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# Services For Special Beneficiaries: Costs Not Being Recovered

United States Customs Service  
Department of the Treasury

**UNITED STATES  
GENERAL ACCOUNTING OFFICE**

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MARCH 10, 1975



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

B-114898

The Honorable  
The Secretary of the Treasury 38

Dear Mr. Secretary:

We reviewed user charges collected by the Customs Service for services provided to special beneficiaries. Our review, conducted at Customs headquarters, Washington, D.C., and at the Boston District Office, showed that Customs is not recovering the full costs of these services. During fiscal year 1974, the unrecovered costs exceeded \$4 million. 156

BACKGROUND

Title 31, section 483a, of the U.S. Code provides that:

- Government activities resulting in special benefits or privileges for individuals or organizations be as financially self-sustaining as possible.
- Fees be fair and equitable, considering direct and indirect costs to the Government, value to the recipient, public policy or interest served, and other pertinent facts.

On September 29, 1959, the Office of Management and Budget (OMB) issued policy guidelines (Circular A-25) to executive agencies for implementing these requirements. Circular A-25 requires that agencies review annually the costs of providing services to special beneficiaries and adjust fees as necessary. The Circular further requires that agencies submit remedial legislation proposals to OMB when the collection of the appropriate fee, in accordance with the criteria set forth in the Circular, is limited or prohibited by the existing law.

Circular A-25 also prescribes that fees and charges recover both the direct and indirect costs to the Government

of carrying out the activity. Such fees and charges are to include, but not be limited to, the following costs:

- Salaries; travel expense; employee leave; and other indirect salary costs, such as retirement and employee insurance.
- Operation and depreciation of buildings and equipment, rent, postage, maintenance, and cost of fee collection.
- A proportionate share of the agency's management and supervisory costs.
- The costs of enforcement, research, and establishing standards and regulations, to the extent they are determined by the agency head to be properly chargeable to the activity.

Customs currently administers 53 user charges for which it is reimbursed either by the party-in-interest for the salary and expenses of the officer performing the service or by a set fee. Some of these fees are determined administratively; others are fixed by statute. Customs estimated that, in fiscal year 1974, it collected \$4.5 million in user charges for performing various services during normal working hours and about \$26.9 million for performing services outside normal working hours.

#### NEED TO IMPROVE AND EXPAND REVIEW PROCESS

Customs did not undertake an annual review of user charges until October 7, 1971, when it gave its Management Analysis Division (MAD) the responsibility for initiating a review to determine if such charges were recovering the full cost of the service. Although MAD reviewed some of the user charges, we found there was still a need for improvement in the following areas:

- Full costs are not being recovered by administrative fees or by fees and reimbursable services governed by statute.

- A number of user charges are obsolete or do not aptly reflect modern day Customs procedures.
- Customs does not collect administrative overhead associated with reimbursable services (which caused the Government to absorb approximately \$4.5 million for services to special beneficiaries in fiscal year 1974).

Administrative fees

Seventeen user charges have been established by Customs. (See app. I.) MAD reviewed these administrative fees and recommended that seven be increased in 1972 and two in 1973.

MAD's recommended increases were based primarily on the average salary increases received by personnel performing these services from the date the fee was last established. Although five of the nine proposed increases included a 17-percent factor for overhead expense, Customs officials could not explain how this figure was arrived at or why the factor was not applied in the other four computations. In addition, MAD did not attempt to determine if the time required to perform these services had changed since the fee was last established. As of February 1, 1975, two of the proposed increases had been implemented, five were scheduled for implementation in March 1975, and the other two were still under study.

We made a detailed review of the two fees--for licensing a customhouse broker and licensing a Customs bonded cartman--that had been increased as a result of MAD's review. We reviewed 12 brokers licenses and 21 cartman licenses issued by Customs' Boston District to determine if direct and indirect labor costs were being recovered. Applicants for brokers licenses and cartman licenses were charged \$150 and \$50, respectively. Customs' average labor costs for issuing a brokers license and a cartman license exceeded the fees received by \$187.29 and \$254.51, respectively. The following table shows how we arrived at these figures.

