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Report to Congressional Requesters

January 2009

# IMMIGRATION APPLICATION FEES

# Costing Methodology Improvements Would Provide More Reliable Basis for Setting Fees

GAO

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GAO-09-70

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January 2009

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Highlights

Highlights of GAO-09-70, a report to congressional requesters

# IMMIGRATION APPLICATION FEES

## Costing Methodology Improvements Would Provide More Reliable Basis for Setting Fees

### Why GAO Did This Study

The Department of Homeland Security's (DHS) U.S. Citizenship and Immigration Services (USCIS) is responsible for granting or denying immigration benefits to individuals. USCIS charges fees for the millions of immigration applications it receives each year to fund the cost of processing and adjudicating them. In February 2007, USCIS completed a study to determine the full costs of its operations and the level at which application fees should be set to recover those costs. USCIS's new fee schedule increased application fees by a weighted average of 86 percent. Almost 96 percent of USCIS's fiscal year 2008 budget of $2.6 billion was expected to have come from fees. GAO was asked to review the methodology USCIS used in its fee review and controls in place over collection and use of fees. In this report, GAO addresses the consistency of the methodology with federal accounting standards and principles and other guidance, including whether key assumptions and methods were sufficiently justified and documented. The report also addresses internal controls USCIS has in place over the collection and use of fees.

### What GAO Recommends

GAO makes six recommendations to help USCIS make its costing methodology consistent with standards and principles, strengthen the reliability of the cost assignments it uses to set fees, and better support the reasonableness of its assumptions and methods. DHS and USCIS concurred with our recommendations.

To view the full product, including the scope and methodology, click on GAO-09-70. For more information, contact Jeanette Franzel at (202) 512-9406 or franzelj@gao.gov.

### What GAO Found

In 2007, USCIS completed a fee review in which USCIS estimated the costs of its immigration application processing and adjudication services and, in accordance with management's objective, set the fees at a level to recover those costs. The methodology USCIS used in its review, however, did not consistently adhere to federal accounting standards and principles and other guidance. While federal accounting standards allow flexibility for agencies to develop managerial cost accounting practices that are suited to their needs, they also provide certain specific guidance based on sound cost accounting concepts. USCIS's methodology, for example, did not include the costs paid by other federal entities on behalf of USCIS. Federal standards and guidance also call for documentation that is sufficient to allow an understanding of and provide justification for the cost assignment processes and data used. USCIS did not adequately document the detailed processes used or sufficiently justify assumptions used in allocating costs to various activities on a prorated basis. As a result, USCIS could not show that its methods provided a reasonable distribution of the costs to the various types of applications. For instance, USCIS allocated $732 million of overhead costs (or 31 percent of total costs)—including information technology operations and maintenance—to offices based on the number of staff full-time equivalents (FTE) in each office. However, USCIS's documentation did not sufficiently justify (1) why cost allocation was used instead of other possible methods or (2) why it did not include about 6,100 contract workers and used only approximately 7,900 FTEs of the total federal FTEs of about 10,400 as the basis for allocation. USCIS also did not adequately justify the equal assignment of activity costs representing 51 percent of total costs to each application type. While such pro rata assignment of costs may be a reasonable method in some circumstances, USCIS did not document its justification for the assumptions made when deciding which costs to allocate on a prorated basis and how those costs should be allocated. Because of these inconsistencies with federal accounting standards and principles and other guidance, USCIS cannot support the reasonableness of cost assignments to the various application types.

USCIS has implemented accountability mechanisms to track the use of both regular application fees as well as premium processing fees intended for specific projects. USCIS plans to use its premium processing fee collections to fund its transformation program to make long-term improvements to its business processes and technology. Through its monitoring of fee collection procedures, USCIS has identified some weaknesses at one of its service centers. It has taken actions to strengthen service center controls in the short term, and it is moving all fee receipt functions and the application processing done in preparation for adjudication to lockbox facilities to further strengthen control over collections.

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### Abbreviations

| | |
|---|---|
| CFO | chief financial officer |
| DHS | Department of Homeland Security |
| FBI | Federal Bureau of Investigation |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMS | Financial Management Service |
| FTE | full-time equivalent |
| IEFA | Immigration Examinations Fee Account |
| INS | Immigration and Naturalization Service |
| OCFO | Office of the Chief Financial Officer |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| PAS | Performance Analysis System |
| SAVE | Systematic Alien Verification for Entitlements |
| SFFAS | Statement of Federal Financial Accounting Standards |
| USCIS | U.S. Citizenship and Immigration Services |

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**United States Government Accountability Office**
**Washington, DC 20548**

January 23, 2009

The Honorable Zoe Lofgren
Chairwoman
Subcommittee on Immigration, Citizenship,
Refugees, Border Security and International Law
Committee on the Judiciary
House of Representatives

The Honorable David Price
Chairman
Subcommittee on Homeland Security
Committee on Appropriations
House of Representatives

U.S. Citizenship and Immigration Services (USCIS), an agency of the Department of Homeland Security (DHS), is responsible for granting or denying immigration benefits to individuals seeking to become citizens of the United States or to study, work, or live in this country. In carrying out its responsibilities, USCIS processes and adjudicates millions of immigration and naturalization applications each year, administers work authorizations and other petitions, and provides services for new residents and citizens.

To fund the cost of processing and adjudicating applications and associated support services, USCIS charges application fees that are deposited in the Immigration Examinations Fee Account (IEFA) and are available until expended.[1] Businesses desiring to hire foreign nationals may pay an additional fee to accelerate the processing of certain types of applications, such as those for workers in specialty occupations or temporary workers.[2] Congress authorized this fee to be used to provide certain premium processing services to business customers, and to make

[1]USCIS may set fees for providing adjudication services at a level that will ensure recovery of the full costs of providing all such services, including the costs of adjudication services provided without charge to certain immigrants, such as those seeking asylum in the United States, and any additional costs associated with the administration of the fees collected. 8 U.S.C. § 1356(m), (n). As such, Congress has permanently appropriated amounts collected for these purposes.

[2]Pub. L. No. 106-553, § 1(a)(2) App. B, [Title I, § 112], 114 Stat. 2762A-68 (Dec. 21, 2000). 8 U.S.C. § 1356(u).


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infrastructure improvements in the adjudications and customer service processes.

GAO and DHS's Inspector General have reported the need for USCIS to improve its processes, systems, and technology and noted that USCIS's efforts to modernize have been unfocused, conducted in an ad hoc and decentralized manner, and, in certain instances, duplicative. In 2006, USCIS embarked on a transformation of its business processes and technology to move its operations from paper-based processes to an electronic environment. USCIS plans to fund its transformation program mostly with premium processing fees.

In the past, in addition to its fee collections, USCIS received other appropriations from annual appropriations acts (i.e., direct appropriations) to help fund its operations. USCIS received appropriated funds to pay for administrative costs through fiscal year 2004. USCIS also received appropriated funds for specific projects, such as the initiative to reduce the backlog of pending applications, from fiscal year 2002 through 2006 and its business transformation program in fiscal years 2006 and 2007. In fiscal year 2007, USCIS received direct appropriations for Systematic Alien Verification for Entitlements (SAVE).[3] USCIS also received direct appropriations for E-Verify[4] in fiscal years 2007 and 2008.

We have previously reported that fee collections had not been sufficient to recover USCIS's full operating costs.[5] To provide funding to cover the shortfall from application fees, USCIS used the direct appropriations discussed above, and it used premium processing fees and fees from applications that were waiting to be processed.

In February 2007—to determine the full costs of its operations and the level at which application fees should be set to recover those costs—USCIS completed a review of the processes involved in providing adjudication services and the resources needed. Based on the review,

[3]SAVE is an intergovernmental information-sharing program to help federal, state, and local agencies verify the immigration status of applicants for public benefits and licenses.

[4]The E-Verify program allows participating employers to verify the employment eligibility of all newly hired employees.

[5]GAO, *Immigration Application Fees: Current Fees Are Not Sufficient to Fund U.S. Citizenship and Immigration Services' Operations*, GAO-04-309R (Washington, D.C.: Jan. 5, 2004).


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USCIS implemented a new fee schedule effective July 30, 2007, which increased application fees by a weighted average of 86 percent. (See app. II for a list of applications and their fees.) USCIS expects that the increased application fees will cover the costs of its immigration application processing and adjudicating services.

Almost 96 percent of USCIS's fiscal year 2008 budget of $2.6 billion was expected to have come from fee collections, with the residual coming from direct appropriations and from other federal agencies for work done by USCIS on their behalf. It is important that USCIS reliably accumulate and analyze the costs of its application processing services as a basis for setting fees and recovering costs and to offer insights for managing its programs and activities. At your request, we reviewed the methodology USCIS used in its fee review to develop the current fee schedule and controls USCIS has put in place over the collection and use of the fees. Specifically, this report[6] addresses the consistency of the costing methodology USCIS used to develop the current fee schedule with federal accounting standards and principles and other guidance, including whether USCIS sufficiently justified and documented its assumptions and methods. The report also addresses internal controls in place over the collection and use of fees.

In conducting our work, we considered federal accounting standards, Office of Management and Budget (OMB) guidance on user fees, and federal internal control standards.[7] We reviewed USCIS documents related to the fee review and its methodology. We obtained an understanding of the methodology and reviewed the design and operation of USCIS's cost system, including its cost accumulation methods and how it assigned costs involved in adjudicating and processing various types of immigration applications. We performed a walk-through of the USCIS process for accumulating specific types of costs and performed analytical reviews and

[6]GAO issued three reports related to this request. This report assesses USCIS's methodology for determining application fees and controls over fees. GAO, *Federal User Fees: Improvements Could Be Made to Performance Standards and Penalties in USCIS's Service Center Contracts*, GAO-08-1170R (Washington, D.C.: Sept. 25, 2008), discusses issues related to contract performance standards for preadjudication activities at the four service centers. GAO, *Federal User Fees: Additional Analyses and Timely Reviews Could Improve Immigration and Naturalization User Fee Design and USCIS Operations*, GAO-09-180 (Washington, D.C.: Jan. 23, 2009), reports on the design of USCIS fees and the effect of agency operations on those fees.

