



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: ACTION: Report on Vessel Documentation
User Fees, U.S. Coast Guard
FI-2002-110

Date: September 18, 2002

From: Alexis M. Stefani
Assistant Inspector General for Auditing

Reply to
Attn. of: Meche: x61496

To: Chief of Staff
United States Coast Guard

This report presents the results of our audit of the United States Coast Guard vessel documentation user fees. The audit was performed at the request of Representative Corrine Brown, Ranking Minority Member, House Subcommittee on Coast Guard and Maritime Transportation.

The Coast Guard National Vessel Documentation Center (Center) charges user fees to the public for vessel documentation services. Coast Guard collected user fees of \$7.5 million in Fiscal Year (FY) 1999, \$7.8 million in FY 2000, and \$7.4 million in FY 2001 for a total of \$22.7 million for the 3 years. Vessel documentation is a form of national registration of ships and other vessels. Coast Guard is required by public law and Federal regulations to charge user fees to recover the full cost of providing vessel documentation services. Regulations also require Coast Guard to review user fees every 2 years and adjust the fees to ensure full recovery of cost for providing vessel documentation services.

Vessel documentation provides evidence of United States nationality for international travel and commerce, provides for unhindered commerce among states, and documents the intended use of vessels. The Center charges 25 separate fees (Exhibit A) for its services to include issuing an initial certificate and granting various options such as allowing commercial vessels to fish in certain areas or to operate passenger vessels such as ferries.

Our audit objectives were to determine whether the user fees charged to the public for vessel documentation services were supportable; whether the user fees charged were in excess of Coast Guard administrative costs; and how excess revenues from user fees, if any, were spent.

RESULTS IN BRIEF

For the 3 fiscal years ended September 30, 2001, we found that Coast Guard user fee revenue exceeded the cost of providing vessel documentation services. Coast Guard could not support the basis used to set the initial fees charged for vessel documentation in 1994. The overcharging occurred because the Coast Guard had streamlined its operations since 1994, but had not reflected the reduced operational costs in its fee structure. Specifically we found that:

- The vessel documentation program, over a 3-year period, was initially charged \$4.2 million in overhead costs for military functions. The Center does not employ military personnel nor perform military functions; therefore, these costs should not be included as costs for recovery through user fees. The Coast Guard subsequently removed these costs after we initiated our audit.
- About \$1.1 million was included by Coast Guard for law enforcement activities, which are not related to issuing vessel documentation certificates. This is contrary to Office of Management and Budget (OMB) Circular A-25. We removed these costs from Coast Guard's reported costs in determining excess user fees.
- About \$2.5 million of overhead costs for the Marine and Environmental Safety Division was based on a 1997 study that was obsolete because significant organizational changes occurred since the study was performed. The study may have been adequate at the time, but Coast Guard has initiated a new study.

During our audit, Coast Guard examined its revenues and budgeted costs and concluded it had collected about \$1.5 million too much in vessel documentation user fees for the 3 years ended September 30, 2001. Because Coast Guard's cost records did not reflect actual cost for the period involved, we could not determine whether the \$1.5 million of excess revenue over cost was too much or too little. This excess revenue was refunded from the operating expense account to the U.S. Treasury on March 20, 2002.

Coast Guard agreed to develop procedures to produce actual cost and adjust vessel documentation fees, as necessary. Coast Guard also engaged KPMG Consulting to update the cost accounting system for changes in its support activities and refinements in the indirect cost distribution. Coast Guard expects these changes to be implemented and fully tested by December 31, 2002.

BACKGROUND

The Coast Guard vessel documentation program provides a national vessel identification system to include evidence of nationality, ownership, and intended use of vessels for commercial and recreational activities. Vessel documentation is mandatory

for commercial vessels, but optional for recreational vessels. Regardless, mortgage lenders and insurance corporations generally require that both commercial and recreational vessels be registered with the Coast Guard.

Federal laws and regulations including Title 46, United States Code (46 U.S.C.) Section 2110, OMB Circular A-25, and 31 U.S.C., Section 9701, specify that user fees must recover the full cost of providing Government services. Full costs include direct costs such as payroll expense and indirect costs such as administrative overhead. Federal regulations regarding user fees were established to ensure that each service provided to specific recipients be self-sustaining and promote efficient allocation of Government resources. OMB Circular A-25 requires that user fees be reviewed every 2 years and updated to recover full costs. The Coast Guard is not authorized to keep revenue that is in excess of the cost to provide vessel documentation services.

