

October 2007

STATE
DEPARTMENT

Transparent Cost
Estimates Needed to
Support Passport
Execution Fee
Decisions



Highlights of [GAO-08-63](#), a report to congressional requesters

STATE DEPARTMENT

Transparent Cost Estimates Needed to Support Passport Execution Fee Decisions

Why GAO Did This Study

As early as January 31, 2008, U.S. citizens will be required to present a passport or other approved document to enter the United States at all ports of entry. The Department of State (State) is developing a “passport card” as a means of establishing U.S. citizenship for individuals crossing U.S. land borders or arriving by sea from Canada, Mexico, the Caribbean, or Bermuda. State proposes to charge \$45 for the card, which would include a \$25 execution fee. Acceptance facilities, including State’s passport offices, as well as post offices and state courts, execute passport applications on State’s behalf, and retain this fee. GAO was asked to examine (1) the factors State considered when setting the proposed fee and (2) how execution cost data were developed. GAO reviewed current laws that authorize the setting of fees and met with State officials to determine how they set the execution fee. GAO also met with officials from State and the U.S. Postal Service (USPS) to discuss acceptance facility execution costs and how these costs were estimated.

What GAO Recommends

To improve the transparency of execution cost estimates, GAO recommends that the Secretary of State provide additional documentation of key decisions in its forthcoming cost of service study. State agreed with GAO’s recommendation.

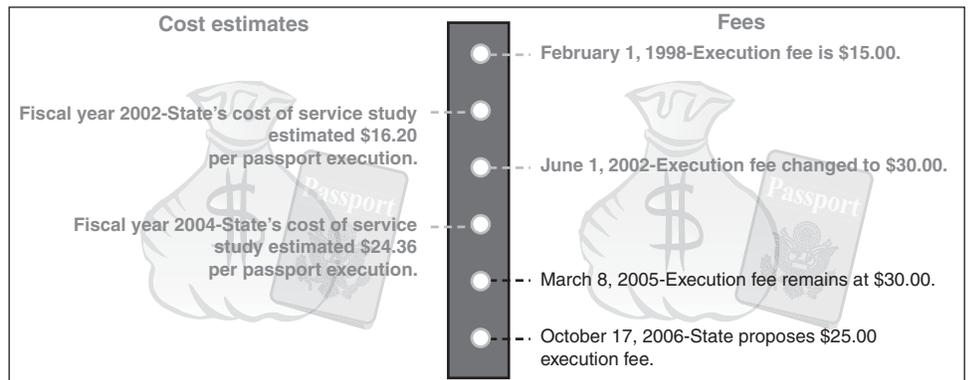
To view the full product, including the scope and methodology, click on [GAO-08-63](#). For more information, contact Jess Ford at (202) 512-4128 or fordj@gao.gov.

What GAO Found

State considered several factors, including congressional interest in having a low-cost travel document, when setting the proposed passport execution fee. State has proposed to reduce the current execution fee from \$30 to \$25, which would help the department to issue a lower cost passport card that meets the new documentation requirements. Consular officials told GAO that State made a commitment to Congress to issue a document that would be, at most, one-half the price of the current passport book, which costs \$97 for first time, adult applicants. To do this, State needed to reduce its fees, including the execution fee. Consular officials stated that State did not want to reduce the execution fee below \$25 because it wanted to recover its costs, which it estimated at \$24.36 per execution. In addition, the fee needed to be high enough to avoid jeopardizing State’s relationship with acceptance facilities, on which State depends to provide passport services. State concluded that \$25 would compensate acceptance facilities based, in part, on data from USPS that initially indicated its passport execution costs were about \$19, as well as a projected increase in application volume. USPS later told State that the \$19 figure did not include additional indirect costs.

GAO found that State’s most recent cost of service study, which estimated passport execution costs, lacked documentation of key decisions. Rigorous documentation increases an estimate’s credibility and helps support an organization’s decision-making process. Documentation of cost estimates should explicitly identify the primary methods, calculations, results, and rationales or assumptions. State was not able to provide documentation of critical components of the study’s methodology. For example, consular officials could not provide details of its survey used to estimate the time it takes to execute a passport, including how the data was used to arrive at the final time estimate. State has begun a new cost study that will provide updated estimates of execution costs.

State’s Prior Cost Estimates and Passport Execution Fees



Sources: GAO; Nova Development (clip art).

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Abbreviations

DHS Department of Homeland Security
OMB Office of Management and Budget
USPS U.S. Postal Service
WHTI Western Hemisphere Travel Initiative

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United States Government Accountability Office
Washington, DC 20548

October 10, 2007

The Honorable Byron L. Dorgan
Chairman
Subcommittee on Interstate Commerce, Trade, and Tourism
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Charles E. Schumer
United States Senate

In April 2005, the Departments of Homeland Security (DHS) and State (State) announced the Western Hemisphere Travel Initiative (WHTI) to implement the new documentation requirements of the 2004 Intelligence Reform Act,¹ namely that U.S. citizens traveling from any foreign country or territory present a passport or other approved document to enter the United States at all ports of entry. In August 2007, DHS announced that, beginning January 31, 2008, it will phase in these documentation requirements. To facilitate the frequent travel of those living in border communities, State is developing a card-format passport, or “passport card” as a means of establishing identity and U.S. citizenship for individuals crossing U.S. land borders or arriving by sea from Canada, Mexico, the Caribbean, or Bermuda. State proposes to charge \$45 for the passport card for adults 16 years and older. This includes a \$25 execution fee—a \$5 reduction from the current fee—that goes to offices that accept passport applications.² Acceptance facilities—such as State’s passport offices,³ as well as post offices and many federal, state, and probate courts—execute passport applications on State’s behalf and retain the execution fee for this service.

¹See the *Intelligence Reform and Terrorism Prevention Act of 2004*, Pub. L. No. 108-458, § 7209, 118 Stat. 3638, 3873. Prior to this legislation, U.S. citizens did not need a passport to enter the United States if they were traveling from Canada, Mexico, the Caribbean, or Bermuda.

²As of June 2002, the passport execution fee is \$30.

³State operates 17 domestic passport-issuing offices; 14 are open to the public for passport execution services. They are located in Aurora, Colorado; Boston; Chicago; Honolulu; Houston; Los Angeles; Miami; New Orleans; New York; Norwalk, Connecticut; Philadelphia; San Francisco; Seattle; and Washington, D.C.