[7]See app. III for a description of these cost accounting- and user fee-related federal statutes, standards, and principles and other guidance.


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discussed with USCIS officials key assumptions and decisions concerning distributing these costs to applications as their basis for setting fees. We visited all four USCIS service centers in Laguna Niguel, California; Lincoln, Nebraska; Mesquite, Texas; and St. Albans, Vermont, and a lockbox facility in Chicago where we observed fee collection processes. We discussed with USCIS officials and staff the processes for tracking and monitoring fee collections and related expenditures and reviewed corroborating and other relevant documentation.

Appendix I provides additional details about our scope and methodology. We conducted this performance audit from October 2007 to January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Results in Brief

Although the July 2007 fee increases met management's objective to set fees at a level to recover USCIS's estimated costs of immigration application processing and adjudication services, the costing methodology USCIS used to develop the fees for each application type did not consistently adhere to federal accounting standards and principles and other guidance. While federal accounting standards allow flexibility for agencies to develop managerial cost accounting practices that are suited to their needs, they also provide certain specific guidance based on sound accounting concepts. USCIS's methodology was not consistent with federal accounting standards and principles and other guidance in the following aspects: (1) costs paid by other federal entities on behalf of USCIS were not included in its estimates of costs, (2) key assumptions and methods used for allocation of costs to activities and types of applications were not sufficiently justified, (3) assumptions about staff time spent on various activities were not supported by documented rationale or analysis, (4) the cost of premium processing services was not determined, and (5) documentation of the processes and procedures was not sufficient to ensure consistent and accurate implementation of the methodology. Specifically:

- USCIS did not include the costs of lockbox services paid by the Department of the Treasury (Treasury) or certain retirement benefits to be paid by the Office of Personnel Management (OPM) in estimating the full cost of its immigration application processing and adjudication services.


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USCIS officials told us that they only included costs that the agency paid directly. However, according to federal accounting standards, each entity's full cost also should incorporate the cost of services that it receives from other entities without charge.

- Some of the assumptions and methods used by USCIS resulted in cost assignments that lacked precision or analytical support, thereby reducing confidence that the assignments provided a sound basis for setting the fees. For instance, USCIS allocated[8] 79 percent of overhead costs (representing 31 percent of total costs) to field offices based on the number of staff full-time equivalents (FTE)[9] in an office. However, USCIS did not sufficiently justify (1) why cost allocation was used instead of other possible methods or (2) why it did not include about 6,100 contract workers and used only approximately 7,900 FTEs of the total federal FTEs of about 10,400 as the basis for allocation. Also, USCIS did not adequately justify why it allocated 51 percent of its total costs equally to the different types of applications. While such pro rata assignment of costs may be justifiable in some circumstances, USCIS did not document its justification to support assumptions made when deciding which costs to allocate on a pro rata basis and how those costs should be allocated.

- USCIS assigned $292 million of direct costs to activities based on management's judgment of how much staff time was spent on each activity. However, USCIS did not document the rationale for such decisions. For example, based on discussions with representatives from regions, service centers, and the Performance Management Branch, USCIS decided to allocate 88 percent of the costs of the immigration information officers at service centers to the "inform the public" activity and 12 percent to the "make determination" activity. These discussions, including the input of the internal experts, and the rationale linking this information and related analysis with the final cost assignments were not documented.

- Regarding premium processing services, USCIS estimated annual fee collections of $139 million for fiscal years 2008 and 2009 but did not determine the corresponding cost incurred to carry out those accelerated application processing services. As a result, USCIS cannot determine the extent to which the collections could apply to the two authorized uses of

[8]Cost allocation is a method of assigning costs to activities, outputs, or other cost objects using a base that is not necessarily the cause, or driver, of the cost.

[9]An FTE is a workforce measure representing 2,080 work hours, the equivalent of one person working full-time for 1 year.


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premium processing fees—the cost of accelerated processing and infrastructure improvements.

- Further, the documentation USCIS prepared to describe its costing methodology was not detailed enough to ensure consistent and accurate implementation. Insufficient documentation makes it difficult to assess or replicate the methodology.

Because of these inconsistencies, USCIS cannot support the reasonableness of the assignment of costs to the various application types.

USCIS has put accountability mechanisms in place to track the use of fees and is taking steps to improve internal control over fee collections. It has established unique codes in the financial system for specific projects, and according to a USCIS official, the Office of the Chief Financial Officer (OCFO) monitors obligations and expenditures against those codes to help ensure that (1) regular application fees intended to fund processing capability enhancements (such as additional staff, equipment, and training) are used as planned and (2) premium processing fees are used to make infrastructure improvements in the adjudications and customer service processes. USCIS has documented and assessed internal control activities and processes related to fee collections, and we identified a system of controls designed to safeguard fees collected at both the service centers and the lockbox facilities. Although USCIS has controls in place over fee collections, it has identified through its own monitoring procedures some weaknesses at one service center. USCIS has taken actions to strengthen service center controls in the short term, and it is in the process of moving all preadjudication application processing and fee receipt functions to lockbox facilities to further strengthen control over collections.

We are making six recommendations to the Secretary of Homeland Security to help make USCIS's costing methodology consistent with federal accounting standards and principles and strengthen the reliability of the cost assignments used to set fees and to better support the reasonableness of USCIS's assumptions and cost assignment methods. In written comments on a draft of this report, DHS and USCIS concurred with our recommendations. DHS's comments are discussed in the Agency Comments and Our Evaluation section of this report and are reprinted in their entirety in appendix IV. USCIS also provided technical comments, which we incorporated as appropriate.


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## Background

USCIS is responsible for establishing immigration services policies and priorities and for the administration of immigration and naturalization adjudication functions. Its approximately 16,000 federal and contractor employees work in 250 offices worldwide, including field offices, application support centers, service centers, asylum offices, national customer service call centers, and forms centers. About 6 million applications and petitions for immigration and naturalization benefits, along with applicable fee payments, are submitted to USCIS annually. USCIS adjudicators process applications and petitions in four general categories:[10]

- family-based petitions—for close relatives to immigrate, gain permanent residence, or work in the United States;
- employment-based petitions—for current and prospective employees to immigrate to or stay in the United States temporarily;
- asylum and refugee applications—for those seeking asylum or refugee status; and
- naturalization applications—for those who wish to become United States citizens.

USCIS is authorized[11] to collect fees for providing adjudication and naturalization services at a level that will (1) ensure recovery of the full costs of providing all such services, including the costs of similar services provided without charge to asylum applicants, and (2) recover any additional costs associated with the administration of the fees collected.[12] In 1968, the Immigration and Naturalization Service (INS), USCIS's predecessor agency,[13] began charging fees for immigration and naturalization services, depositing the fee collections into the General

[10]Throughout this report, we use "applications" to refer to both applications and petitions, and we use "applicants" to refer to both applicants and petitioners.

[11]Section 286(m) of the Immigration and Nationality Act, as amended. 8 U.S.C. § 1356(m).

[12]While USCIS used its methodology to determine the cost of each application type, setting fees at a level that will cover the costs of adjudication services provided without charge to certain immigrants, such as those seeking asylum, inherently means fee-paying applicants pay more than the cost of services they receive.

[13]In 2003, functions associated with processing and adjudicating immigration and naturalization applications were transferred from INS to USCIS upon establishment of DHS.


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Fund of the Treasury as miscellaneous receipts. In 1988,[14] Congress established the IEFA. Since 1989, application fees have been deposited in the IEFA, which is currently USCIS's primary source of funding. Once deposited in the IEFA, the fees remain available to USCIS until expended. In fiscal year 1991, Congress directed that the IEFA also be used to fund the cost of asylum and refugee services and adjudication services provided to some immigrants at no charge,[15] and thus, the charges for fee-paying applicants were increased to recover these costs.

In December 2000, Congress authorized the establishment of a premium processing program for employment-based applications. INS proposed the establishment of a premium processing service to provide businesses with a high level of customer service and improved processing because it could not otherwise meet the demand for expeditious service to the business community without an adverse impact on other applications. According to the INS Commissioner, an optional additional fee of $1,000 for business customers would also make capital available for infrastructure improvements. In response, Congress authorized the premium processing service; set the fee at $1,000, which is to be paid in addition to the regular application fee; and specified that it be used to provide accelerated processing services to business customers and to make infrastructure improvements in the adjudications and customer service processes.[16] The premium processing service is to provide processing of certain employment-based petitions and applications within 15 calendar days of receipt of the request for premium processing service form. Premium processing fees also are deposited in the IEFA to be available until expended.

Currently, funding for USCIS comes from three fee accounts, direct appropriations, and reimbursements from other federal agencies. Table 1 shows the five funding sources and the amounts estimated for fiscal year 2008.

[14]Pub. L. No. 100-459, § 209(a), 102 Stat. 2186, 2203 (Oct. 1, 1988).

[15]Pub. L. No. 105-515, § 210(d)(1), (2), 104 Stat. 2101, 2121 (Nov. 5, 1990).

[16]Pub. L. No. 106-553, § 1(a)(2), App. B, [Title I, § 112], 114 Stat. 2762A-68 (Dec. 21, 2000). 8 U.S.C. § 1356(u).


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**Table 1: USCIS Funding Sources and Estimated Amounts for Fiscal Year 2008**

| Dollars in millions | | |
|---|---|---|
| **Funding source** | **Fiscal year 2008 budget** | **Percentage of total funding** |
| Immigration Examinations Fee Account | $2,495[a] | 94.2 |
| H1-B Nonimmigrant Petitioner Account | 13 | 0.5 |
| Fraud Prevention and Detection Account | 31 | 1.2 |
| Direct appropriations | 80 | 3.0 |
| Reimbursement from other federal agencies[b] | 29 | 1.1 |
| **Total** | **$2,648** | **100.0** |

Source: GAO analysis of data from the Budget of the United States Government, Fiscal Year 2009 – Appendix.

[a]The $2,495 million for the IEFA includes the anticipated $139 million of premium processing fees.