Federal regulations governing vessel documentation user fees became effective January 1, 1994. At that time, the Coast Guard estimated the annual costs of the vessel documentation program to be about \$9 million. Initially, vessel documentation services were performed at 14 locations, but in August 1995, Coast Guard consolidated the program at the Center in Falling Waters, West Virginia, and reduced the number of employees providing vessel documentation services from about 140 to 99.

SCOPE AND METHODOLOGY

We evaluated the adequacy of the Coast Guard vessel documentation program user fees to recover the full cost to the Government for providing the service. We determined that user fee revenue for commercial and recreation vessel documentation services is collected and reported separately. Audit work included tracing costs and user fee revenues to supporting accounting records, and interviewing Coast Guard personnel to gain an understanding of the vessel documentation program processes and operations. We also evaluated the reasonableness of the overhead allocation procedures and verified the accuracy of overhead rates to be applied to labor cost.

We evaluated the Coast Guard cost accounting for the vessel documentation program as well as the user fee revenue records for FYs 1999, 2000, and 2001. We confirmed the existence of user fee revenue collection procedures by observing the process and verifying revenue amounts with the Coast Guard Finance Center.

We conducted the audit at the Coast Guard Headquarters in Washington, D.C. and the Center in Falling Waters, West Virginia. We performed an analysis of internal controls sufficient to assess the control risk. The audit was conducted from February through June 2002 in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

RESULTS

Vessel Documentation User Fees

The Coast Guard vessel documentation user fees charged to the public are not based on the actual cost to provide the services as required by OMB Circular A-25. Coast Guard was unable to explain nor provide supporting documentation for the basis of the user fees initially set in 1994. These same fees still are charged today. OMB Circular A-25 requires user fees be reviewed and adjusted, if necessary, at least every 2 years to ensure recovery of the full cost of providing services to the public.

The program processes have changed significantly since 1994. For example, about 140 employees initially provided vessel documentation services at 14 locations. In August 1995, Coast Guard consolidated the program into one facility at the Center in Falling Waters, West Virginia, and reduced the number of employees providing vessel documentation services to 99. Additionally, several labor-intensive vessel documentation processes, such as the mailing of certificates and the tracking of requests, have been automated since 1994. Notwithstanding these gains in cost effectiveness, the user fee rates have not been adjusted since being established in 1994. Coast Guard stated it had not updated its vessel documentation user fees because of higher mission priorities and because of the long rulemaking process that is required to update user fees.

For Coast Guard's vessel documentation program, OMB Circular A-25 requires that any user fee revenue collected in excess of the full cost of providing the Government service be returned to the U. S. Treasury. On March 20, 2002, after the Coast Guard began analyses to answer our inquiries, it sent about \$1.5 million as excess user fee revenue to the U. S. Treasury for FYs 1999, 2000, and 2001. Coast Guard determined the \$1.5 million was excess because actual user fee revenue of \$22.7 million for FYs 1999, 2000, and 2001 exceeded the expected \$21.2 million budgeted. However, the Coast Guard did not use actual cost and actual revenue, and we could not determine whether the \$1.5 million was too much or too little because, as discussed below, Coast Guard's cost accounting records were not adequate.

Vessel Documentation Costs

We found that cost records were not adequate to support fees charged and Coast Guard's cost accounting system did not produce the actual costs of operating the vessel documentation program. To answer the congressional request, we asked Coast Guard to provide its costs and revenues for the vessel documentation program for the 3 fiscal years ended September 30, 2001. Coast Guard presented three submissions, two of which were withdrawn because of errors in the cost information. For example, \$4.2 million related to military functions was charged as vessel documentation program

costs although the Center is entirely a civilian operation. The third cost submission included revenues and costs produced by Coast Guard's cost accounting system and the financial accounting system for FYs 1999, 2000, and 2001.

We audited this submission and found that the Coast Guard did not have an adequate method for computing accurate, timely, or meaningful costs for vessel documentation as required by the Statement of Federal Financial Accounting Standards Number 4. This standard requires Coast Guard to accumulate and report its cost of activities on a regular basis so management can make informed business decisions. Eight months after the close of FY 2001, Coast Guard still was unable to produce the actual FY 2001 vessel documentation program costs. We also found that:

- About \$1.3 million included in FY 2001 overhead cost had to be estimated because Coast Guard was unable to produce the actual costs for FY 2001.
- Overhead costs totaling \$2.5 million for the Marine and Environmental Safety Division was allocated based on an obsolete 1997 study of the vessel documentation program costs. The study is obsolete because significant organizational changes have occurred since the study was performed. The study may have been adequate at the time, but Coast Guard has initiated a new study.
- Coast Guard's cost submission included about \$1.1 million for enforcement cost. This cost should not be included as part of the vessel documentation program costs because it does not represent activities related to the cost of providing vessel documentation certificates. Including the enforcement cost is also contrary to requirements of OMB Circular A-25, which states that no charge should be made for a service when the service can be considered primarily as benefiting the general public. We removed these costs from Coast Guard's reported cost in determining the excess user fees.