Given your interest in the proposed execution fee, this report discusses (1) the factors that State considered when setting the fee and (2) how the execution cost data that State considered was developed. We reviewed current laws and regulations that authorize the setting of fees. We also collected and analyzed documentation from State's Bureau of Consular Affairs, which is responsible for determining the execution fee. We interviewed consular officials to determine the factors the bureau considered when establishing the execution fee. In reviewing the cost data that State considered, we analyzed data on State's estimated costs for execution services it provides as outlined in the bureau's most recent cost of service study, as well as the study's scope and methodology. In addition, we collected and analyzed documentation and interviewed officials from the U.S. Postal Service (USPS) on its estimated execution costs because post offices comprise almost two-thirds of all active acceptance facilities. We did not evaluate the validity of State's and USPS's cost estimates. We conducted our work between May and August 2007 in accordance with generally accepted government auditing standards. Appendix I presents more details about the scope and methodology of our work.

Results in Brief

State considered several factors, including congressional interest in having a low-cost travel document, when setting the proposed passport execution fee. State has proposed to reduce the execution fee from \$30 to \$25, which would help permit the department to provide U.S. citizens with a lower cost travel document that meets WHTI requirements. Consular officials told us that the department made a commitment to Congress to issue an alternative document that would be, at most, one-half the price of the current passport book, which costs \$97 for first time, adult applicants. To do this, State needed to reduce its fees, including the execution fee retained by acceptance facilities. Consular officials stated that the department did not want to reduce the execution fee below \$25 because it wanted to recover its costs in providing this service, which were estimated at \$24.36 in its most recent cost study. In addition, according to consular officials, the execution fee needed to be high enough to avoid jeopardizing State's relationship with its network of acceptance facilities, on which the department depends to provide passport services to U.S. citizens. In particular, State concluded that \$25 would compensate acceptance agencies based, in part, on USPS reporting to Congress that the Service's

costs for passport execution were about \$19 per execution,⁴ as well as a projected increase in passport application volume that would result in additional funds from passport services.

We found that State's most recent cost study lacked documentation of several key decisions. We have previously reported that rigorous documentation increases the credibility of a cost estimate and helps support an organization's decision-making process.⁵ Documentation of cost estimates should explicitly identify the primary methods, calculations, results, rationales or assumptions, and sources of the data used to generate each cost element. However, State was not able to provide documentation of critical components of the study's estimated execution costs calculation. For example, consular officials could not provide details regarding the survey of consular officers used to estimate the time it takes to execute a passport, including the survey's design or how the results were used to arrive at the final estimated time spent on passport execution—a key driver of costs. As of August 2007, State told us it has begun a new cost study, which will provide updated estimates of execution costs for future fee-setting decisions.

To improve the transparency of the passport execution fee-setting process and ensure that future passport execution cost estimates can be used as a reliable basis for decisions, we are recommending that the Secretary of State instruct the department's contractor to provide additional documentation in its forthcoming fee study to support the contractor's key methodologies, assumptions, and limitations. The study should also document the extent to which State's contractor incorporated estimated passport execution costs from USPS and other acceptance facilities.

We received written comments from State, which we have reprinted in appendix III. State agreed with our recommendation and stated that the department is working with its contractor for State's new cost of service

⁴According to USPS, this is the cost directly attributable to passport execution services, exclusive of any institutional cost coverage—a contribution to institutional costs that USPS applies to postal and nonpostal products and services, which covers a reasonable share of institutional and administrative expenses that cannot be directly attributable to any one product, but which support the Service's operations.

⁵See GAO, *Telecommunications: GSA Has Accumulated Adequate Funding for Transition to New Contracts but Needs Cost Estimation Policy*, [GAO-07-268](#) (Washington, D.C.: Feb. 23, 2007).

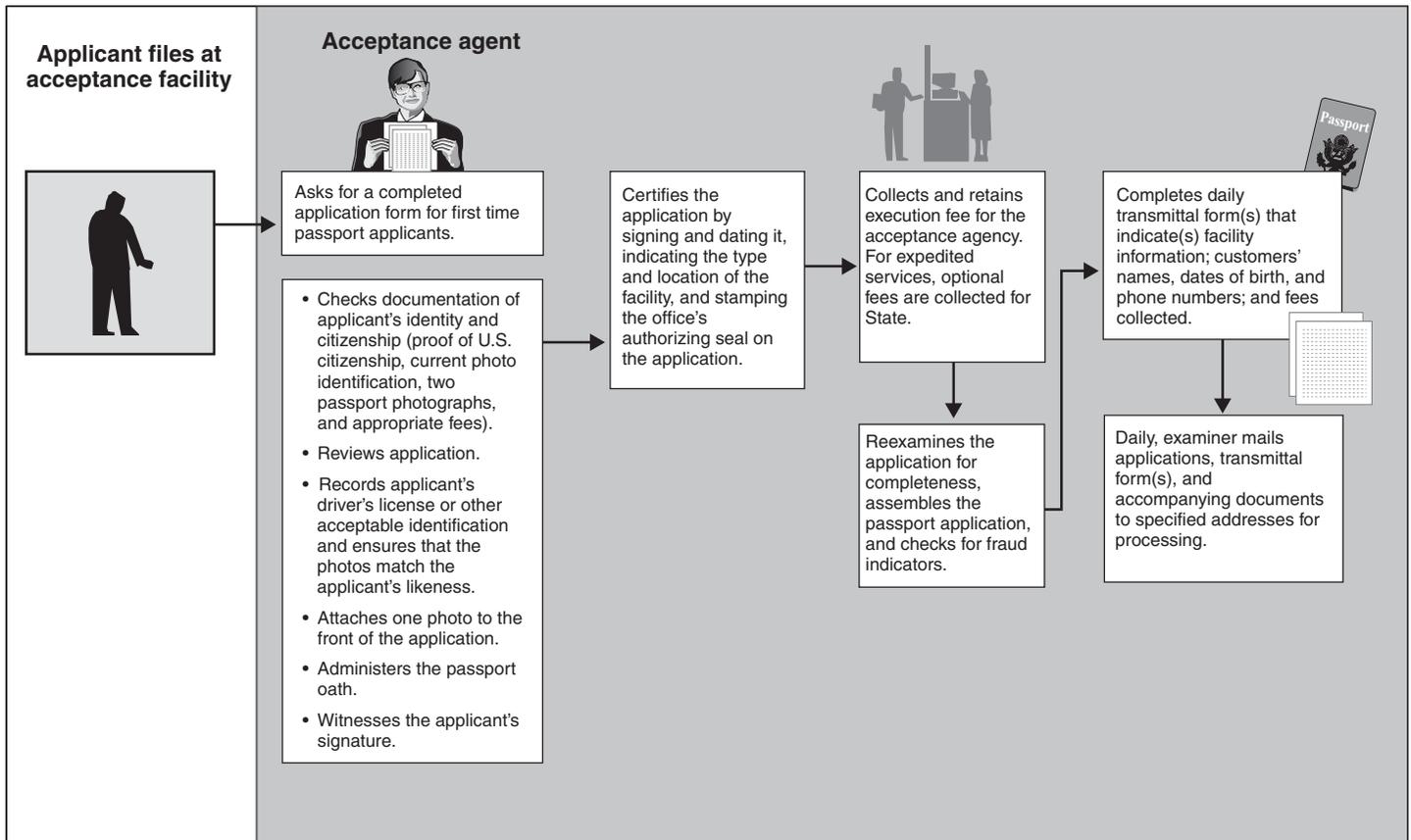
study to ensure that the final report identifies primary methods, calculations, and rationales for any assumptions made.

