related to this problem.¹³ Customs is addressing the remittance problem through consolidated audits with other federal agencies at air carriers.

In accordance with a Treasury OIG recommendation, Customs, in March 1998, entered into a memorandum of understanding (MOU) with the Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) and the Department of Justice's Immigration and Naturalization Service (INS) to conduct consolidated audits of user fee remittances by air carriers.¹⁴ This MOU is designed to implement a joint agency audit approach to expand audit coverage, increase collections, and reduce audit costs. Pursuant to this MOU, consolidated audits have been completed at judgmentally selected air carriers for fiscal years 1998 and 1999 and are ongoing for fiscal year 2000. According to a Customs official, the results of these audits conducted to date indicate that the data on the number of air passengers processed maintained in Customs' automated system appear to be accurate and reliable. These audits should improve the accuracy of the air passenger volume data.

Required Biennial Reviews of User Fees

Treasury OIG reported in its audit of Customs fiscal year 1998 financial statements that Customs had not complied with the COBRA and CFO Act requirements to conduct required biennial reviews of user fees to determine the appropriateness of the fees.¹⁵ Further, in its 1998 report on Customs' oversight of COBRA user fees, including the passenger processing user fee, the Treasury OIG reported that the original fees authorized by COBRA were not determined through an analysis of Customs' actual costs for providing inspection services.¹⁶ The OIG reported that according to Customs officials, the rationale for setting the initial fees was not well documented. In 1998, we also reported on Customs' and other agencies' noncompliance with the CFO Act requirement for biennial reviews of user fees.¹⁷ The Treasury OIG noted in its March 1999 report on Customs' fiscal year 1998 financial statements that Customs attempted to analyze COBRA fees based on fiscal year 1997 data, but the data were not complete enough to determine if fees should be adjusted.

¹³ *Management Letter for the Audit of U.S. Customs Service's Fiscal Year 1994 Financial Statements* (OIG-95-130, September 29, 1995). *Customs Service: Passenger User Fee Collection Needs To Be Reevaluated* (GAO/GGD-95-138, May 22, 1995).

¹⁴ In addition to Customs' user fee, air and sea passengers entering the United States are also subject to user fee collections administered by APHIS and INS.

¹⁵ *Report on the U.S. Customs Service's Fiscal Year 1998 Financial Statements* (OIG-99-050, March 17, 1999).

¹⁶ *Audit of U.S. Customs Service's Oversight of Consolidated Omnibus Budget Reconciliation Act User Fees* (OIG-98-096, July 1, 1998).

¹⁷ *Federal User Fees: Some Agencies Do Not Comply With Review Requirements* (GAO/GGD-98-161, June 30, 1998).

In its fiscal year 1998 accountability report,¹⁸ Customs commented that it has been unable to perform the required biennial reviews of its user fees because of a lack of needed financial information. However, a Treasury OIG official told us that a two-phase approach is underway to bring Customs into compliance with COBRA and CFO Act requirements. According to the OIG official, Customs has identified its user fees and has assessed the original bases used in setting the fees. Customs' next step is to determine the related costs associated with its fees that are necessary to support recommended adjustments.

Conclusion

Customs could not provide adequate supporting documentation for its fiscal year 1998 labor distribution percentage estimates relating to air and sea passenger processing. Without such documentation, we cannot determine the reasonableness of Customs' fiscal year 1998 costs supporting its air and sea passenger processing user fee. As such, Congress is hampered in making informed decisions on air and sea passenger processing user fee adjustments that Customs may request.

Agency Comments and Our Evaluation

In a memorandum dated February 25, 2000, the Customs' Director, Office of Planning, thanked us for providing a draft of the letter and provided comments to add further context to our letter. First, as we noted and Customs reiterated, Customs began using COSS to capture labor data at the program level in fiscal year 1999, and it is continuing to refine CMIS to improve the quality of the data used to calculate cost information. As we noted in our letter, inspector time will need to be captured at the subprogram and activity levels in order to support the underlying costs related to air and sea passenger processing.