[b]USCIS receives reimbursement from other federal agencies for work performed by USCIS on the other agencies' behalf.

In past years, USCIS received larger amounts of direct appropriations to pay for administrative costs and for specific projects, such as the initiative to reduce its backlog of pending applications and its business transformation program to make long-term improvements in its business processes and technology.[17] USCIS also received direct appropriations for two other specific programs—SAVE in fiscal year 2007 and E-Verify in fiscal years 2007 and 2008.

The three fee accounts provide almost 96 percent of USCIS's total fiscal year 2008 budgetary resources. The fee review that is the subject of this report covers the application fees deposited in the IEFA, which is budgeted to provide approximately 94 percent of USCIS's funding for fiscal year 2008. If the number of applications and fee payments received in a year is more than projected, USCIS can increase its spending authority to cover the increased workload, and thus get additional funds from the IEFA through reprogramming after it has notified Congress.[18]

Persons seeking immigration and naturalization benefits submit their applications and associated fees to one of four service centers, local offices within one of four regions, or one of two lockbox facilities,

[17]Direct appropriations for (1) administrative expenses ended in fiscal year 2004, (2) the backlog initiative ended in fiscal year 2006, and (3) the transformation program ended in fiscal year 2007.

[18]*See, e.g.*, Pub. L. No. 109-295, § 503(a), 120 Stat. 1377 (Oct. 4, 2006).


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depending on the application type and geographic location of the applicant. Some applications can be filed electronically with payment by credit or debit card or electronic transfer of funds. In addition, some applications require biometric services—collecting information such as fingerprints, photographs, and signatures for background checks conducted by the Federal Bureau of Investigation (FBI)—for which a separate fee is charged.

The four service centers (located in California, Nebraska, Texas, and Vermont), the National Benefits Center (located in Missouri), and many local offices receive, process, and adjudicate applications and petitions for immigration benefits. Contract employees generally are responsible for preadjudication processing steps, such as mail room operations, fee collection, data collection, and file operations. USCIS employees adjudicate the applications, that is, they make determinations about whether to approve the benefits for which an applicant has applied.

Lockbox facilities located in Chicago and Los Angeles receive certain application types and the related fee payments. Banks that operate the lockbox facilities are designated by Treasury's Financial Management Service (FMS) as financial agents of the United States.[19] They perform services for USCIS under a memorandum of understanding between the lockbox facility, FMS, and USCIS. Lockbox facilities are responsible for mail room operations, data entry, fee collection, setting up files, and sending the files to a service center or the National Benefits Center for adjudication. In 2007, in consultation with USCIS, FMS designated the bank that operates the Chicago lockbox as the financial agent responsible for all USCIS fee collections. USCIS is in the process of moving fee collection and other preadjudication processing activities from the service centers and field offices to lockbox facilities operated by that bank by March 2011.

Table 2 shows the amount and percentage of regular application fees and premium processing fees collected by site during fiscal year 2007. During fiscal year 2008, USCIS collected over $2.4 billion in regular application fees and premium processing fees for the IEFA.

[19]A financial agent is a financial institution that has authority to hold deposits of public money and perform related services. *See* 31 C.F.R. pt. 202. A financial agent has a principal-agent relationship with Treasury and owes a fiduciary duty of loyalty and fair dealing to the United States.


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**Table 2: Amount and Percentage of Fee Collections for the IEFA, Fiscal Year 2007**

| Dollars in millions | | |
|---|---|---|
| **Collection site** | **Amount collected** | **Percentage of total collections** |
| Service centers | $1,394 | 67.7 |
| Regional/field offices | 109 | 5.3 |
| Lockbox facilities | 471 | 22.9 |
| E-filing | 84 | 4.1 |
| **Total fiscal year 2007 fee collections** | **$2,058** | **100.0** |

Source: GAO analysis of USCIS data.

The fiscal year 2007 fee collections reflect an increase in application fees that occurred at the end of July 2007 and an increase in the number of application filings prior to the fee increase date by persons wanting to avoid higher fees. Application filings also increased because of the publication of a State Department Visa Bulletin announcing the availability of employment-based visas. Fees increased by a weighted average of 86 percent per application, based on the fee review completed by USCIS in February 2007. (See app. II for a list of applications and their related fees.)

USCIS's prior fee review was completed in November 1996 and resulted in fee increases that took effect in 1998. Since then, USCIS has increased fees four times (including the July 2007 increase). Table 3 shows the amount and basis for those fee increases.


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**Table 3: Date, Amount of Increase, and Reasons for Past Immigration Application Fee Increases since 2002**

| Date of fee increase | Weighted average fee increase | Reasons for fee increase |
|---|---|---|
| February 2002 | $18 | • Recover information technology and quality assurance costs<br>• Inflation adjustment |
| April 2004 | $55 (plus $20 increase in biometric fee) | • Cover annual cost of additional security checks<br>• Improve refugee processing, provide naturalization services for military personnel and other activities<br>• Administrative support costs<br>• Inflation adjustment |
| October 2005 | $8 | • Inflation adjustment |
| July 2007 | $174 | • Close funding gaps<br>• Accomplish performance goals<br>• Inflation adjustment |

Source: GAO analysis of USCIS data and Proposed and Final Rules (66 Fed. Reg. 41456; 66 Fed. Reg. 65811; 69 Fed. Reg. 5088; 69 Fed. Reg. 20528; 70 Fed. Reg. 56182; 72 Fed. Reg. 4888; 72 Fed. Reg. 29851).

To perform its most recent fee review, USCIS used a commercial off-the-shelf software application to assign the costs of its immigration application processing and adjudication services. Management's objective was to set fees that would recover funds sufficient to cover USCIS's costs. USCIS officials told us that when developing the methodology used in the fee review, management anticipated some skepticism about the fairness of the resulting fees, so its objectives also included using methods that would distribute costs among the various application types fairly and in a way that could be readily understood by fee payers and others.[20]

The data USCIS used for its fee review came from a variety of sources. Financial data USCIS used were from USCIS's fiscal year 2007 budget adjusted for inflation[21] and USCIS estimates of the cost of enhancements needed to meet its responsibilities. The nonfinancial information USCIS used included historical data on application completion rates—the

[20]We have reported on the design of federal user fees and discussed issues such as equity and efficiency. See GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008).

[21]The inflation adjustment was based on pay and nonpay inflation factors used by OMB in implementing OMB Circular No. A-76, *Performance of Commercial Activities*.


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average time it takes to complete adjudication of an application—from its own Performance Analysis System (PAS) and the number of applications USCIS estimated it would receive each year in fiscal years 2008 and 2009.

USCIS estimated that the number of applications to be received in fiscal years 2008 and 2009 would be 5.577 million per year, including applications for which no fee is charged. Fee-paying application volume was estimated to be 4.742 million yearly. USCIS also estimated that 2.196 million of the fee-paying applications would require biometric services, for which an additional fee is charged.

USCIS also estimated the total annual cost of processing and adjudicating immigration applications for fiscal years 2008 and 2009. USCIS started with the fiscal year 2007 IEFA budget adjusted for costs that will not recur after fiscal year 2007, adjusted for inflation for fiscal years 2008 and 2009, and added the estimated cost of additional requirements USCIS determined it needed to enhance service, security, and infrastructure. USCIS's resulting estimated cost for processing and adjudicating immigration benefit applications for fiscal years 2008 and 2009 is $2.329 billion, as shown in table 4.

**Table 4: USCIS's Estimate of Annual Funds Needed for Fiscal Years 2008 and 2009**

| Dollars in millions | |
|---|---|
| Fiscal year 2007 IEFA budget | $1,760.0 |
| Less: nonrecurring costs | (8.5) |
| **Fiscal year 2007 adjusted IEFA budget** | **$1,751.5** |
| Plus: inflation | 53.2 |
| Plus: additional requirements for enhancements | 524.3 |
| **Total** | **$2,329.0**[a] |

Source: USCIS.

Note: Data are from USCIS's document entitled *Supporting Documentation to the Proposed Rule: Adjustment of the Immigration Benefit Application/Petition Fee Schedule, FY 2008/2009 Fee Review Supporting Documentation*, February 2007.

[a]The total of $2,329 million to be recovered by regular application fees does not include the anticipated annual premium processing fee collections of $139 million for fiscal years 2008 and 2009. According to USCIS, premium processing fees will be used to fund its transformation program to make long-term improvements to its business processes and technology.

The additional requirements of $524.3 million, shown in table 4, represent staff, equipment, training, and other costs that were not previously funded and that USCIS determined it needed to improve its capabilities to meet its mission responsibilities. These additional requirements include


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- service enhancements ($134.8 million), such as staff and training, which according to USCIS, would provide a small surge production capacity to give it the flexibility to adapt to temporary increases in filings and the ability to incrementally work to marginally shorten processing times and improve service delivery over time;

- security and integrity enhancements ($152 million), such as establishing a second card production facility to support day-to-day production and to comply with federal standards for contingency planning to ensure that critical systems remain available in the event of catastrophic failure;

- humanitarian program enhancements ($14 million) to fully fund the Cuban Haitian Entrant Program; and

- infrastructure enhancements ($223.4 million), such as strengthening administrative support activities and upgrading and maintaining the information technology environment to sustain current operations.

As discussed in the next section (see also fig. 1), USCIS classified its total estimated costs as either direct or overhead. According to USCIS, direct costs were assigned to field offices or activities based on an identified relationship between the cost component and the field office or activity. Overhead costs were allocated to field offices primarily based on the number of FTEs assigned to each field office. The field office costs along with their allocated overhead costs were assigned to eight application processing activities and distributed as shown in table 5.