Background

State is authorized to designate acceptance facilities—in addition to its own passport offices—to provide passport execution services to the American public.⁶ The majority of passport applications are submitted at acceptance facilities nationwide; these include post offices; federal, state, and probate courts; some public libraries and public universities; and a variety of other county, township, and municipal offices. Agents at these facilities are responsible for, among other things, verifying that the applicant's identification documents (driver's license, for example) and photo are authentic and match the person standing before the agent. Acceptance facilities retain the execution fee for this service. Figure 1 depicts the execution process.

⁶State's passport offices also determine, through a process called adjudication, whether the passports should be issued (see app. II for details on the passport adjudication process).

Figure 1: Passport Execution Process



Sources: GAO analysis of State data; Nova Development (clip art).

State reported that there were 8,583 active acceptance facilities nationwide as of September 30, 2006 (see table 1)—post offices comprised almost two-thirds of all active facilities.⁷ According to consular officials, for fiscal year 2006, post offices executed about 72 percent of applications for minors and for adults applying for the first time; nonpostal facilities executed about 25 percent. The remainder (3 percent) were executed by 14 of State’s passport offices. In recent years, State has expanded its network of acceptance facilities to accommodate increasing passport demand. We reported previously that there were approximately 7,000

⁷According to State, the number of active acceptance facilities changes frequently as new facilities are added and others are dropped.

acceptance facilities as of March 2005.⁸ In fiscal year 2006, State added 753 new locations to its network of acceptance facilities, of which 636 are post offices, and 117 are nonpostal facilities.

Table 1: Active Passport Acceptance Facilities and Applications Executed, as of September 30, 2006

	Number of facilities	Applications executed
Post offices	5,382	6,059,902
Nonpostal facilities		
Courts	2,041	
Municipal offices	637	
County/state offices	391	
Public schools	24	
Public libraries	94	
Subtotal	3,187	2,107,037
State's passport offices	14	285,488
Total	8,583	8,452,427

Source: State.

State requires that acceptance agents be U.S. citizens, permanent employees, 18 years or older, and have successfully completed a training program. We reported in July 2007 that State has taken a number of measures to ensure the security and quality of passports, including establishing internal control standards and quality assurance measures and training of acceptance agents.⁹ However, we found that State lacks a program for oversight of passport acceptance facilities and made a number of recommendations to improve this oversight. State indicated that it has begun to take actions that would address our recommendations.

⁸GAO, *Improvements Needed to Strengthen U.S. Passport Fraud Detection Efforts*, [GAO-05-477](#) (Washington, D.C.: May 20, 2005).

⁹GAO, *Security of New Passports and Visas Enhanced, but More Needs to Be Done to Prevent Their Fraudulent Use*, [GAO-07-1006](#) (Washington, D.C.: July 31, 2007).

State Sets Passport Fees; USPS Provides Information for State's Consideration

The Secretary of State prescribes fees for passport services that State provides¹⁰ and has some discretion in setting and collecting passport fees.¹¹ The Chief Financial Officers Act of 1990¹² requires, and Office of Management and Budget (OMB) guidance in Circular A-25¹³ advises, that agencies review the fees for their programs biennially.¹⁴ According to OMB A-25 guidance, fees should be sufficient to recover the full cost to the federal government of providing the service, resource, or good. "Full cost" includes all direct and indirect costs to the federal government, such as direct and indirect personnel costs, including salaries and fringe benefits such as medical insurance and retirement; physical overhead, material, and supply costs; rents; and management and supervisory costs.¹⁵

In addition, State and USPS signed a formal, interagency agreement in 2000, which sets forth the terms and conditions of the execution services that USPS provides on State's behalf. The agreement states, among other things, that State will consider the results of any USPS analyses of passport execution costs and, that before changes in the execution fee are finalized, State and USPS will mutually agree upon the new amount. Further, the agreement states that this partnership is voluntary—if, at any

¹⁰22 U.S.C. § 214 states that the Secretary prescribes, by regulation, fees for the filing and execution of each passport application.

¹¹For example, 22 U.S.C. § 214 states that no passport fee shall be collected from someone when the Secretary determines the exemption is justified for humanitarian reasons or law enforcement purposes.

¹²31 U.S.C. § 902(a)(B).

¹³OMB Circular A-25, "User Fees," establishes guidelines for federal agencies to use in assessing fees for government services. A user fee is a fee assessed to consumers of goods or services provided by the federal government. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005). OMB Circular A-25, "User Fees," establishes guidelines for federal agencies in assessing fees for government services under the broader, governmentwide user fee statute at 31 U.S.C. § 9701, and under more agency-specific fee statutes to the extent permitted by law—that is, the provisions of a more specific user-fee statute, such as 22 U.S.C. § 214, may take precedence over the circular's guidance. See generally, GAO, *Principles of Federal Appropriations Law, vol. IV, 2nd ed.*, [GAO-01-179SP](#) (Washington, D.C.: March 2001) at 15-154-15-159.