Second, Customs commented that for the past 3 years, labor distribution survey results have been consistent, which Customs believes tends to support the creditability of detailed survey information. While consistency of results at the program level is important, as noted in our letter, the Treasury OIG in its audit of Customs' fiscal year 1998 financial statements found that the methods used to determine labor distribution percentages were completed based on subjective determinations and were inconsistent among ports. Further, as noted in our letter, without adequate supporting documentation, the reasonableness of Customs' underlying costs at the air and sea passenger processing subprogram and activity levels cannot be determined. As noted in our letter, Customs' planned modifications to COSS should further improve the reliability of CMIS information at the subprogram and activity levels.

Third, Customs commented that improving the integrity of all workload data inputted to CMIS is a high priority. In a related comment, Customs also stated that the audits of airlines are not normally used to verify these data. While we recognize that the primary objective of these audits is to increase collections, these audits involve

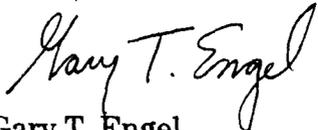
¹⁸U.S. Customs Service Accountability Report, Fiscal Year 1998.

review of passenger data to help assess whether air passenger processing fees have been properly collected and remitted. As such, these audits provide information that indicates whether air passenger volume data for selected airlines is accurate.

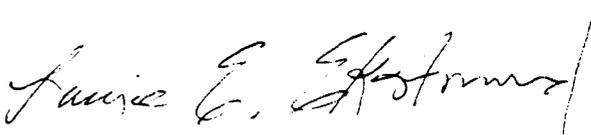
Lastly, Customs commented on its progress toward conducting required biennial reviews of its user fees and reimbursable services. Customs commented that it reviewed all of its user fees and reimbursable services for fiscal year 1999 and stated that a draft report has been prepared on the results of this review. However, the Treasury OIG in its report on Customs' fiscal year 1999 financial statements dated February 18, 2000, stated that Customs is not in full compliance with the CFO Act because it was unable to revise certain fees to reflect costs incurred during fiscal year 1999. As we stated in our letter, according to a Treasury OIG official, Customs has a two-phased approach to bring Customs into compliance with COBRA and the CFO Act. According to the OIG official, Customs has identified its user fees and has assessed the original bases used in setting the fees. Customs' next step is to determine the related costs associated with its fees that are necessary to support recommended adjustments.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 10 days after its date. At that time, we will send copies to Representative Sander M. Levin, Ranking Minority Member of your Subcommittee; the Honorable Lawrence H. Summers, Secretary of the Treasury; and the Honorable Raymond Kelly, Commissioner of Customs. We will also make copies available to others on request.

Key contributors to the assignment were Paula Rascona, Darryl Dutton, Sam Caldron, and Andrew Hoffman. If you have any questions about this letter, please contact Gary Engel at (202) 512-3406 or Laurie Ekstrand at (202) 512-8777.



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Enclosures

Briefing to the Subcommittee on Trade, Committee on Ways and Means

GAO Accounting and Information Management and
General Government Divisions

**Review of Customs' Costs for Processing
Air and Sea Passengers**

**Briefing to the Subcommittee on Trade,
Committee on Ways and Means**

February 1, 2000

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GAO Contents

- Background
- Objective, Scope, and Methodology
- Reasonableness of Air and Sea Passenger Processing Costs Cannot Be Determined
- Customs' Plans to Improve Cost Data
- Conclusion

GAO Background - Authorizing Legislation

- COBRA, the Consolidated Omnibus Budget Reconciliation Act of 1985, authorized Customs to charge air and sea passengers a user fee to recover Customs' processing costs
- Air and sea carriers are to collect and remit \$5.00 to Customs for certain international passengers entering the United States

GAO **Background - Required Biennial
Reviews of User Fees**

- COBRA (1985) and the CFO Act (1990) require Customs to biennially review and report on its user fees
- Biennial reports are to include the costs incurred for providing services and recommendations for any adjustments needed to user fees

GAO Background - Proposed Fee Increase

- In February 1999, the administration proposed increasing the air and sea passenger processing user fee in the President's FY 2000 budget
- The fee was to increase from \$5.00 to \$6.40
- Legislation to increase the fee was not submitted to Congress