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**Table 5: USCIS Estimated Annual Costs for Application Processing Activities for Fiscal Years 2008 and 2009**

| Dollars in millions | | |
|---|---|---|
| **Activity** | **Cost** | **Description** |
| Inform the public | $245 | Receiving and responding to customer inquiries through telephone calls, written correspondence, or walk-in inquires. |
| Intake | 94 | Mail room and file room operations, including data entry, file assembly, and fee receipting. |
| Conduct Interagency Border Inspection checks | 52 | Comparing information on applicants, petitioners, beneficiaries, and household members who apply for immigration benefits against various federal lookout systems. |
| Review records | 233 | Creating files; searching and requesting files; consolidating files; connecting returned evidence with application and petition files; pulling, storing, and moving files upon request; updating systems on the location of files; and archiving inactive files. |
| Make determination | 1,334 | Adjudicating applications and petitions; making and recording adjudicative decisions; requesting and reviewing additional evidence; interviewing applicants; and consulting with supervisors and legal counsel and researching applicable laws and decisions on nonroutine adjudications. |
| Fraud detection and prevention | 99 | Detecting, combating, and deterring immigration benefit fraud. |
| Issue document | 98 | Producing and distributing secure cards that identify the holder as an alien and identify his or her employment authorization. |
| Capture biometrics | 174 | Electronic capture of biometric (fingerprint, photograph, signature) information and background checks performed by the FBI. |
| **Total activity costs** | **$2,329** | |

Source: GAO analysis of USCIS data.

The activity costs include USCIS-estimated costs for asylum and refugee services ($191 million), fee waivers and exemptions[22] ($150 million), and biometric services ($174 million). These costs were allocated to the

[22]USCIS may grant fee waivers to eligible applicants if it establishes that the applicants are unable to pay the fee. In addition, asylum and refugee applicants are exempt from paying the fee for certain immigration benefit applications.


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applications separately as described below. USCIS assigned the remaining $1.814 billion of activity costs to the expected 4.742 million fee-paying applications, resulting in a processing cost for each application type. USCIS then allocated the costs of asylum and refugee services and fee waiver and exemptions in equal dollar amounts as surcharges to each application's processing cost to arrive at a total cost for each application type. USCIS set each application fee based on this total cost. The $174 million of "capture biometrics" activity costs were allocated evenly to the estimated 2.196 million fee-paying applications, resulting in a separate and equal biometrics fee for each application that would require biometric services. (See app. II for a list of applications and fees.) Figure 1 illustrates the cost assignment process.


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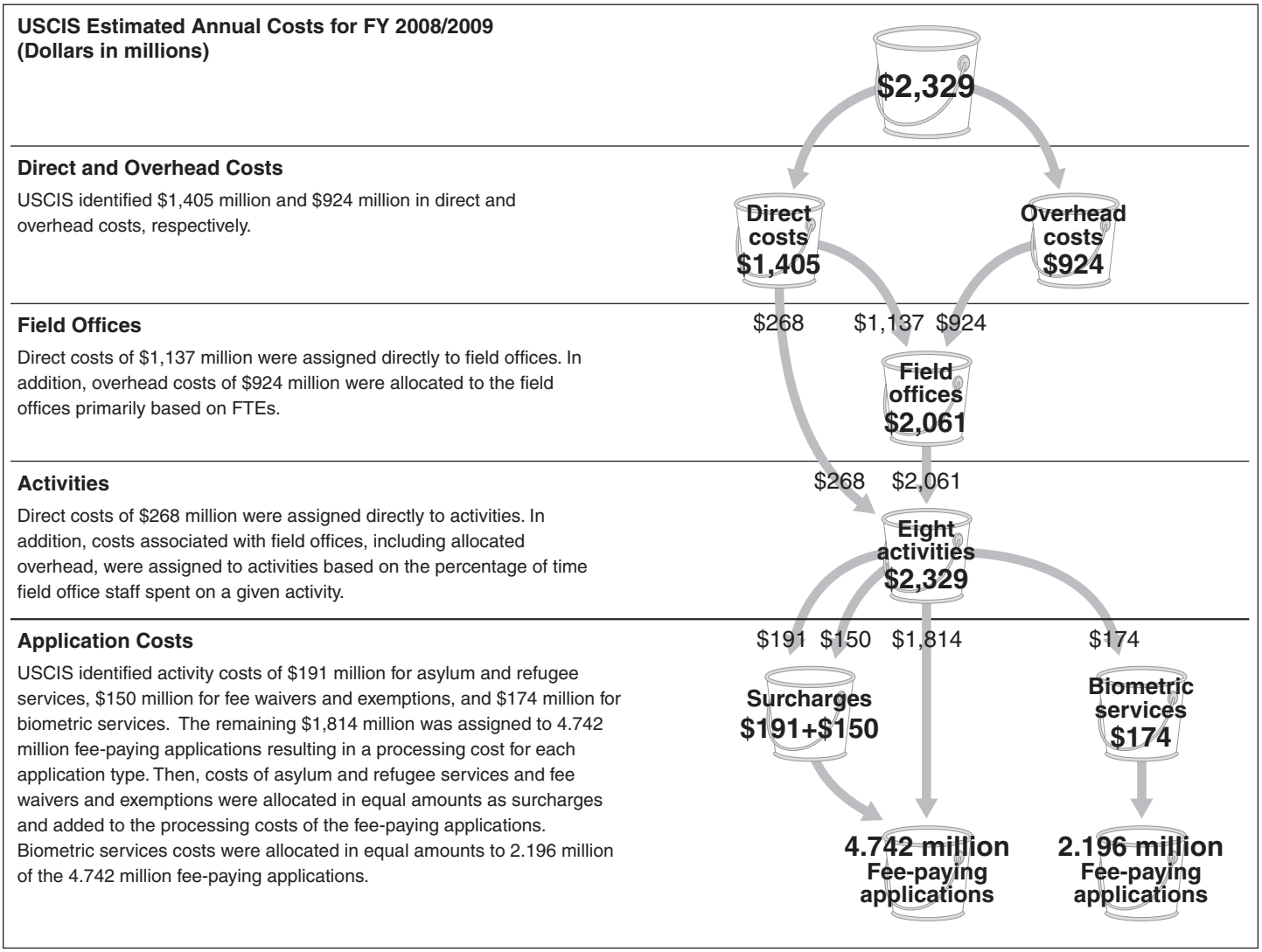
**Figure 1: Illustration of Cost Assignment Process**




Source: GAO.



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## Costing Methodology Did Not Consistently Adhere to Federal Accounting Standards and Principles and Other Guidance

Although the July 2007 fee increases met management's objective to set fees at a level to recover USCIS's estimated costs of immigration application processing and adjudication services, the costing methodology USCIS used to develop the fees for each application type did not consistently adhere to federal accounting standards and principles and other guidance. While federal accounting standards allow flexibility for agencies to develop managerial cost accounting practices that are suited to their specific needs and operating environments, they also provide certain specific guidance based on sound cost accounting concepts. USCIS officials told us that when developing the methodology, management anticipated some skepticism about the fairness of the resulting fees, so its objectives also included using methods that would distribute costs among the various application types fairly and in a way that could be readily understood by fee payers and others.[23]

USCIS's methodology was not consistent with federal accounting standards and principles and other guidance in the following aspects: (1) unreimbursed costs paid by other federal entities on behalf of USCIS were not included in USCIS's estimates of total costs, (2) key assumptions and methods used for allocation of costs to activities and types of applications were not sufficiently justified, (3) assumptions about staff time spent on various activities were not supported by documented rationale or analysis, (4) the cost of premium processing services was not determined, and (5) documentation of the processes and procedures was not sufficient to ensure consistent and accurate implementation of the methodology. Because of these inconsistencies, USCIS cannot support the reasonableness of the cost assignments to the various application types.

### Certain Costs Paid by Other Federal Entities Were Not Included in the Fee Review

USCIS did not include the costs of lockbox services paid by Treasury or certain retirement benefits to be paid by OPM in estimating the full cost of its immigration application processing and adjudication services. USCIS officials told us that they only included costs that the agency paid directly, which met management's objective to set fees that recover funds sufficient to cover USCIS's costs. However according to federal accounting standards, each entity's full cost also should incorporate the cost of goods and services that it receives from other entities free of charge.[24] This is

[23]We have reported on the design of USCIS's user fees and discussed issues such as equity and efficiency. See GAO-09-180.

[24]Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, paras. 8 and 106.


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especially important for executive agencies when the costs constitute inputs to government goods or services provided to nonfederal entities for a fee or user charge because executive agencies should recover the full costs. OMB Circular No. A-25, which provides guidance for executive agencies on assessment of user charges, states that when not in conflict with the fee-authorizing statutes, and unless the agency has been granted an exception to the general policy, fees should be sufficient to recover the full cost of providing a service, which includes all costs to any part of the federal government, including accrued retirement costs not covered by employee contributions and the costs of collection. In other words, costs should be included regardless of which agency pays them. Congress authorized, but did not require, USCIS to recover full costs. The document USCIS prepared to describe its methodology stated that it adhered to the principles in OMB Circular No. A-25, but in the final rule for the fee adjustment, USCIS also made clear that its fees would recover only the costs of USCIS' operations. Although not inconsistent with the legislation authorizing the fees, the scope of the costs to be recovered by USCIS, as announced in USCIS's final rule, is inconsistent with the general guidance in OMB Circular No. A-25. USCIS did not document in its final rule, which it indicated OMB had reviewed, or elsewhere the rationale for excluding non-USCIS costs from its fee review, including whether or how it considered the executive branch policy in OMB Circular No. A-25 on recovering full costs and other factors.[25]

At the time of the fee review, USCIS had not estimated the cost of lockbox services provided by Treasury's FMS. At our request, FMS provided information showing that it compensated two lockbox providers $20 million for services provided to USCIS in fiscal year 2007. USCIS included $2 million of these lockbox costs in the estimate of its costs of immigration application processing and adjudication services. According to a USCIS official, these costs were related to changes the lockbox facility had to make to its systems controls, for example, to accommodate additional data elements required by USCIS in application forms. Although the $18 million lockbox costs excluded is not a material amount in relation to the current $2.329 billion total costs estimated by USCIS, this lockbox cost is expected to grow significantly in the future as USCIS executes its plan to move the preadjudication processing activities, including fee

[25]Any user fee design embodies trade-offs, and policymakers ultimately need to balance the relative importance they place on various aspects of a fee's design. For more information about weighing trade-offs among key design characteristics of user fees, see GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008).