¹⁴We have reported previously that periodic reviews of all user fees are important because the reviews can provide agencies, the administration, and Congress with information on the government's costs to provide these services. See, GAO, *Federal User Fees: Some Agencies Do Not Comply With Review Requirements*, [GAO/GGD-98-161](#) (Washington, D.C.: June 30, 1998).

¹⁵See OMB Circ. No. A-25, § 6.d.

time, State and USPS do not mutually agree to the new fee, either party is free to consider other options, including ending their partnership.

State Is Developing Alternative Document to Meet WHTI Requirements

Based on recommendations from the 9/11 Commission, Congress, in 2004, mandated the development and implementation of a plan that requires U.S. citizens to have a passport or other document that demonstrates their identity and citizenship when entering the United States from any foreign country or territory.¹⁶ Prior to this legislation, U.S. citizens did not need a passport to enter the United States if they were traveling from Canada, Mexico, the Caribbean, or Bermuda. DHS and State implemented this requirement for airports on January 23, 2007,¹⁷ and are to implement the requirement for land and sea ports before June 1, 2009 (see fig. 2 for key dates in WHTI implementation).¹⁸ The departments have indicated that they will begin to phase in the requirement for land and sea ports in 2008.¹⁹

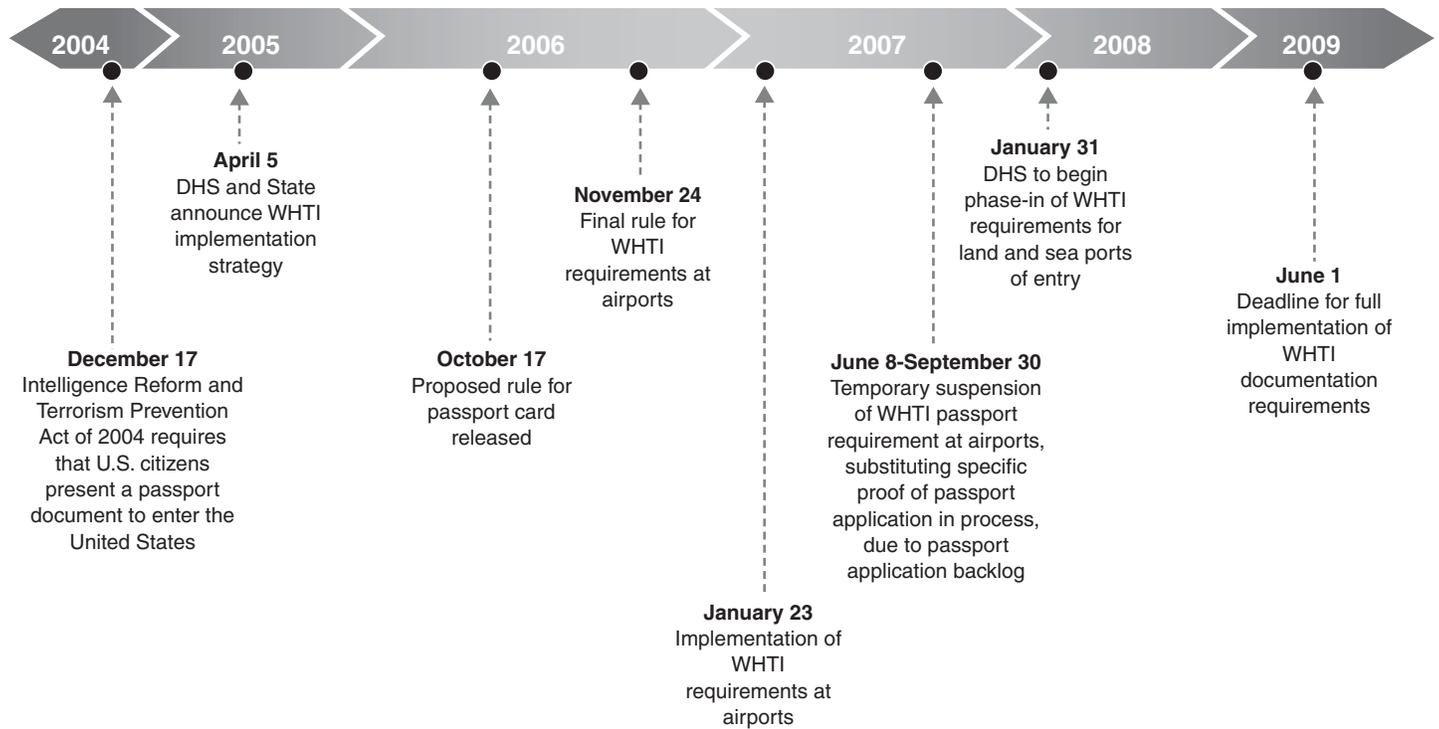
¹⁶Pub. L. No. 108-458, § 7209.

¹⁷On June 8, 2007, State and DHS announced that, through September 30, 2007, U.S. citizens traveling to Canada, Mexico, the Caribbean, and Bermuda who had applied for, but not yet received, passports could nevertheless temporarily enter and depart from the United States by air with a government-issued photo identification and Department of State official proof of application for a passport.

¹⁸See GAO, *Department of Homeland Security and Department of State: Documents Required for Travelers Departing From or Arriving in the United States at Air Ports-of-Entry From Within the Western Hemisphere*, [GAO-07-250R](#) (Washington, D.C.: Dec. 6, 2006).

¹⁹In July 2007, we reported that State indicated that the exact implementation date will be determined by a number of factors, including the progress of DHS and State in implementing WHTI and the availability of compliant documents. See [GAO-07-1006](#).

Figure 2: Time Line of WHTI Implementation



Source: GAO.

The current passport book fee is \$97 for first time, adult applicants (16 years and older). State reported that there are circumstances where, due to reasons of both cost and ease of use, the traditional book-style U.S. passport may not be the optimal solution for international travelers along the northern and southern land borders of the United States, or international sea travel between the United States and Canada, Mexico, the Caribbean, and Bermuda. Thus, in October 2006, State announced plans to produce a passport card as a lower cost means of establishing citizenship and identity for U.S. citizens. For the passport card, State has proposed to charge \$45, which includes a \$25 execution fee. The current execution fee is \$30 for passport books. The proposed reduction of \$5 applies to the execution fee for both passport documents because acceptance agents will follow the same procedures regardless of the type of document. Table 2 shows the current passport book fees, as well as the proposed fees for the passport book and card.