**GAO Background - Customs' Cost
Accounting System**

- Customs' Cost Management Information System (CMIS) was implemented in FY 1997 and used to prepare Customs' FY 1998 Statement of Net Costs
- CMIS is an activity-based cost accounting system that is designed to assign costs to core programs, subprograms, activities, and outputs

**GAO Background - Customs' Cost
Accounting System (cont'd)**

- Data used in CMIS come from Customs' information systems, selected subsystems, and surveys of inspectors' time by activity

GAO Background - Customs Overtime and
Scheduling System (COSS)

- COSS was implemented in May 1998 to monitor and manage inspectors' annual overtime and premium pay
- COSS schedules work assignments, generates time and attendance records, and tracks overtime earnings
- In 1999, Customs began the process of capturing COSS data nationally as a means for developing passenger processing costs at the program, subprogram, and activity levels

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GAO Objective, Scope, and Methodology

- Objective - Assess the reasonableness of Customs' underlying costs supporting its air and sea passenger processing user fee

- Scope and Methodology
 - Held discussions with staff in Customs' headquarters and Treasury's Office of Inspector General (OIG)

GAO Objective, Scope, and Methodology
(cont'd)

- Reviewed:
 - prior related GAO and Treasury OIG reports
 - OIG audit report on Customs' FY 1998 financial statements and supporting workpapers
 - related legislation and regulations
 - CMIS documentation
 - Data from CMIS
 - Selected consolidated audit reports on air carriers

GAO Objective, Scope, and Methodology
(cont'd)

- Conducted our review from September 1999 through December 1999 in accordance with generally accepted government auditing standards

GAO Reasonableness of Air and Sea Passenger Processing Costs Cannot Be Determined

- FY 1998 estimated labor distribution percentages used for allocating costs at the subprogram levels (air and sea passenger processing) and activity levels are not adequately supported
- The lack of complete passenger volume data has been a problem
- Customs has never submitted required biennial reports to Congress on its user fees

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**GAO Reasonableness of Costs - Labor
Distribution Percentages**

- Labor distribution percentages measure the amount of time an inspector spends on a particular program, subprogram, or activity within a program
- Labor distribution percentages are a key allocation method in CMIS for assigning costs to the various subprograms and activities within a core program area
- Customs estimated its labor distribution percentages based on surveys completed by its port managers

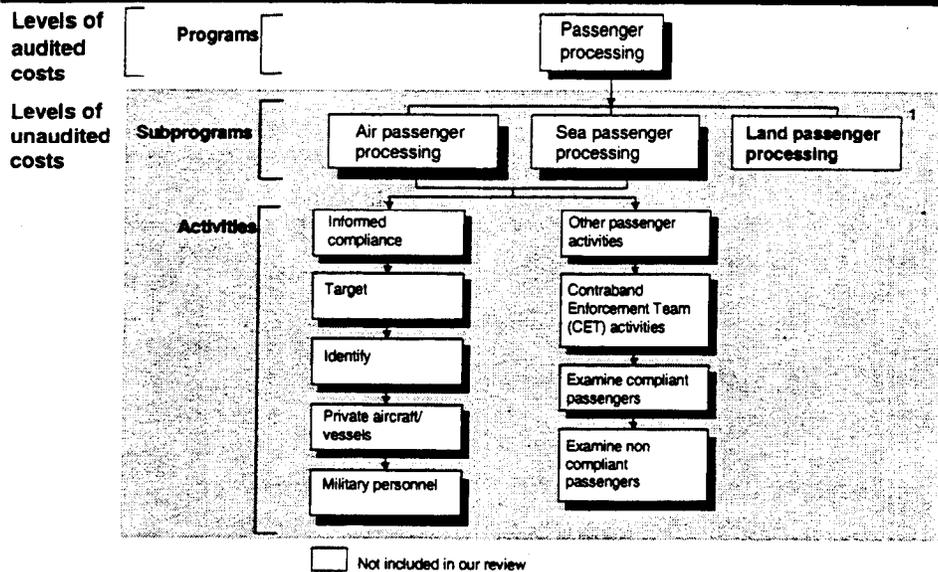
**GAO Reasonableness of Costs - Labor
Distribution Percentages (cont'd)**