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collection, from service centers and field offices to lockbox facilities by March 2011. In fiscal year 2007, approximately 23 percent of fee collections were at the lockbox facilities, while almost 68 percent were at service centers.

Legislative authority exists for FMS payment for lockbox services.[26] FMS pays lockbox costs pursuant to its responsibility for collecting revenues coming into the federal government and for providing specialized receipt and disbursement services for federal agencies. FMS officials told us that federal agencies do not pay for receipting, custody, and disbursement of federal funds by FMS on the agencies' behalf because these services are FMS's responsibility. According to FMS officials, agencies are to reimburse FMS only for the costs of services that are considered unique to that particular agency.[27] USCIS and FMS signed an interagency agreement in September 2008 that establishes reimbursement levels for onetime and annual costs that USCIS will pay to FMS. These costs represent the portion of FMS's lockbox costs that are unique to USCIS.

In addition, USCIS did not include in its estimated costs of immigration application processing and adjudication services some of the costs of retirement benefits—pensions and health and life insurance—to be paid by OPM on behalf of USCIS. Based on its fiscal year 2007 costs, USCIS estimated that the average annual projected cost for these benefits for fiscal years 2008 and 2009 is $47 million before taking into consideration the agency's 14 percent increase in the number of employees from May 2007 to May 2008 and 16 percent increase in related payroll costs.

Together, the estimated more than $65 million of FMS and OPM costs excluded each year represents approximately $14 per fee-paying application for fiscal years 2008 and 2009. This estimate could differ among application types if these costs were analyzed more precisely.

[26]A permanent indefinite appropriation was established by Pub. L. No. 108-199, Div. F, Title II, § 218,118 Stat. 321 (2004), 12 U.S.C. § 5018 note, making available to the Secretary of the Treasury such sums as may be necessary to reimburse financial institutions in their capacity as depositaries and financial agents of the United States for all services required or directed by the Secretary of the Treasury or the Secretary's designee to be performed by such financial institutions on behalf of Treasury or other federal agencies.

[27]For the purpose of this report, we are making no determination as to whether lockbox service costs that are unique to USCIS should be paid for by USCIS or may be recovered by FMS in light of the authority to use the permanent indefinite appropriation to reimburse depositories and financial agents for all services required or directed by the Secretary of the Treasury on behalf of the department or other federal agencies.


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Without consideration of these costs paid by other federal entities, USCIS is not accounting for the full costs to the federal government of USCIS's immigration application processing and adjudication services, and USCIS's cost data used for setting fees are incomplete.

## USCIS Did Not Sufficiently Justify the Use of Less Precise Cost Assignment Methods

The methodology USCIS used to determine the cost and develop the fees for each application type involved various assumptions and cost assignment methods. In large part, it consisted of allocating costs on a prorated basis. USCIS did not prepare and document analyses to justify its assumptions that prorated allocations provided a reasonable distribution of those costs. While federal accounting standards do not prohibit allocating costs on a prorated basis, they list an order of preference for three cost assignment methods that should be used: (1) direct tracing of costs wherever economically feasible,[28] in this case, to an identifiable office, activity, or application type; (2) assigning costs on a cause-and-effect basis;[29] or (3) allocating costs on a reasonable and consistent basis when not economically feasible to assign costs directly or on a cause-and-effect basis. The standards also state that the third preference, allocation, tends to be arbitrary because there may be little correlation between the costs and the allocation base, and costing distortions often result from arbitrary allocations. Minimizing arbitrary cost allocations will improve cost information. Nevertheless, the standards allow flexibility so that management can select methods that are best suited to the organization's needs. The standards also state that when making the selection, management should evaluate alternative costing methods and select those that provide the best results under its operating environment.

In the first stage of assigning the estimated $2.329 billion annual application processing and adjudication services costs for fiscal years 2008 and 2009 (see fig. 1), USCIS officials identified $1.405 billion of direct costs and $924 million in overhead costs. USCIS considered as overhead the majority of costs of headquarters functions and some field office functions

[28]According to federal accounting standards, as a general rule, directly tracing costs and assigning costs on a cause-and-effect basis are more expensive than cost allocations, because they require detailed analyses and record keeping for costs and activities. However, they are preferable because they produce more reliable cost information than the cost of allocations. (SFFAS No. 4, para. 143.)

[29]When the relationship of the cost to a product, service or activity is not directly identifiable but can be measured based on another factor, it is called cause-and-effect cost assignment.


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and centrally managed costs such as rent and information technology operations and maintenance. Of the $924 million of overhead costs, $732 million—31 percent of the total $2.329 billion cost—was allocated to field offices based on the number of FTEs assigned to each field office. This approach did not consider USCIS's approximately 6,100 contract workers and used only approximately 7,900 FTEs of the total federal FTEs of about 10,400 as the basis for distributing overhead costs. Excluding the contract workers from the base could have changed the proportion of overhead costs assigned to the various field offices which introduces the potential for an additional significant effect on the allocation of those costs to activities and application types.

Minimizing arbitrary cost allocations will improve cost information. Alternatives to USCIS's FTE-based allocation of overhead to field offices might have included direct or cause-and-effect assignment. For example, software licenses for applications used by only a specific office or activity and training for specific employee groups might have been assigned directly to offices or activities causing, or driving, each of those costs rather than allocating all of them in the aggregate with other overhead costs to all field offices on the basis of FTEs. In addition, other costs, such as information technology operations, that were attributable to a particular field office or activity might have been assigned using a cause-and-effect analysis, such as consumption of services, rather than a pro rata FTE-based allocation.

Federal accounting standards state that allocation should have a reasonable basis, usually a relevant common denominator. USCIS costs that cannot be assigned directly or on a cause-and-effect basis to specific field offices or activities in an economically feasible manner might have an alternative allocation basis that is more closely related to the attributes of those specific costs than to FTEs. For example, using payroll for certain employee benefits or usage for certain information technology costs might have provided a more accurate or reasonable basis for cost distribution than an FTE-based allocation. Without performing and documenting analyses to evaluate such alternatives, USCIS management cannot assure itself or others that it is using the optimal cost allocation method.

Field office overhead and direct costs were assigned to eight discrete activities (see table 5) related to processing and adjudicating applications. (See fig. 1.) The activity costs were then assigned to types of applications. As part of this process, USCIS assigned 49 percent (or about $1.143 billion) of total costs to total fee-paying applications based on the amount of time it took to adjudicate an application, resulting in varying


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costs per application type for the adjudication activity.[30] The adjudication time used as the basis for assigning these activity costs to types of applications was based on historical data on adjudication time from PAS, which measures the average time to complete adjudication of each application based on daily production information input by adjudicators. Thus, for the "make determination" activity, the more complex types of applications that take more time to adjudicate were assigned a higher cost, which resulted in a higher fee. This is consistent with the methodology's general premise, which according to USCIS is that the more time spent adjudicating an application, the higher the fee. These cost assignments used the federal accounting standards' preferred methods of cost assignment.

USCIS assigned the remaining 51 percent (or about $1.186 billion) of its costs to applications in equal amounts.[31] This type of assignment did not consider any variation in complexity or processing time between application types. A USCIS official told us that available production data for these activities were not sufficiently reliable to use as a basis for assigning costs to applications. Also, according to USCIS, pro rata allocation was used because these activities' costs were not significantly driven by the complexity of an application type. However, USCIS did not justify its assumption that these costs were not significantly driven by complexity of application type.

While recognizing that agency management should select costing methods that best meet their needs, taking into consideration the costs and benefits of reasonable alternatives, federal accounting standards recommend minimizing arbitrary cost assignment methods to help avoid inaccurate product or service costs. It is not unusual for a costing methodology to assign some costs using logical and justifiable allocation, especially if more precise assignment methods are not cost effective. However, for several significant cost elements, such as those discussed here, USCIS did not prepare the analysis necessary to demonstrate the reasonableness of or justification for the costs it allocated to each type of application. Without documented justification for USCIS's decisions in using methods that are less precise than others available, decision makers and fee payers

[30]These costs represented 86 percent of the total $1.334 billion assigned to one of the eight activities—the "make determination" activity.

[31]These costs represent costs assigned to the remaining seven activities and the asylum and refugee services portion of the "make determination" activity.


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do not have access to information significant in determining their level of confidence in the reasonableness of USCIS's application fees.

## USCIS Did Not Document Its Rationale and Related Analysis to Justify Its Assumptions about Staff Time Spent on Various Activities

USCIS did not document its rationale or any related analysis to justify the assumptions concerning the amount of time staff spent performing various activities, which were used to assign field office costs to activities. Although USCIS prepared a supporting document to describe the methodology it used, the document did not explain certain key assumptions and methods used in sufficient detail to justify the reasonableness of the resulting cost assignments. According to federal internal control standards, significant events are to be clearly documented.[32] Significant events can include key decisions about assumptions and methods underlying the assignment of costs. Also, federal accounting standards require documentation of all managerial cost accounting activities, processes, and procedures used to associate costs with products, services, or activities.[33]

According to USCIS, of the $1.137 billion[34] of direct costs assigned to field offices, $845 million was assigned to activities based on data from PAS, which include, among other things, the amount of time adjudicators spend adjudicating applications. The remaining $292 million of direct field office costs, nearly 26 percent, was assigned to activities based on management's judgment of how much staff time was spent on each activity. For example, based on discussions with representatives from regions, service centers, and the Performance Management Branch, USCIS decided to allocate 88 percent of the costs of the immigration information officers at service centers to the "inform the public" activity and 12 percent to the "make determination" activity. These discussions, including the input of the internal experts, and the rationale linking this information and related analysis with the final cost assignments were not documented. Using the knowledge of informed experts as the basis for estimating cost assignments can be a reasonable method when reliable data about the amount of staff time spent performing various activities or other factors that drive those costs are not available. However, without clear

[32]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999), 15.

[33]SFFAS No. 4, para. 71.

[34]The $1.137 billion is included in the total direct costs of $1.405 billion, as shown in fig. 1.