Table 2: Current and Proposed Passport Fees

Application type	Application fee	Execution fee	Total fee
Current (passport book only)			
First time, adult ^a	\$67.00	\$30.00	\$97.00
Minor	52.00	30.00	82.00
Proposed			
Passport book			
First time, adult	67.00	25.00	92.00
Minor	52.00	25.00	77.00
Passport card			
First time, adult	20.00	25.00	45.00
Minor	\$10.00	\$25.00	\$35.00

Source: GAO analysis of State data.

Note: If an applicant holds a valid passport book, he or she may apply for a passport card as a "renewal" by mail, if applicable.

^aFirst time, adult applicants and all minors under 16 years of age are required to apply in person and pay an execution fee. Adults applying for replacement passports that have been lost, stolen, or mutilated are also required to appear in person, as are those holding expired passports issued more than 15 years previously, or when the bearer was a minor. Applicants who are renewing their passports are not required to apply in person.

According to State, passport cards, like passport books, would be issued for a 10-year validity period for U.S. citizens 16 years and older and for a 5-year validity period for U.S. citizens under 16 years of age.

State Proposes Reduced Execution Fee Based on Commitment to Congress and Other Factors

State considered several factors, including congressional interest in having a low-cost travel document and its own estimated execution costs, when setting the proposed execution fee. Based on an interagency agreement, State also reviewed information from USPS on its estimated passport execution costs.

State's Cost Estimates One of Several Factors the Department Considered When Lowering the Execution Fee

According to State, the information from its cost of service study supported the fee-setting process in 2006, but the proposal to reduce the execution fee was not based solely on full cost recovery considerations. Consular officials told us that they considered several factors when setting the proposed execution fee. These include:

- *Commitment to Congress to issue a low-cost document.* According to consular officials, the department made a commitment to issue an alternative document to meet WHTI requirements that would be, at most, one-half the cost of the passport book, which currently costs \$97.
- *State's estimates of its passport execution costs.* State, through an independent contractor, conducts cost studies for its consular services, including passport execution, to determine the full costs for providing these services. Consular officials stated that the department's policy is to review these fees on a periodic basis, rather than biennially, due to the length of time it takes to complete the cost of service studies.²⁰ State's most recent cost of service study estimated the full costs for execution services to the department for fiscal years 2004 and 2005 to be \$24.36. Because OMB guidance states that subject to exceptions, user charges will be sufficient to recover the full cost to the federal government,²¹ consular officials told us that the department decided to not lower the execution fee below the amount estimated in the most recent cost of service study.
- *Maintaining State's network of acceptance facilities.* According to consular officials, State wanted to ensure that, while the cost of the passport card was lower than the cost for the current passport book, that its execution fee was not so low that it jeopardized State's relationship with its network of acceptance facilities, on which the department depends to provide passport services to U.S. citizens. State has seen an increase in passport demand from a base level of 7 million passports issued in 2003 to an expected more than 17 million issuances in fiscal year 2007.²² Based, in part, on these data, consular officials concluded that,

²⁰These officials told us that it takes between 18 and 20 months to select the independent contractor, complete the cost of service study, and implement any new consular fees. In some instances, outside events will lead to an intermediate cost study, according to consular officials. For example, in March 2006, State used an independent contractor to examine the expected impact on passport services costs, in light of WHTI documentation requirements; however, this study did not include the impact on execution costs.

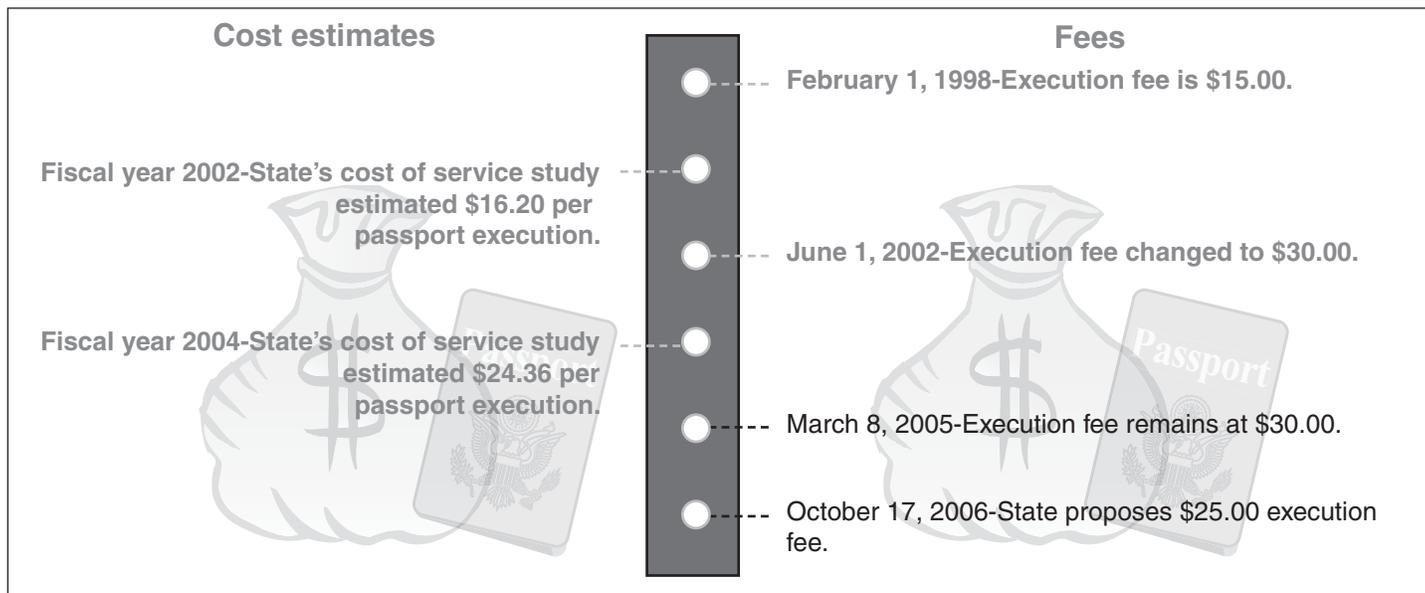
²¹See OMB Circ. No. A-25, § 6.a.2.

²²Total issuances include passport renewals, which generally do not require an applicant to appear in person.

even with the reduced execution fee, the department and its acceptance facilities could continue to expect additional funds from passport services.