- For FY 1999 and FY 1998 financial statement purposes, Customs used surveys because COSS did not adequately capture inspectors' time by programs, subprograms, and activities

**GAO Reasonableness of Costs - Labor
Distribution Percentages (cont'd)**

- Treasury OIG FY 1998 workpapers noted:
 - FY 1998 estimated labor distribution percentages were based on surveys that lacked supporting documentation
 - Completed surveys were based on undocumented subjective determinations of time spent on programs, subprograms, and activities
 - Also, methods for determining labor distribution percentages were inconsistent among ports

GAO Reasonableness of Costs - Levels of Audited and Unaudited Fiscal Year 1998 Costs



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*There are no user fees applicable to individuals crossing U.S. land borders.

Source: U.S. Customs Service.

GAO Reasonableness of Costs - Passenger
Volume Data

- Accurate workload data on the number of passengers processed are critical for computing unit costs
- Air and sea carriers are responsible for remitting fees and providing passenger-related data to Customs
- Prior to FY 1998, GAO and Treasury OIG reported on the lack of complete air passenger volume data received by Customs
- Customs has developed a new, consolidated audit approach to address the problem

**GAO Reasonableness of Costs - Passenger
Volume Data (cont'd)**

- In March 1998, Customs entered into a Memorandum of Understanding (MOU) with Agriculture and Justice agencies to conduct consolidated audits of user fee remittances by air and sea carriers
- The MOU is designed to expand audit coverage, increase collections, and reduce audit costs
- Consolidated audits at air carriers have been completed for FY 1998 and FY 1999 and are ongoing for FY 2000

GAO Reasonableness of Costs - Passenger
Volume Data (cont'd)

- According to a Customs official, these audits indicate that the data on the number of air passengers processed in Customs' automated system appear to be accurate and reliable
- These audits should improve the accuracy of the air passenger volume data

**GAO Reasonableness of Costs - Required
Biennial Reviews**

- GAO and the Treasury OIG have reported that Customs has not complied with legislative requirements for biennial reviews of user fees
- Congress requires these reviews of Customs user fees to make decisions on recommended user fee adjustments
- Customs reported that it has not been able to comply because of insufficient cost data

GAO Customs' Plans to Improve Cost Data

- Enhance CMIS
- Conduct required biennial reviews of user fees

GAO Customs' Plans to Improve Cost Data -
CMIS Enhancements

- In August 1999, Customs headquarters emphasized the importance of adequate documentation to support each port's FY 1999 labor distribution survey
- Customs is modifying COSS to capture inspector time by subprogram and activity at all ports and plans to use these data in CMIS
- Customs is establishing a working group that will be tasked with integrating COSS labor data into CMIS by FY 2001

**GAO Customs' Plans to Improve Cost Data -
Required Biennial Reviews**

- According to Customs officials, actions are underway to bring Customs into compliance with COBRA and the CFO Act
- According to the OIG, Customs has
 - identified its user fees and
 - assessed the original bases used in setting the fees
- Customs' next step is to determine the related costs associated with its fees necessary to support recommended adjustments

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GAO Conclusion

- Customs could not provide adequate supporting documentation for its FY 1998 labor distribution percentage estimates
- Without such documentation, we cannot determine the reasonableness of Customs' reported costs for air and sea passenger processing
- As such, Congress is hampered in making informed decisions on recommended air and sea passenger processing user fee adjustments

Comments From the U.S. Customs Service



U.S. Customs Service

Memorandum

DATE: February 25, 2000

FILE: AUD-1-OP BAB

MEMORANDUM FOR JEFFREY STEINHOFF
U.S. GENERAL ACCOUNTING OFFICE

FROM: Director, Office of Planning

SUBJECT: "U.S. Customs Service: Reasonableness of Costs
for Processing Air and Sea Passengers Cannot be
Determined"

Thank you for providing GAO's draft report "U.S. Customs Service:
Reasonableness of Costs for Processing Air and Sea Passengers Cannot
be Determined" and the opportunity to discuss the issues in this report.