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documentation of these factors, consideration given to these factors, and the rationale for cost assignment decisions made using these factors, USCIS is not able to demonstrate the reasonableness of the resulting cost assignments.

## Costs of Premium Processing Services Were Not Determined

According to federal accounting standards, Congress and federal executives need cost information to make decisions about allocating federal resources, modifying programs, and evaluating program performance.[35] However, USCIS has not determined the costs of the accelerated processing services offered through its premium processing program, which provides for the processing of certain applications within 15 calendar days, rather than the typical 2 months or more processing time. A business that wishes to hire a foreign national to come to the United States to work temporarily can pay a voluntary fee of $1,000, in addition to the regular application fee. By law, these premium processing fees are to be used to cover the costs of (1) premium processing services to business customers and (2) infrastructure improvements in the adjudications and customer service processes.[36] Currently, USCIS is assigning all premium processing fee collections to its business transformation program to make long-term improvements to its business processes and technology. Because USCIS is not using any of the premium processing fee collections for the accelerated processing efforts, regular fee-paying applicants could be bearing part of any added cost that might be associated with processing these applications. According to USCIS officials, because the $1,000 fee is set by law, and not by USCIS, the fee was not included in the fee review. Without knowing the cost of its premium processing services, USCIS management and Congress cannot determine the extent to which the $1,000 fee would cover the costs of the agency's premium processing services and infrastructure improvements.

[35]SFFAS No. 4, para. 1.

[36]Pub. L. No. 106-553, § 1(a)(2) App. B, [Title I, § 112], 114 Stat. 2762A-68 (Dec. 21, 2000).


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## Documentation of Processes and Procedures Was Not Sufficient to Ensure Consistent and Accurate Implementation

USCIS described the costing methodology it used for its fee review in a proposed rule[37] announcing the impending application fee increases and in a report containing supporting documentation for its fee review, which was available to the public during the public comment period on the proposed rule. However, USCIS did not prepare the more detailed documentation called for in federal accounting standards, which would allow results to be validated and agency personnel to perform the fee-setting process in a consistent manner. According to federal accounting standards, all cost accounting processes and procedures should be documented by a manual, handbook, or guidebook of applicable accounting operations that provides instructions for procedures and practices to be followed.[38]

In accordance with management's objective that the methodology be readily understood by fee payers and others, the documentation USCIS prepared for the public was prepared so that a third party could understand USCIS's overall approach. However, specific procedures and information used in the fee review as a basis for assigning costs were not documented in sufficient detail to allow a knowledgeable person to carry out or replicate the procedures. For example, documentation of the multistep process USCIS used to allocate overhead costs to activities did not include the percentages used to make these allocations. Also, application completion rates (i.e., the average amount of time to complete adjudication of an application) were not described in enough detail to explain how the rates were used to assign adjudication activity costs (i.e., "make determination" costs) to the various application types.

Lack of documentation of the processes and procedures makes it difficult to ensure that the methodology used to determine the costs and fees is consistent from year to year, especially when there are changes in personnel. Lack of documentation also makes it difficult to train staff in consistent and accurate application of the methodology. Further, without complete documentation reviewed and approved by management, an independent party, such as an auditor, cannot readily assess major assumptions and methods used in the process or audit the procedures to provide accountability and added assurance that the cost system is consistent with federal accounting standards and other requirements and statutes.

[37]72 Fed. Reg. 4888-4915, February 1, 2007.

[38]SFFAS No. 4, para. 71.


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## Accountability Mechanisms Are in Place to Track Use of Fees, and USCIS Is Taking Steps to Strengthen Control over Collections

USCIS has put accountability mechanisms in place to help ensure that it is using regular application fee collections and premium processing fee collections as it intended, and it is taking steps to improve internal control over collection of fees. USCIS has established unique codes in the financial system for specific projects, and the OCFO monitors expenditures of fee collections for those projects. Although USCIS has controls in place over fee collections, it has identified some weaknesses at the service centers. USCIS reported that it has taken some actions to strengthen service center controls in the short term, and that it is in the process of moving all preadjudication application processing and fee receipt functions from the service centers and field offices to lockbox facilities to further strengthen control over collections.

### Accountability Mechanisms Are in Place to Track Use of Fees Intended for Specific Projects

USCIS has established unique codes in the financial system for its projects, and according to a USCIS official, the OCFO monitors obligations and expenditures against those codes to track spending of fee collections from both regular application fees and premium processing fees. Expenditures for the additional requirements (staff, equipment, training, etc.)—enhancements that had not been funded previously and that USCIS determined it needed to improve its capability to meet its responsibilities—are to be made from regular application fees. Expenditures for USCIS's business transformation program, to make long-term improvements to its business processes and technology, come from premium processing fees.

USCIS has established accountability mechanisms to track expenditures for the planned enhancements of $524 million. As discussed earlier, the fee schedule that became effective in July 2007 is based, in part, on USCIS's estimated costs for these enhancements. Of the $2.329 billion that USCIS determined it needed annually to fund the cost of processing and adjudicating immigration applications for fiscal years 2008 and 2009, over 22 percent (or $524 million) represented additional staff, equipment, training, and projects included in the planned enhancements. USCIS plans to use $232 million of that amount for payroll and related costs to hire about 1,500 additional staff. The remaining $292 million is to be used for specific projects, such as the establishment of a second card facility and enhanced delivery of secure documents (permanent residence cards, employment authorization documents, and travel documents), so that the United States Postal Service can ensure that they are delivered to the proper recipients.


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USCIS's OCFO has established unique project codes in the financial system for specific projects included in the planned enhancements to be financed from regular application fees. According to a USCIS official, the amounts that USCIS estimated it would spend on each of the enhancements were allocated to the applicable individual project codes. Obligations and expenditures made against those project code allocations are monitored by OCFO to help ensure that USCIS uses the increased resources to enhance its processing capabilities. A USCIS official told us that the status of each nonfinancial aspect of the enhancements, such as new staff hired and draft statements of work for contracts to be let, is also tracked and discussed at periodic USCIS management meetings. Some amounts included in the additional requirements are for items that will not recur, such as the establishment of a second card facility. The second facility, according to USCIS, is needed to support day-to-day production and to be available in the event of catastrophic failure in compliance with federal standards for contingency planning for critical systems. A USCIS official told us that any nonrecurring costs included in the current fee schedule will not be included in the baseline resources for the next fee review. As of September 30, 2008, USCIS had hired about 1,400 additional staff and had obligated or expended over $207 million of the planned $292 million for specific projects included in the enhancements.

USCIS's OCFO tracks the amount of premium processing fee collections separately from regular application fee collections so that it can dedicate premium processing fees to its business transformation program to make long-term improvements to its business processes and technology.[39] USCIS has established an expenditure plan for its transformation program that shows the estimated annual costs of the program through fiscal year 2012. According to the program's expenditure plan, USCIS will dedicate all anticipated premium processing fee collections to the transformation program for fiscal years 2008 through 2012. A USCIS official told us that commitments, obligations, and expenditures for transformation projects are recorded to specific codes in the financial system, and those amounts are tracked along with premium processing fees. USCIS plans to use the

[39]In 2006, USCIS embarked on a transformation of its business processes and technology. According to USCIS, the transformation program will move its operations from paper-based processes to an electronic environment. Transformation is to enable both individual and business applicants to apply online for immigration benefits; establish unique accounts to facilitate changing application information, such as changes in name, address, or other contact information; and provide enhanced and real-time case status information with e-mail capabilities to request information or inform the applicant about a pending application.


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entire amount of premium processing fees it received in fiscal year 2008—almost $163 million[40]—for its transformation program. During fiscal year 2008, USCIS obligated over $12 million of that amount for the transformation program. A USCIS official told us that as some planned transformation projects move closer to the awarding of contracts, amounts will be allocated to the transformation project codes so obligations and expenditures can be made for those projects. According to USCIS, a Transformation Solution Architect Task Order in the amount of $14.5 million was awarded at the beginning of November 2008.

## USCIS Is Moving Fee Collections to Lockbox Faclities to Strengthen Control over Collections

USCIS has documented and assessed its internal control activities and processes related to fee collections. Based on our review of USCIS's internal control documentation, service center contracts, and independent auditor reports and our discussions and observations during visits to the service centers and lockbox facilities, we identified a system of controls designed to safeguard fees collected. The controls include dual custody of fee receipts, surveillance cameras in the fee collection areas, and balancing and reconciling fee collection amounts as an application moves through processing. Although controls are in place, USCIS has identified through its monitoring procedures some weaknesses at one of its service centers. Because of these weaknesses, and for other reasons, such as the lockbox facility's flexibility to respond to unanticipated surges in application receipt volume, USCIS is in the process of moving all preadjudication application processing and fee receipt functions from the service centers and field offices to lockbox facilities.

USCIS management assessed the effectiveness of its service centers' internal controls over collection and depositing of fees in fiscal year 2007 in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, and found weaknesses, such as fee receipts not being deposited in a timely manner and applications and fees being stored in unsecured locations thus creating some security issues. USCIS reported that these weaknesses resulted in part from the increased workload attributable to filings by applicants attempting to beat the proposed fee increases effective in July 2007 and increased application filings because of the publication of a State Department Visa Bulletin. An

[40]At the time of its fee review, USCIS had estimated that it would receive $139 million in premium processing fee collections in fiscal year 2008. It actually received almost $163 million in fiscal year 2008.


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influx of applications and fees exceeded service center capacity to timely issue receipts and deposit application fees. Applications were kept in temporary storage containers, or pods, in the parking lot at one service center and were not being receipted and deposited timely. USCIS has identified corrective actions, including the transition of fee collections and preadjudication processing of applications to lockbox facilities, and is in the process of implementing them. According to USCIS, other corrective actions were implemented, including physical security improvements such as installing a barbed wire fence around the perimeter of the area containing the pods and a security guard to monitor the area 24 hours a day, 7 days a week.