Figure 3 shows that, historically, passport execution fees have been higher than State’s estimated costs. For example, in 2002, State set the execution fee at \$30 based on a cost estimate of \$16.20. Consular officials told us that, based on policy considerations, there are certain services for which State does not charge a fee or the fee covers only a portion of the cost of the service. For example, State may not charge a passport fee from certain relatives of a deceased member of the Armed Forces proceeding abroad to visit the grave or to attend a funeral or memorial service for that member.²³ Consular officials stated that their general management practice has been to round cost estimates for some services up to cover the cost of those services for which the public is not charged.

Figure 3: State’s Prior Cost Estimates and Passport Execution Fees



Sources: GAO; Nova Development (clip art).

In 2005, State kept the passport execution fee at \$30 based on the \$24.36 cost of service study estimate. For the passport card, State only rounded

²³22 U.S.C. § 214.

up its cost estimate to the nearest dollar to help reduce the total cost of the card.

State Considered Information from USPS

Based on a 2000 interagency agreement, consular officials consider cost information from USPS in setting passport execution fees. In a fiscal year 2001 internal cost study, USPS estimated that its costs were about \$13 per passport. In April 2006, using this study as a baseline, USPS notified Congress that its projected costs for fiscal year 2005 had increased to about \$19 per passport. According to consular officials, over the next several months, State and USPS met to discuss the Service’s estimated passport execution costs. Then, in early August 2006, USPS sent a letter to State to notify the department that its initial estimate of \$19 did not include a contribution to institutional costs that USPS applies to postal and nonpostal products and services.²⁴ According to USPS, its average contribution to institutional costs was approximately 76 percent of directly attributed costs. Using this average, USPS told State that its full costs for passport execution for fiscal year 2005 would total about \$33 per execution (see table 3)—about \$19 for costs directly attributable to passport execution and \$14 for institutional cost coverage. USPS’s 2001 study did not address institutional costs. Consular officials stated that State did not receive more detailed information about USPS’s internal cost study or how the cost estimates were developed.

Table 3: USPS’s Estimated Passport Execution Costs

	Fiscal year 2001	Fiscal year 2005
Direct costs	\$9.23	\$8.37
Indirect costs	4.08	10.31
Subtotal	13.31	18.68
Institutional cost coverage	Not included	14.18
Total USPS execution costs	\$13.31	\$32.86

Source: GAO analysis of USPS data.

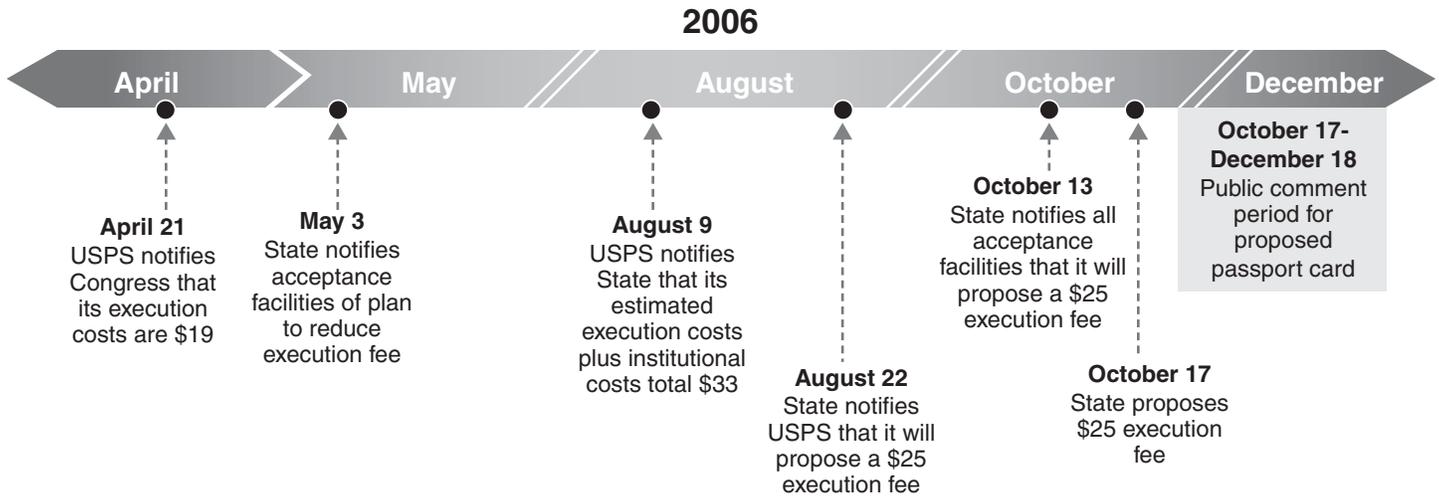
²⁴USPS officials told us that USPS intends to be self-supporting of its operations, and its fees should be sufficient to cover the costs directly attributable to a particular service (for example, passport execution) and a reasonable share of institutional and administrative expenses that cannot be directly attributable to any one product, but which support its operations. 39 C.F.R. 259.1(b).

A number of factors affecting costs may have changed since USPS's 2001 cost study, and USPS did not take these changes into account when projecting passport execution costs for fiscal year 2005. For example, the estimates that USPS provided to Congress and State did not account for the projected increase in passport application volume or the growth in active postal acceptance facilities. As a result, it is unclear whether USPS's estimate accurately reflects its costs.

In late August 2006, State notified USPS that it had decided to propose a \$25 execution fee, which was higher than the directly attributable costs for passport execution services that USPS reported to Congress in April 2006 (see fig. 4 for a time line of communication involving State and USPS on this issue). Regarding the additional contribution to institutional overhead, USPS officials told us that they have some flexibility in the percentage of institutional costs that the Service assigns to each of its products, in general, including the percentage used to calculate the passport execution cost estimate provided to State, specifically. For example, in fiscal year 2006, USPS charged an additional 14 percent of its direct and indirect costs for insured services to cover the institutional cost assigned to this service, and 197 percent for presorted, first class letter mail. As of August 2007, USPS officials stated that they have agreed, in principle, to State's proposed \$25 execution fee.²⁵

²⁵The Department of Homeland Security Appropriations Act of 2007 requires that the Secretaries of Homeland Security and State jointly certify and submit a detailed justification to the Senate and House Committees on Appropriations on the fee to be charged individuals for the passport card prior to the card's issuance and certify that the departments have reached an agreement with USPS on this amount. State and USPS stated that they are in the process of completing this certification to Congress that indicates that USPS has agreed to the proposed execution fee. Pub. L. No. 109-295, § 546, 120 Stat. 1355, 1386-87 (2006).