To ensure the public is charged for the actual cost to provide this Government service in the future, Coast Guard should develop cost accounting procedures to produce actual costs, on a timely basis, in support of the vessel documentation program so that an adequate basis is established to support the amount of user fees charged to the public.

RECOMMENDATIONS

We recommend that the Coast Guard Chief of Staff, in preparation for the next vessel documentation user fee rulemaking:

1. Develop cost accounting procedures to produce actual costs in support of the vessel documentation program.

2. Initiate rulemaking to adjust user fees based on actual costs, and establish procedures to routinely monitor and adjust fees, as necessary, based on actual cost.

MANAGEMENT RESPONSE

A draft of this report was provided to the Coast Guard Chief of Staff on July 22, 2002. In its September 3, 2002 response, the Coast Guard stated:

Recommendation 1. Concur. Coast Guard's current managerial costing model is in the process of being updated. The update will not only reflect any changes provided by support activities but also include several refinements in indirect cost distribution. This will be completed no later than December 31, 2002. Concurrent with the cost model update, Coast Guard will initiate policy and procedure changes to improve the accuracy of the costs affecting the vessel documentation program and the coordination of this information with budget and program activities.

Recommendation 2. Concur in part. Coast Guard must continue to prioritize its rulemaking efforts to those mission areas that provide the greatest risk and impact on the American public. The management of revenue to actual cost can and will be improved based on the actions described in Recommendation 1.

The complete text of management comments is in the Appendix.

OFFICE OF INSPECTOR GENERAL COMMENTS

Actions taken and planned by the Coast Guard are reasonable, subject to the followup requirements in DOT Order 8000.1C. We agree that Coast Guard must prioritize its rulemaking efforts. Please provide, within 30 days, an estimated target completion date for Recommendation 2 and specify what Coast Guard will do with the excess revenue pending changes to the rule.

We appreciate the courtesies and cooperation of Coast Guard representatives. If you have questions concerning this report, please call me at (202) 366-1992 or John Meche at (202) 366-1496.

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EXHIBIT A. VESSEL DOCUMENTATION USER FEES

Fee Description	Fee
Applications:	
Initial Certificate of Documentation (COD)	\$133
Exchange of Certificate of Documentation	84
Return of Vessel to Documentation	84
Replacement of Lost or Mutilated COD	50
Approval of Exchange of COD	24
Trade Endorsements:	
Coastwise Endorsement	29
Coastwise Bowaters Endorsement	29
Fishery Endorsement	12
Evidence of Deletion from Documentation	15
Late Renewal Fee	5
Waivers:	
Original Build Evidence	15
Bill of Sale Eligible for Filing and Recording	15
Miscellaneous Applications:	
Wrecked Vessel Determination	555
New Vessel Determination	166
Rebuild Determination - Preliminary or Final	450
Certificate of Compliance	55
Filing and Recording (per page):	
Bill of Sale and Instruments in Nature of Bill of Sale	8
Mortgages and Related Instruments	4
Notice of Claim of Lien and Related Instruments	8
Fax Filing	2
Miscellaneous:	
Abstract of Title	25
Certificate of Ownership	125
Attachment for Each Vessel With Same Data	10
Certified Copy of Recorded Instrument	4
Certified Copy of Certificate of Documentation	4

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

<u>Name</u>	<u>Title</u>
Keith Cospers	Program Director
Paul Barry	Project Manager
Michael Veverka	Senior Auditor

U.S. Department
of Transportation

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September 3, 2002

MEMORANDUM

From: ADM Thomas H. Collins
COMDT (G-C)

Reply to G-CQM
Attn of: Mark Kulwicki
(202) 267-2294

To: Assistant Inspector General for Auditing

Subj: DOTIG REPORT: AUDIT OF VESSEL DOCUMENTATION USER FEES

Ref: (a) DOTIG Draft Report Number 02F3006F000 dated July 22, 2002

1. Enclosed is the U.S. Coast Guard response to the recommendations presented in the Department of Transportation Inspector General (DOTIG) report on the "Audit of Vessel Documentation User Fees Report".
2. The response is for your consideration and inclusion in your final report on this matter. For additional information concerning this response, please contact Captain Larry White, at 267-1315.