According to USCIS, at the four service centers, controls related to the fee collection process may vary, but each location is expected to maintain policies and procedures in accordance with management's directives. We observed certain of these controls in operation at the service centers. USCIS's procedures require dual custody of fee receipts at all times. The procedures also state that after application and check information have been entered into USCIS's system, the checks are to be removed from the applications and placed in the data entry clerk's locked safe. We observed the placement of endorsed checks into small safe-type boxes. However, at one service center, the boxes did not have locks.

Another control at the service centers relates to preparing the daily bank deposit. USCIS's procedures require verification of collected fee amounts at different steps during the process. USCIS and contractor staff at one service center described the process, and we observed the documentation that was prepared to support a prior day's bank deposit. The documentation included required items such as reconciliations, approvals, bank deposit slips, and courier signatures acknowledging courier receipt of the checks for delivery to the bank.

At the lockbox facility we visited, we observed controls such as restricted access to the entire lockbox operations area, surveillance cameras in the segregated area where employees open mail and separate checks, and comparing and balancing the number of applications and amount of fee collections at each step of the process. An independent auditor reviewed controls at the lockbox facility and determined that the controls tested were effective.

USCIS is in the process of moving fee collection and other preadjudication processing activities to lockbox facilities by March 2011. According to USCIS, benefits of the lockbox include reduced operational costs, a more


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secure environment for fee collections, centralized and expedited application and fee collection intake, and flexibility to address unanticipated surges in application receipt volume. For example, the lockbox facilities maintain a certain number of staff as temporary workers who can be called upon when needed.

## Conclusions

Application fees are intended to fund USCIS's immigration benefit application processing operations and other related services. While USCIS has met its objective to set fees at a level sufficient to cover its estimated costs, it has not considered the costs incurred by other federal entities on USCIS's behalf when estimating the cost of each type of application and setting fees. Also, key assumptions and methods for allocating costs to activities and application types are not sufficiently justified or documented, and USCIS does not know how the cost of accelerated processing compares to its $1,000 premium processing fee. Further, documentation that USCIS prepared to describe its costing methodology does not provide sufficient instruction for the costing processes and practices to be followed in determining the costs of each type of application. USCIS, fee payers, congressional decision makers, and others need assurance that the costing methodology used to determine the fees for individual application types provides reliable results and that the assumptions and assignment methods used are justified. A costing methodology consistent with federal accounting standards and principles and other guidance, including complete documentation of the agency's cost assignment process and its analysis and justification for key assumptions used to estimate costs and determine application fees, could help provide that assurance. To increase confidence that its cost estimates provide a reliable basis for setting application fees, USCIS would need to analyze alternate cost assignment methods taking into consideration the costs and benefits of reasonable alternatives, generating additional operations and production data, such as information system usage and preadjudication processing time, to prepare those analyses. USCIS's internal control monitoring procedures identified weaknesses in service center fee collection procedures that USCIS has addressed while planning the transition of its collection and preadjudicative processing functions to lockbox facilities.

## Recommendations for Executive Action

To help make USCIS's costing methodology used for determining application fees consistent with federal accounting standards and principles and to strengthen the reliability of the cost assignments used to


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set fees, we recommend that the Secretary of Homeland Security direct the Director of USCIS to take the following four actions:

- identify the full cost of application processing services whether paid directly by USCIS or by other federal entities for USCIS's benefit, such as the costs of lockbox services paid by Treasury's FMS and certain retirement benefits to be paid to USCIS retirees by OPM;
- consider the full costs to the government when USCIS next reviews and sets application fees and document the rationale for decisions made about including or excluding any types of costs in the fee determination process;
- determine the costs of providing premium processing services to identify the extent to which the $1,000 premium processing fee would cover associated expedited processing costs and infrastructure improvements; and
- document the processes and procedures of the costing methodology in sufficient detail so that the specific procedures used and the data sources and cost assignment methods employed for each step in the process can be understood and replicated.

To better support the reasonableness of USCIS's assumptions and cost assignment methods, we recommend that the Secretary of Homeland Security direct the Director of USCIS to take the following two actions:

- analyze current cost allocation methods to evaluate whether direct or cause-and-effect assignment methods that are economically feasible or other allocation bases may offer greater precision and
- fully document the rationale and any related analysis for using the assumptions and cost assignment methods selected.

## Agency Comments and Our Evaluation

In written comments on a draft of this report, DHS and USCIS concurred with our recommendations and reported that related actions are planned or underway. These actions, if properly implemented, should better support the reasonableness of USCIS's assumptions and cost assignment methods and help strengthen the reliability of the cost assignments used to set fees.

DHS characterized the issues raised in the draft report as mostly pertaining to documentation and analysis supporting discrete decisions by USCIS in developing its costing methodology. In this regard, DHS indicated that USCIS had substantial documentation supporting its costing methodology. As discussed in the draft report, it will also be important


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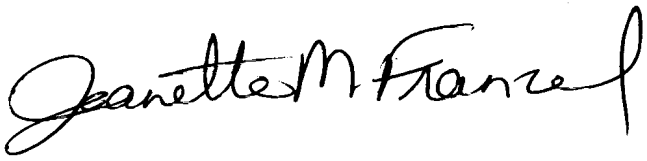
that available documentation and analysis is sufficient to explain the methodology to potential users, provide justification for key assumptions, and guide future program administrators in preparing future fee reviews using a consistent methodology. This level of documentation and analysis is critical to developing reliable cost information for management of fee-based programs on an ongoing basis.

We are sending copies of this report to interested congressional committees, the Secretary of Homeland Security, the Acting Deputy Director of USCIS, the Inspector General of DHS, and other interested parties. This report is also available at no charge on the GAO Web site at http://www.gao.gov.

Should you or your staff have any questions about this report, please contact Jeanette Franzel at (202) 512-9406 or franzelj@gao.gov or Susan J. Irving at (202) 512-8288 or irvings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.



Jeanette M. Franzel
Director
Financial Management and Assurance

Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues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# Appendix I: Scope and Methodology

To assess the consistency of U.S Citizenship and Immigration Services' (USCIS) costing methodology with federal accounting standards and principles, including whether USCIS sufficiently justified and documented its assumptions and methods, we reviewed federal accounting standards and Office of Management and Budget (OMB) guidance on user fees.[1] We also reviewed USCIS documents related to the fee review and its methodology. We obtained further understanding of the methodology through interviews with knowledgeable USCIS officials and staff. We reviewed the design and operation of USCIS's cost system, its accumulation methods, and the assignment of costs involved in processing and adjudicating immigration applications. We performed a walk-through of the cost system, discussed key assumptions and decisions with USCIS officials, and performed analytical reviews. For example, we performed calculations to verify USCIS's distribution of overhead costs. We reviewed USCIS documents describing the bases on which USCIS assigned costs to its processing activities and how individual application fees were determined. To determine whether USCIS data were sufficiently reliable for purposes of this report, we discussed data quality control procedures with agency officials and reviewed relevant documentation.

To identify and assess the accountability mechanisms and internal controls that USCIS has in place over the collection and use of fees, we reviewed internal control standards and relevant USCIS documentation, and we interviewed knowledgeable USCIS officials and staff about the controls USCIS has put in place. We corroborated information obtained in the interviews by reviewing contracts for service center support operations, USCIS internal control documentation, and an independent auditor's report on controls in place at the lockbox facility and through our visits to four USCIS service centers in California, Nebraska, Texas, and Vermont and a lockbox facility in Chicago.[2] During those visits, we interviewed officials and staff and observed the fee collection process. Regarding controls over use of fees, we discussed with USCIS officials and staff the processes for tracking and monitoring fee collections and related expenditures. We corroborated the information obtained in the

[1]See app. III for a description of cost accounting- and user fee-related federal statutes, standards, and principles.

[2]We did not visit the second lockbox facility in Los Angeles. It receives and processes only one application type. As discussed in this report, in 2007, the bank that operates the Chicago lockbox was designated the financial agent responsible for all USCIS fee collections. USCIS is in the process of transitioning all application and fee collections to lockbox facilities operated by that bank.


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discussions by reviewing USCIS reports showing the amount of fee collections received, and we verified that related obligations and expenditures were made against the specific project codes system for selected projects.

We conducted this performance audit from October 2007 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.


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# Appendix II: Immigration Application Forms and Related Fees Prior to and as of the July 30, 2007, Fee Increase

| Form no. | Description | Application fees prior to July 30, 2007 | Application fees as of July 30, 2007 | Biometrics required |
|---|---|---|---|---|
| I-90 | Application to Replace Permanent Resident Card | $190 | $290 | Yes |
| I-102 | Application for Replacement/Initial Nonimmigrant Arrival-Departure Document | 160 | 320 | No |
| I-129 | Petition for a Nonimmigrant Worker | 190 | 320 | No |
| I-129F | Petition for Alien Fiancé(e) | 170 | 455 | No |
| I-130 | Petition for Alien Relative | 190 | 355 | No |
| I-131 | Application for Travel Document | 170 | 305 | No |
| I-140 | Immigrant Petition for Alien Worker | 195 | 475 | No |
| I-191 | Application for Advance Permission to Return to Unrelinquished Domicile | 265 | 545 | No |
| I-192 | Application for Advance Permission to Enter as a Nonimmigrant | 265 | 545 | No |
| I-193 | Application for Waiver of Passport and/or Visa | 265 | 545 | No |
| I-212 | Application for Permission to Reapply for Admission Into the United States After Deportation or Removal | 265 | 545 | No |
| I-290B | Notice of Appeal or Motion | 385 | 585 | No |
| I-360 | Petition for Amerasian, Widow(er) or Special Immigrant | 190 | 375 | No |
| I-485 | Application to Register Permanent Residence or Adjust Status | 325 | 930 | Yes |
| I-526 | Immigrant Petition by Alien Entrepreneur | 480 | 1,435 | No |
| I-539 | Application to Extend/Change Nonimmigrant Status | 200 | 300 | No |
| I-589 | Application for Asylum and for Withholding of Removal[a] | No fee | No fee | No |
| I-600 | Petition to Classify Orphan as an Immediate Relative | 545 | 670 | Yes |
| I-600A | Application for Advance Processing of Orphan Petition | 545 | 670 | Yes |
| I-601 | Application for Waiver of Grounds of Inadmissibility | 265 | 545 | No |
| I-612 | Application for Waiver of Foreign Residence Requirement | 265 | 545 | No |
| I-687 | Application for Status as a Temporary Resident Under Section 245A of the INA | 255 | 710 | Yes |
| I-690 | Application for Waiver of Grounds of Inadmissibility | 95 | 185 | No |
| I-694 | Notice of Appeal of Decision Under Section 210 or 245A | 110 | 545 | No |
| I-695 | Application for Replacement of Form I-688A, Employment Authorization, or Form I-688, Temporary Residence Card | 65 | 130 | No |
| I-698 | Application to Adjust Status From Temporary to Permanent Resident | 180 | 1,370 | Yes |
| I-730 | Refugee/Asylee Relative Petition[a] | No fee | No fee | No |