Figure 4: Time Line of State and USPS Communication on Passport Execution Costs



Source: GAO.

State notified its network of acceptance facilities in early 2006 that the department would be proposing a lower execution fee. However, State did not seek cost information from nonpostal acceptance facilities. According to State officials, nonpostal acceptance facilities are not organized in a way that would make systematic data collection feasible. Thus, State relied on information that these facilities provided to the department through the public comment period following the publication of the proposed passport card rule in the *Federal Register*.²⁶

Lack of Transparency in State’s Most Recent Passport Execution Cost Estimate

We found that State’s most recent cost of service study, which the department considered when establishing the reduced passport execution fee, lacked documentation of several of the contractor’s key decisions. State is in the initial stages of a new study of fiscal year 2007 costs.

We have previously reported that cost estimates are well documented when they can be easily repeated or updated and can be traced to original sources through auditing.²⁷ Rigorous documentation increases the credibility of an estimate and helps support an organization’s decision-

²⁶71 *Fed. Reg.* 60, 928 (Oct. 17, 2006).

²⁷[GAO-07-268](#).

making process. In particular, the documentation should explicitly identify the primary methods, calculations, results, rationales or assumptions, and sources of the data used to generate each cost element. Regarding the passport execution fee, State considered execution cost estimates from its 2004 cost of service study as part of the fee-setting process for the passport card. We found that this study lacked documentation to justify key decisions the contractor made when estimating passport execution costs. We found the following examples:

- Estimates of the resources associated with passport execution (both direct and indirect costs) were integral to the contractor's calculation of State's cost of providing this service.²⁸ At the time of the 2004 cost of service study, however, State's financial systems and processes did not provide managerial cost information for its activities, such as the full cost of the department's passport activities.²⁹ Thus, State was not able to obtain necessary cost information directly from the department's financial system and made numerous assumptions to estimate the aggregate cost of consular activities, including the passport execution costs. State's contractor used baseline obligations data from fiscal year 2002 to estimate passport execution costs for fiscal years 2004 and 2005 (\$24.36). The contractor's final report, however, did not indicate that there may be limitations in using this information as opposed to actual expenditure data.
- The estimated time associated with passport execution was another important component of the contractor's methodology. To determine how much time was spent on passport services and develop a time estimate, the contractor conducted surveys of State's consular staff. We requested documentation from State on the contractor's sampling plan and survey results, but officials were not able to provide additional details about the survey's sample design, results by office, or how the data was used to

²⁸The contractor used activity-based costing to determine the cost of consular activities and services in the 2004 study. This methodology is used to describe the relationship between inputs (resources) and outputs (products and services) by quantifying how work is performed in an organization (activities). It used resources and activity drivers to assign costs to specific products and services.

²⁹In State's "Performance and Accountability Report Fiscal Year 2002," the department's external auditor found that State did not have an effective process to routinely collect managerial cost accounting information, establish outputs for each responsibility segment, or allocate all support costs. Until this was done, the external auditor stated that this information would not be useful as a management decision-making tool. In 2006, the external auditor concluded that the department's financial and accounting system was inadequate and could lead to materially misstating financial information.

arrive at the final estimated time State officials spend on passport execution.

- In the study's survey of State's domestic passport agencies, the tasks for executing and adjudicating a passport were combined into one activity. Therefore, to estimate the time generally associated with execution services that State provides, the contractor visited several post offices in the Washington, D.C., area, and performed time in motion studies at these facilities. Using the time estimates gathered at the post offices as a proxy, the contractor concluded that it took State an average of 7.63 minutes for each passport execution. However, State could not provide documentation regarding the number, type, and location of post offices visited or detailed results of the contractor's time in motion studies. This methodology supported the specific costs allocated to the passport execution.

State is beginning a new cost of service study, according to consular officials, which will estimate fiscal year 2007 costs for all consular services, including passport book and card execution.

Conclusion

State considered several factors in proposing to reduce the execution fee by \$5, most notably its commitment to Congress to create a lower cost document for U.S. citizens that would comply with WHTI documentation requirements; State's proposal achieves this commitment. State's passport execution cost estimates, while not the sole factor that the department considered when setting this fee, are important data, as OMB guidance encourages agencies to recover the full costs of the services they provide. However, State did not ensure adequate documentation of key aspects of the study's assumptions, methodology, and limitations. In addition, USPS did not provide detailed information regarding its estimated passport execution costs, which were based on a fiscal year 2001 study. Better documentation would increase the credibility of State's estimate and help support its fee-setting process. Given the potential impact on a significant number of U.S. citizens, it is imperative that State have a transparent process for setting the passport execution fee to ensure that passport execution cost estimates can be used as a reliable basis for decisions.

Recommendation for Executive Action

To improve the transparency of the passport execution fee-setting process, we are recommending that the Secretary of State instruct the department's contractor to provide additional documentation in its forthcoming fee study to support key methodologies, assumptions, and limitations. Such documentation should clarify survey and other work performed, disclose

all sources of cost information being used, and identify potential limitations and uncertainties associated with the cost figures and other data. The study should also document the extent to which State's contractor incorporated estimated passport execution costs from USPS and other acceptance facilities.

Agency Comments and Our Evaluation

We received written comments from State, which we have reprinted in appendix III. State agreed with our recommendation and stated that the department is working with its contractor for State's new cost of service study to ensure that the final report identifies primary methods, calculations, and rationales for any assumptions made. State and USPS also provided technical comments, which we have incorporated into the report, as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Secretary of State and the Postmaster General and other interested Members of Congress. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128 or fordj@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 IV.



Jess T. Ford
Director, International Affairs and Trade

Appendix I: Scope and Methodology

To determine the process by which the Department of State (State) set the proposed passport execution fee, we reviewed current laws and regulations that authorize the setting of fees, as well as guidance to agencies on the fee-setting process from the Office of Management and Budget, and State's procedures as outlined in the Foreign Affairs Manual. We also collected and analyzed documentation and interviewed officials from State's Bureau of Consular Affairs, which is responsible for determining the passport card fees, to determine the factors that State considered.