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 **T. H. COLLINS**

Enclosure: U.S. Coast Guard Response to DOTIG Recommendations

STATEMENT ON DEPARTMENT OF TRANSPORTATION INSPECTOR
GENERAL (DOTIG) REPORT

I. TITLE: “*Audit of Vessel Documentation User Fees,*” OIG Draft Report Number 02F3006F000, Report Dated July 22, 2002.

II. U.S. COAST GUARD POSITION

The Coast Guard has not changed its vessel documentation fee structure since 1994 due to higher priority for regulatory review resources in the marine safety and environmental protection mission areas. It has taken management action to create efficient vessel documentation business processes. As a result of these efforts, the Vessel Documentation Center operated within the revenues generated by that fee structure for 6 years of salary increases and other cost of living increases.

The following presentation shows vessel documentation fee revenues exceeded Coast Guard costs by only \$600,000 over a three year period. Indirect cost allocations subject to DOTIG concern in their report are annotated. No enforcement costs are included.

		(\$000)		
	FY 1999	FY 2000	FY 2001	Total for Period
Revenue	\$7,509	\$7,748	\$7,427	\$22,684
Direct Cost:				
Payroll	4,323	4,578	4,954	13,855
Other	589	691	781	2,061
Indirect Cost				
Organizational Overhead	1,162	1,223	1,309 ¹	3,694
Headquarters Marine Safety Staff	<u>785</u>	<u>813</u>	<u>892</u> ¹	<u>2,490</u> ²
Total Cost	\$6,859	\$7,305	\$7,936	\$22,100
Revenue over Cost	650	443	(509)	584
Variance % of Revenue	8.7%	5.8%	(6.9%)	2.6%

¹ The organizational overhead and Headquarters Marine Safety indirect cost allocations for FY 2001 are estimated. All other figures are actual.

² The \$2.5M in Headquarters Marine Safety indirect costs is allocated based on 1997 activity data for the Coast Guard’s Marine Safety units and staffs. The allocation methodology for all overhead and

indirect costs is currently being updated by KPMG Consulting. The Headquarters Marine Safety staff provides support and oversight of the vessel documentation program.

As shown in the above presentation, Fiscal Year 2001 user fee collections for vessel documentation services slipped while costs increased when compared to the two prior fiscal years. A review of vessel documentation collections for the 1st nine months of FY 2002 indicates a volume similar to FY 2001 for the same period. If this trend continues through year end, the cumulative revenue vs. cost variance of 2.6% will be even less. Coast Guard will perform and monitor trend analysis in the vessel documentation program and will develop timely cost data to provide the necessary financial information for effective management.

The vessel documentation function is a fairly small and specialized mission area for the Coast Guard. The current agency-wide managerial costing system does a marginal job of allocating full cost to this unique program. A costing system review effort underway with KPMG Consulting is focused on improving the causal relationships of the indirect cost allocations and improving the speed of generating those allocations. Adequate cost data exists in the financial accounting system to conduct special analyses and periodically provide management with the necessary information to set rates and manage operations.

III. RECOMMENDATIONS AND RESPONSES:

- 1. CONCUR.** COAST GUARD'S CURRENT MANAGERIAL COSTING MODEL IS IN THE PROCESS OF BEING UPDATED BY KPMG CONSULTING. THE UPDATE WILL NOT ONLY REFLECT ANY CHANGES PROVIDED BY SUPPORT ACTIVITIES BUT ALSO INCLUDE SEVERAL REFINEMENTS IN INDIRECT COST DISTRIBUTION. THE CONTRACTOR'S DELIVERABLE IS DUE SEPTEMBER 10, 2002 WITH REVIEW AND TESTING BEING COMPLETED NO LATER THAN DECEMBER 31, 2002. CONCURRENT WITH THE COST MODEL UPDATE COMPLETION, COAST GUARD WILL INITIATE POLICY AND PROCEDURE CHANGES TO IMPROVE ANALYSIS STANDARDIZATION OF THE COSTS AFFECTING THE VESSEL DOCUMENTATION PROGRAM AND THE COORDINATION OF THIS INFORMATION WITH BUDGET AND PROGRAM ACTIVITIES. IN THE INTERIM, SPECIAL ANALYSES

WILL BE CONDUCTED PERIODICALLY USING THE METHODOLOGY PRESENTED TO THE AUDITORS.

2. **Concur-in-part.** Coast Guard must continue to prioritize its rulemaking efforts to those mission areas that provide the greatest risk and impact on the American public. The management of revenue to actual cost can and will be improved based on the actions described in Recommendation 1. Also, efforts will be taken to improve internal communication among the Coast Guard's program, budget, and financial staffs responsible for oversight of the vessel documentation program.