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| Form no. | Description | Application fees prior to July 30, 2007 | Application fees as of July 30, 2007 | Biometrics required |
|---|---|---|---|---|
| I-751 | Petition to Remove Conditions on Residence | 205 | 465 | Yes |
| I-765 | Application for Employment Authorization | 180 | 340 | No |
| I-817 | Application for Family Unity Benefits | 200 | 440 | Yes |
| I-821 | Application for Temporary Protected Status (first-time applicants)[b] | 50 | 50 | Yes |
| I-824 | Application for Action on an Approved Application or Petition | 200 | 340 | No |
| I-829 | Petition by Entrepreneur to Remove Conditions | 475 | 2,850 | Yes |
| I-905 | Application for Authorization to Issue Certification for Health Care Workers[c] | 230 | 230 | No |
| I-907 | Request for Premium Processing Services[b] | 1,000 | 1,000 | No |
| I-914 | Application for T Nonimmigrant Status | 270 | No fee | No |
| N-300 | Application to File Declaration of Intention | 120 | 235 | No |
| N-336 | Request for Hearing on a Decision in Naturalization Proceedings | 265 | 605 | No |
| N-400 | Application for Naturalization | 330 | 595 | Yes |
| N-470 | Application to Preserve Residence for Naturalization Purposes | 155 | 305 | No |
| N-565 | Application for Replacement of Naturalization/Citizenship Document | 220 | 380 | No |
| N-600 | Application for Certificate of Citizenship | 255 | 460 | No |
| N-600K | Application for Citizenship and Issuance of Certificate Under Section 322 | 255 | 460 | No |
| N-644 | Application for Posthumous Citizenship | No fee | No fee | No |
| | Biometric Services[d] | 70 | 80 | |

Source: USCIS.

[a]By law, asylum services are provided without charge; therefore, no fees are associated with these applications.

[b]The fees for Forms I-821 and I-907 are set by statute, and therefore were not affected by the proposed rule announcing the fee increases.

[c]The fee for Form I-905 was not increased because the fee was recently established and USCIS expects a very low volume of application receipts—only 10 are projected to be submitted each year in fiscal years 2008 and 2009.

[d]Applicants filing forms that require biometrics services must pay a fee of $80 in addition to the regular application fee.



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# Appendix III: Federal Statutes, Accounting Standards and Principles Related to Cost Accounting and User Fees, and Other Guidance

The Federal Financial Management Improvement Act of 1996[1] (FFMIA) requires, among other things, that agencies covered by the Chief Financial Officers (CFO) Act[2] have financial management systems that substantially comply with federal accounting standards. USCIS is part of the Department of Homeland Security and must conform to the requirements of the CFO Act. Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Standards and Concepts, sets forth the fundamental elements of managerial cost accounting. Cost information can be used by federal managers for budgeting and cost control, performance measurement, program evaluations, making economic choice decisions, and determining and setting fees. The standards provide guidance on allocating costs to products and services provided by federal agencies. The standards do not impose a specific methodology on federal agencies but allow flexibility to design a cost accounting system that meets the specific needs of each agency. Among other things, the CFO Act requires agencies to review fees imposed by them on a biennial basis.[3]

OMB Circular No. A-25, *User Charges*, contains federal policy regarding fees assessed for government services and provides information on the basis upon which user charges (i.e., fees) are to be set. OMB Circular No. A-25 provisions apply to agencies in their assessment of user charges under 31 U.S.C. § 9701 (the user fee statute). It provides that when a service or privilege confers special benefits to an identifiable recipient beyond those that accrue to the general public, a charge will be imposed to recover the full cost to the federal government for providing the special benefit. Full costs, according to OMB Circular No. A-25, include all direct and indirect costs of providing the service. OMB Circular No. A-25 also provides guidance to agencies regarding their assessment of user charges under other statutes, such as 8 U.S.C. 1356(m) to the extent OMB Circular No. A-25 is not inconsistent with those other statutes.

The Comptroller General's *Standards for Internal Control in the Federal Government*[4] provides an overall framework for establishing and maintaining internal control. Management is responsible for establishing

[1]Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

[2]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[3]31 U.S.C. 902(a)(8).

[4]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).


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and maintaining internal control to achieve the objectives of effective and efficient operations. OMB Circular No. A-123, *Management's Responsibility for Internal Control*, defines management's responsibility for internal control in federal agencies and provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control.


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# Appendix IV: Comments from the Department of Homeland Security

U.S. Department of Homeland Security
Washington, DC 20528

January 9, 2009

Ms. Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues

Ms. Jeanette M. Franzel
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Irving and Ms. Franzel:

RE: Draft Report GAO-09-70, Immigration Application Fees: Costing Methodology Improvements Would Provide More Reliable Basis for Setting Fees (GAO Job Code 194714)

The Department of Homeland Security welcomes the opportunity to review and comment on the draft report referenced above. The report contains six recommendations. The Department, specifically the United States Citizenship and Immigration Services (USCIS), agrees with the recommendations.

USCIS appreciates the significant time and effort of the U.S. Government Accountability Office (GAO) staff in undertaking a thorough review of Immigration Examinations Fee Account fee setting under the FY 2008-2009 fee review cycle. Overall, the issues raised throughout the draft report appear to pertain mostly to the adequacy of written documentation and analysis supporting discrete decisions by USCIS on the adopted accounting methodologies. Any perceived lack of written information does not mean alternatives were not discussed or assessed internally. In fact, USCIS also discussed at length with GAO staff the basis for some accounting methodology decisions. In addition, the test of "completeness" with respect to documentation is a subjective one. While USCIS did not take minutes at every meeting in which it discussed its fee study, USCIS did make available to the public almost 200 pages of documentation supporting the methodology, testified before the Congress twice on the fee changes, and made its computer model available for public inspection. In future reviews, and for subsequent audits, USCIS will work to document in even more detail decisions that support actions taken.

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The GAO recommended that the Director of USCIS take four actions to help make USCIS's costing methodology used for determining application fees consistent with federal accounting standards and principles and to strengthen the reliability of the cost assignments used to set fees.

Recommendation 1: Identify the full cost of application processing services whether paid directly by USCIS or by other federal entities for USCIS's benefit, such as the costs of lockbox services paid by Treasury's Financial Management Service and certain retirement benefits to be paid to USCIS retirees by the Office of Personnel Management.

Response: The FY 2008-2009 fee review identified the full estimated cost to USCIS of application processing services. Documentation within the current fee review covering the FY 2010-2011 period will also estimate the cost of services not paid directly by USCIS. However, USCIS did state in the final rule adjusting its fee structure that for the purpose of OMB Circular A-25, User Charges, it was only recovering costs to USCIS and not those borne by other Federal agencies on its behalf. The Office of Management and Budget (OMB) approved of USCIS deviation from OMB Circular A-25 in this area when OMB cleared the notice of proposed rulemaking (NPRM) and final rule. In addition, if USCIS had charged for costs borne by the Office of Personnel Management and Treasury's Financial Management Service, applicant fees would have been raised further.

Recommendation 2: Consider the full costs to the government when USCIS next reviews and sets application fees and document the rationale for decisions made about including or excluding any types of costs in the fee determination process.

Response: USCIS will continue to consider the full cost of programs in future reviews and enhance documentation of the rationale for decisions made in the fee determination process during the FY 2010-2011 fee review.

Recommendation 3: Document the processes and procedures of the costing methodology in sufficient detail so that the specific procedures used and the data sources and cost assignment methods employed for each step in the process can be understood and replicated.

Response: USCIS will include more documentation in subsequent fee reviews.

Recommendation 4: Determine the costs of providing premium processing services to identify the extent to which the $1,000 premium processing fee would cover associated expedited processing costs and infrastructure improvements.

Response: USCIS will determine the costs of premium processing services and consider options to adjust premium processing fees.

In addition, GAO recommended that the Director of the USCIS take two actions to better support the reasonableness of USCIS's assumptions and cost assignment methods.



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Recommendation 5: Analyze current cost allocation methods to evaluate whether direct or cause-and-effect assignment methods that are economically feasible or other allocation bases may offer greater precision.

Response: For future fee reviews USCIS will provide analysis which provides better justification for chosen cost allocation methodologies against alternatives.

Recommendation 6: Fully document the rationale and any related analysis for using the assumptions and cost assignment methods selected.

Response: USCIS will make every effort to improve documentation to a degree that is sufficient for effective post-fee review audit analysis and review.

Sincerely,

Michael E. McPoland

for Jerald E. Levine
Director
Departmental GAO/OIG Liaison Office



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# Appendix V: GAO Contacts and Staff Acknowledgments

## GAO Contacts

Jeanette M. Franzel, (202) 512-9406 or franzelj@gao.gov
Susan J. Irving, (202) 512-8288 or irvings@gao.gov

## Acknowledgments

In addition to the contacts named above, staff members who made key contributions to this report include Jack Warner, Assistant Director; Richard Cambosos; Abe Dymond; Emily Eischen; Fred Evans; P. Barry Grinnell; Chelsa Gurkin; Maxine Hattery; Jason Kelly; Diane Morris; Jacqueline Nowicki; Leah Probst; and Nathan Tranquilli.


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