Customs believes that a more complete description of the issues and
limitations of the passenger user fee program would be presented in the
report by making several changes. The proposed changes are outlined in
the attached document.

If you have any questions regarding the attached comments, please have
a member of your staff contact Ms. Brenda Brockman at (202) 927-1507.

William F. Riley

Attachment

TRADITION

★

SERVICE

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HONOR

Comments on Draft Report entitled "U.S. Customs Service: Reasonableness of Costs for Processing Air and Sea Passengers Cannot be Determined"

As indicated in the report, the current version of the Customs Cost Management Information System (CMIS) utilizes survey information for distributing labor costs at the activity level. The report recognizes that the use of surveys for assigning costs conforms to the Federal Financial Accounting Standards, but GAO believes that additional supporting documentation is needed. The Customs Service is continuing to refine CMIS and improve the quality of the data used to calculate the cost information. In Fiscal Year 1999, we began using the new Customs Overtime and Scheduling System (COSS) to capture labor data at the process level. As noted in the report, this will improve the reliability of the CMIS information.

The total cost incurred for passenger processing, including the inspection of land border passengers, is reported in the annual Statement of Net Cost, and this information is independently verified and audited by the Treasury Department's Office of Inspector General. CMIS also provides detailed information at the sub-process level, on the cost of air and sea passenger processing, but this information is not reported in the Statement of Net Cost and, therefore, is not audited. The detailed costs are based primarily on survey information, and GAO could not determine whether the costs were reasonable without additional supporting documentation. It should be noted, for the past three years that CMIS has been operational, the survey results have been consistent, and we believe this tends to support the creditability of the detailed information.

The GAO report states that the lack of complete passenger volume data has been a problem for Customs in the past; and consequently, the per passenger costs may not be reliable. We believe that the current passenger volume information is reasonably accurate, and continuing to improve the integrity of all of the workload data input for CMIS is a high priority. The report indicates that the audits of airline payments should improve the accuracy of the passenger volume data. While passenger data is used to identify airlines to be audited, the verification of this data is not normally part of the audit. The reference in the report to the use of these audits to improve the passenger volume information should be clarified.

Finally, the report addresses the requirements for the biennial review of user fees contained in the Chief Financial Officers Act and the Consolidated Omnibus Budget Reconciliation Act and indicates that the reviews have not been completed. All of the Customs Service user fees and reimbursable services were reviewed during Fiscal Year 1999. A draft report has been prepared on the results of this review, and the report contains recommendations for revising certain fees. However, there are no specific recommendations in the draft report for revising the air or sea passenger processing fees that are the subject of this report.

Related GAO and OIG Reports

GAO Reports

Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, Aug. 25, 1992).

Customs Service: Information on User Fees (GAO/GGD-94-165FS, June 17, 1994).

Customs Service: Passenger User Fee Collection Needs To Be Reevaluated (GAO/GGD-95-138, May 22, 1995).

Federal User Fees: Some Agencies Do Not Comply With Review Requirements (GAO/GGD-98-161, June 30, 1998).

Customs Service—Authority to Fund Overtime and Premium Pay Activities From COBRA User Fees (Comptroller General of the United States Decision, B-279865, April 22, 1999).

OIG Reports

Audit Report of the U.S. Customs Service Air Passenger User Fees (Office of Inspector General, Department of the Treasury, March 26, 1992).

Management Letter for the Audit of U.S. Customs Service's Fiscal Year 1994 Financial Statements (OIG-95-130, September 29, 1995).

United States Customs Service: Audit of Customs Passenger User Fees (OIG-98-083, May 1, 1998).

Audit of U.S. Customs Service's Oversight of Consolidated Omnibus Budget Reconciliation Act User Fees (OIG-98-096, July 1, 1998).

Report on the U.S. Customs Service's Fiscal Year 1998 Financial Statements (OIG-99-050, March 17, 1999).

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