Direct and Indirect Labor Costs Not Recovered

<u>Average labor cost per case</u>	<u>Issued brokers license</u>	<u>Issued cartman license</u>
Salary of Office of Investigations special agent for background and financial check (note a)	\$225.94	\$198.65
Salary of Office of Investigations clerical support (note b)	3.46	3.46
Salary of application and bonds examiner for administrative duties (note c)	<u>16.80</u>	<u>20.16</u>
Total direct labor	246.20	222.27
Total indirect labor (note d)	<u>91.09</u>	<u>82.24</u>
Total labor cost	337.29	304.51
Less fee	<u>150.00</u>	<u>50.00</u>
Total labor cost not recovered	<u>\$187.29</u>	<u>\$254.51</u>

<sup>a</sup>Based on agency time records showing an average of 26.0 hours and 22.9 hours of investigative work for each issued brokers license and cartman license, respectively, and extended by average pay rate.

<sup>b</sup>Based on agency officials' estimate of 1 hour of clerical assistance for each type of license issued and extended by average pay rate.

<sup>c</sup>Based on agency officials' estimate of 2.5 hours and 3.0 hours of administrative duties for each issued brokers license and cartman license, respectively, and extended by average pay rate.

<sup>d</sup>Indirect labor cost computed at 37 percent of direct salary. (This percentage is used by Customs for computing indirect labor costs for officers performing reimbursable services and includes such factors as annual and sick leave, paid holidays, and Government contributions for employee benefits.)

Nationwide, Customs issued 212 customhouse brokers licenses in fiscal year 1974. If the average unrecovered labor cost per case of \$187.29 in Boston is typical, Customs did not recover \$39,705 in labor costs at the district level alone for providing this service. In addition, we identified \$44,000 in costs for legal and clerical support personnel directly involved in rendering this service at Customs headquarters. Therefore, the total identified unrecovered cost was \$83,705. Indirect costs, as defined by Circular A-25, are not included in this figure.

Customs officials could not give us an actual or estimated number of cartman licenses issued in fiscal year 1974 because these records are maintained at district and regional offices.

On August 28, 1974, the user charge for applying for a brokers license was increased from \$150 to \$200 and the application fee charged for a cartman license was raised from \$50 to \$100. However, on the basis of our computations, Customs is still failing to recover a substantial portion of its cost in issuing these licenses. According to a responsible Boston Customs official, an unfair financial burden would not be placed on applicants for either license by increasing fees to a level sufficient to recover full cost.

Fees and reimbursable services  
governed by statute

Customs provides 36 services for which the reimbursement rate is determined by statute. Although required by Circular A-25, MAD's review did not cover these user charges.

Fixed fees

Customs is reimbursed for 13 of these services by a fixed fee. (See app. II.) All these fees were established before 1936, including 10 established in the 1790s.

A number of these user charges are obsolete because opportunities for collecting them no longer exist or they no longer serve the purpose for which they were originally

intended. For example, Boston District officials said fees in connection with the Whaling Treaty Act were no longer collected and the user charge for furnishing bills of health to foreign vessels had become obsolete. In addition, Customs headquarters officials said the statutory fees charged for entering and clearing vessels do not cover the cost of the service. We examined six statutory fees (ranging from \$0.20 to \$2.50) charged for services performed regularly in Customs' Boston District relating to the entry and clearance of vessels. We did not ascertain the cost of collecting each fee because of the interrelated duties required to process vessel document packages. Boston officials advised us that these fees should be combined and a flat rate be charged for these services to eliminate unnecessary administrative work.

Although statutes require collecting fees for entering and clearing vessels, there is no such requirement for aircraft. Customs officials said statutes relating to entry and clearance of aircraft do not specifically require the collection of fees and any attempt by Customs to make such collections would prove an administrative nuisance.

According to Customs' Chief Counsel's Office, numerous legislative submissions to the Congress before 1970 attempted to (1) have various fees increased to recover the cost of services provided or (2) have them eliminated. However, the Congress failed to act on any of these proposals.

Customs has not, however, submitted any legislation to have statutory fees transferred to your jurisdiction. Such a law would authorize you to (1) raise fees to a level which would recover all costs, (2) combine certain fees to eliminate unnecessary administrative work, and (3) eliminate all outdated user charges.

#### Reimbursable services

Customs provides 23 other services during normal working hours for which the compensation rate is governed by statute. (See app. III.) However, instead of being charged a fixed fee, parties-in-interest are billed for the full compensation and/or travel and subsistence of the Customs

officer performing the service. Full compensation includes both base salary and indirect labor cost (see p. 4, note d), which is billed at 37 percent of the officer's base salary. However, except for the reimbursement for preclearing aircraft, Customs does not collect administrative overhead associated with reimbursable services.