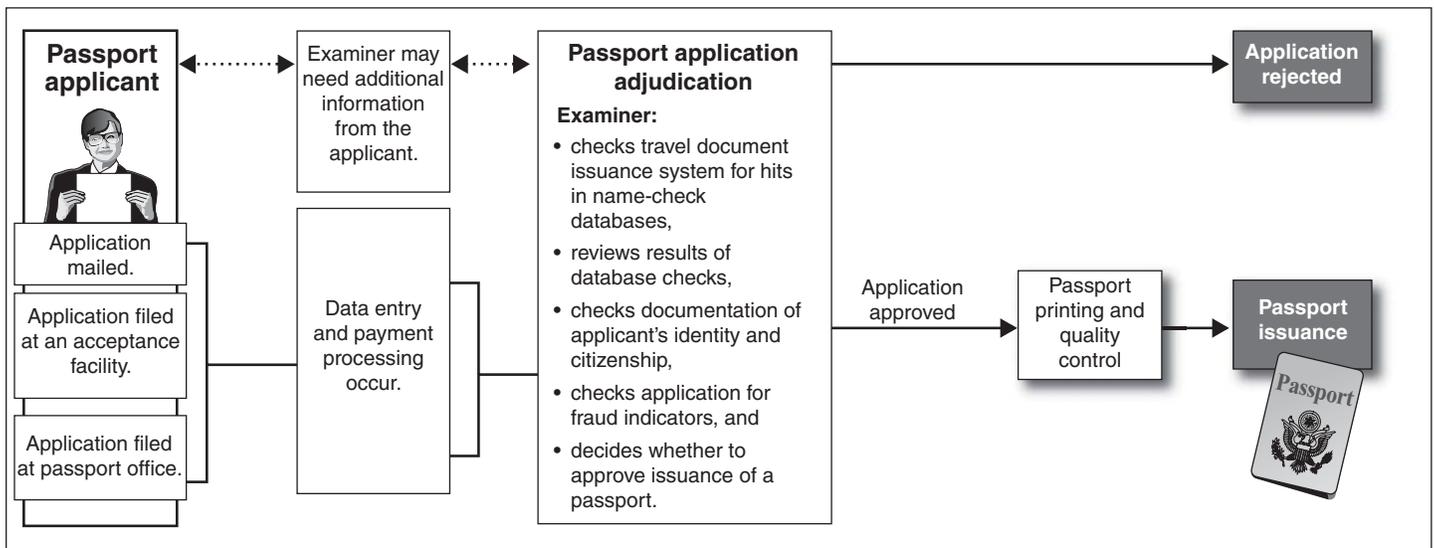
To determine how the execution cost data that State considered was developed, we reviewed data on State's estimated execution costs as outlined in the bureau's June 2004 consular cost of service study and interviewed consular officials regarding the study's scope and methodology. We also reviewed State's audited consolidated financial statements of net costs for the fiscal years 2006, 2005, 2002, and 2001. In addition, we analyzed data on the U.S. Postal Service's (USPS) estimated passport execution costs and interviewed USPS officials responsible for cost analysis and pricing to determine the process USPS uses to estimate passport execution costs. In particular, we reviewed USPS's September 2001 passport execution cost study report, as well as information on its costs and revenue. We also examined USPS's audited consolidated financial statements of net costs for the fiscal years 2006 and 2001. We did not evaluate the validity of State and USPS's cost estimates.

We conducted our work between May and August 2007 in accordance with generally accepted government auditing standards.

Appendix II: Passport Adjudication and Issuance Process

Under U.S. law, the Secretary of State has the authority to issue passports.¹ Once a passport application has been received by one of the 17 domestic passport-issuing offices, a passport examiner must examine each application to determine, through a process called adjudication, whether the applicant should be issued a passport. Adjudication requires the examiner to scrutinize identification and citizenship documents presented by applicants to verify their identity and U.S. citizenship. Once the passport examiner has determined that an applicant is eligible for a passport, State personalizes the passport with the applicant's information and delivers it to the applicant (see fig. 5). According to State's proposed notice on the passport card in the Federal Register,² the basis of the passport card application fee is to be the direct costs of producing passport cards, the card stock, technology, adjudicating the application, printing the biographic information on the card, and priority mail return of the card.

Figure 5: Passport Adjudication Process



Sources: GAO analysis of State data; Nova Development (clip art).

¹22 U.S.C. § 211a.

²71 Fed. Reg. 60, 928 (Oct. 17, 2006).

Appendix III: Comments from the Department of State



United States Department of State

*Assistant Secretary for Resource Management
and Chief Financial Officer*

Washington, D.C. 20520

SEP 26 2007

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "BORDER SECURITY: State Plans to Reduce Passport Execution Fee; Transparent Cost Estimates Needed to Support Future Fee Decisions," GAO Job Code 320505.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Joe De Maria, Management Analyst, Bureau of Consular Affairs at (202) 663-2509.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Katie Bernet
CA – Maura Harty
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

**BORDER SECURITY: State Plans to Reduce Passport Execution Fee;
Transparent Cost Estimates Needed to Support Future Fee Decisions,**
(GAO-07-1193, GAO Code 320505)

Thank you for allowing the Department of State the opportunity to comment on GAO's draft report "*Border Security: State Plans to Reduce Passport Execution Fee; transparent Cost Estimates Needed to Support Future Fee Decisions.*"

The Department of State concurs with GAO's finding on the need for rigorous documentation and transparent methods in fully documenting fee calculations. A new independent contractor team has been retained to execute the 2007 Cost of Service Study (COSS). The Bureau of Consular Affairs management has stressed to the independent contractors the importance of more transparency and better documentation in this year's study and is committed to working closely with them to ensure the final document identifies primary methods, calculations, and rationales for any assumptions made. The Department can arrange for the independent contractors to meet with GAO auditors to discuss shortcomings in the 2004 COSS and methods to prevent their recurrence. The 2007 COSS is scheduled to be completed in December 2008.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Jess T. Ford, (202) 512-4128, or fordj@gao.gov

Staff Acknowledgments

In addition to the individual named above, John Brummet, Assistant Director; Robert Owens, Assistant Director; Kathryn H. Bernet; Richard Cambosos; Joseph Carney; Esther Cha; Peter B. Grinnell; Jeffrey Isaacs; and Grace Lui made key contributions to this report.

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