An OMB official responsible for administering Circular A-25 said the Circular prescribes the collection of all administrative overhead associated with reimbursable services. Customs officials said they recognize that recovery of full costs would include administrative overhead but that statutes governing the reimbursable services do not authorize Customs to collect administrative overhead (except for reimbursement for preclearing aircraft).

Although the statutes governing reimbursable services require parties-in-interest to reimburse Customs for the compensation and expenses of officers performing these services, these statutes do not specify that the required reimbursement be the sole charge for such services or prohibit the collection of a fee for overhead expense. Therefore, we believe that 31 U.S.C. 483a (see p. 1) authorizes Customs to include administrative overhead in the billings of parties-in-interest for all reimbursable services performed during normal working hours.

The Office of Budget and Finance has recommended since 1963 that, in the absence of a formal accounting system for determining administrative overhead (as is the case with Customs), Department bureaus use a figure of 15 percent of the identified costs of providing the service. As of February 1, 1975, Customs had taken no action to include the 15-percent overhead in its charges for reimbursable services.

Customs collected about \$3.1 million in fiscal year 1974 for reimbursable services performed during normal working hours. By not collecting for administrative overhead at the recommended rate of 15 percent, Customs absorbed about \$460,000 that should have been passed on to parties-in-interest.



In fiscal year 1974, Customs collected \$26.9 million in overtime payments for services rendered outside normal working hours. Statutes governing reimbursement for overtime vary somewhat from those governing reimbursement for services provided during regular duty hours. However, nothing in these statutes specifies that the required reimbursement be the sole charge for such services or prohibits the collection of administrative overhead. Therefore, we believe 31 U.S.C. 483a authorizes Customs to include administrative overhead in the billings of parties-in-interest for services performed outside normal working hours. Customs could have collected \$4 million more in fiscal year 1974 had administrative overhead been charged at the recommended rate of 15 percent.

On May 9, 1974, we requested the Department to comment on our report on payments for overtime services of Federal agencies at U.S. ports of entry (GGD-74-91). As noted in that report, three of the four agencies (including Customs) that make inspections at ports of entry do not include a charge for overhead in their billings to the parties-in-interest. We recommended that each agency, with OMB's assistance, develop, to the extent permitted by law, uniform regulations on the reimbursement of the costs of inspections at ports of entry.

Each agency agreed on the need for uniform regulations and OMB agreed to help develop them.

We also recommended that the Congress consider enacting legislation establishing a uniform policy on the charges for inspections at ports of entry and requiring that such charges be for the full cost of such services, including overhead. Pending the consideration of such legislation, we believe that Customs should include an overhead charge in its billings to the parties-in-interest for such inspections.

Although we did not undertake a detailed cost analysis, we identified some administrative overhead items at Washington headquarters that can be directly associated with performing reimbursable services. These items included data processing time, billings of parties-in-interest, report processing, and preparing and maintaining various financial records.

On May 31, 1974, responsibility for the user charge review was transferred to Customs' Accounting Division. As of February 1, 1975, however, the Division had not implemented procedures for continuing this review.

RECOMMENDATIONS

We recommend that you:

- Submit legislation to the Congress to have all fees fixed by statute transferred to your jurisdiction.

We further recommend that you direct the Commissioner of Customs to:

- Include in the charges for reimbursable services a fair and equitable amount for administrative overhead.
- Develop procedures for periodically monitoring and evaluating all user charges in accordance with the criteria in Circular A-25.

AGENCY ACTION

Customs officials we spoke with about our first recommendation agreed with it and said they were drafting legislation that would modernize and simplify many of their operations. A provision considered for inclusion in this legislation would transfer all fees fixed by statute to your jurisdiction. This legislation was submitted to OMB for approval on January 14, 1975.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

B-114898

We appreciate the cooperation and assistance provided by the Commissioner of Customs and his staff. We would be pleased to discuss any of the above matters with you or members of your staff. Copies of this report are being sent to the above congressional committees; the House Committee on Ways and Means; the Senate Committee on Finance; the Director, OMB; and the Commissioner of Customs. S  
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Sincerely yours,

*Victor L. Lowe*

Victor L. Lowe  
Director

APPENDIX I

ADMINISTRATIVE FEES

<u>Description of service</u>	<u>Amount</u>	<u>Date established</u>
Storing merchandise in a Government-owned or Government-rented building	(a)	1942
Renting electric scales for weighing nondutiable raw sugar	\$ 0.02 per ton	1955
Selling in-bond and in-transit Customs seals	.10 each	1959
Renewing or recording a change of ownership of a trademark	40.00	1964
Renewing or recording a change of ownership of a copyright	40.00	1964
Designating a common carrier as a carrier of Customs bonded merchandise	50.00	1964
Furnishing the names and addresses of importers of articles appearing to infringe a registered patent		
For 2 months	1,000.00	1964
For 4 months	1,500.00	1964
For 6 months	2,000.00	1964
Recording a trademark	100.00	1965
Recording a trade name	100.00	1965
Recording a copyright	100.00	1965
Establishing a Customs bonded warehouse	80.00	1965
Selling Customs forms	1.50 to 12.50 per hundred	1969
Licensing a Customs bonded cartman	100.00	1974
Issuing a customhouse brokers license	200.00	1974
Traveling in a Government-owned vehicle on official travel at request of private party	(b)	(c)
Loading merchandise in a Government vehicle	(a)	(c)
Using Customs scales for sole benefit of private parties on an emergency basis	(a)	(c)
a/Prevailing local commercial rates.		
b/Prevailing Government rates.		
c/Information not available.		

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## APPENDIX II

## STATUTORY FEES

<u>Description of service</u>	<u>Amount</u>	<u>Date established</u>
Issuing a permit for a foreign vessel to proceed from district to district and receiving the manifest	\$2.00	1793
Receiving the manifest of a foreign vessel on arrival from another district and granting a permit to unload	2.00	1793
Receiving post entry	2.00	1799
Receiving an official bond not otherwise provided for	.40	1799
Entering a vessel from a foreign port: Less than 100 net tons	1.50	1799
100 net tons or more	2.50	1799
Clearing a vessel to proceed to a foreign port: Less than 100 net tons	1.50	1799
100 net tons or more	2.50	1799
Certifying payment of tonnage tax, foreign vessel only	.20	1799
Furnishing a copy of an official document	.20	1799
Furnishing bills of health to foreign vessels	.20	1799
Granting official certification	.20	1799
Issuing a permit to a foreign vessel to proceed from district to district and receiving the manifest when navigating the waters of the Canadian frontier otherwise than by sea	.10	1870
Receiving the manifest of a foreign vessel on arrival from another district and granting a permit to unload when navigating the waters of the Canadian frontier otherwise than by sea	.10	1870
Collecting fees in connection with the Whaling Treaty Act	(a)	1936

a/Information not available.

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## REIMBURSABLE SERVICES (note a)

<u>Description of service</u>	<u>Date established</u>
Performing services in connection with entering and clearing vessels other than at a port of entry	1913
Inspecting nonscheduled aircraft elsewhere than at an international airport	1930
Weighing, gauging, or measuring merchandise when information not disclosed by invoice	1930
Supervising receipt and delivery of merchandise	1930
Boarding a vessel or vehicle to protect the revenue	1930
Boarding a vessel to supervise unloading	1930
Accompanying a vessel or vehicle while proceeding from one port to another	1930
Supervising the manipulation of merchandise at a place other than a bonded warehouse	1930
Maintaining Customs control and protecting revenue in foreign trade zones	1934
Supervising exportation, destruction, or marking to exempt articles from duty	1938
Supervising destruction of merchandise at a place where a Customs employee is not regularly assigned	1952

<u>Description of service</u>	<u>Date established</u>
Supervising the receipt and delivery of merchandise at more than one bonded warehouse	1957
Supervising labeling of fur and wool products	1957
Preclearing aircraft (note b)	1957
Supervising the examination of merchandise entered or withdrawn from transportation in bond or for exportation	1958
Examining merchandise other than at a place where a Customs officer is permanently located (note c)	1959
Relieving a full-time Customs officer outside the port limits	1959
Searching files to obtain records for private parties	1959
Rendering services in connection with the entry and delivery of merchandise at a Customs station not a port of entry (note c)	1959
Supervising the unpacking or segregating of merchandise landed but not entered	1960
Supervising the removal or the obliteration of prohibited trade names or trademarks from merchandise	1964

<u>Description of service</u>	<u>Date established</u>
Supervising the labeling or marking of gold and silver articles that fail to comply with marking requirements	1964
Furnishing copies of Customs records for private parties	1966
<u>a</u> /Parties-in-interest reimburse Customs for full compensation and travel and subsistence of officers performing these services.	
<u>b</u> /Administrative overhead is collected for this service.	
<u>c</u> /Parties-in-interest reimburse Customs only for the travel and subsistence of officers performing these services.	



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