
Office of Inspector General
Audit Report

Inspection of Riverboat Casinos

U.S. Coast Guard

Report Number MA-1998-040
Date Issued: December 8, 1997





**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: ACTION: Report on Inspection
of Riverboat Casinos, U.S. Coast Guard
Report Number: MA-1998-040

Date: December 8, 1997

From: 
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Assistant Inspector General for Auditing

Reply to: JA-1
Attn of:

To: Chief of Staff
U.S. Coast Guard

BACKGROUND AND OBJECTIVES

This report presents our audit results on the U.S. Coast Guard's (Coast Guard) inspection of riverboat casinos. Our objectives were to evaluate the effectiveness of the Coast Guard's inspection of passenger vessels operating as riverboat casinos, and determine whether the Coast Guard assesses user fees for inspection services. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

Title 46, Code of Federal Regulations (CFR), requires the Coast Guard to review new vessel plans, inspect vessel construction and conversions, and perform inspections needed to issue and renew Certificates of Inspection (certificates) when inspected vessels are in compliance with marine laws and regulations.

The Omnibus Budget Reconciliation Act of 1990 requires the Coast Guard to establish and collect user fees when benefited groups can be identified. Effective May 1, 1995, the Coast Guard established user fees for inspections needed to renew certificates. User fees are due before performing inspections, and the Marine Safety Information System (MSIS) contains the status of user fee payments for each vessel. Title 46, CFR, allows the Coast Guard to withhold inspection services when user fees are not paid.

RESULTS-IN-BRIEF

We reviewed Coast Guard inspection reports for 34 riverboat casinos. We also accompanied Coast Guard inspectors and observed inspections being performed on three riverboat casinos. We found Coast Guard inspections of riverboat casinos were thorough and timely. But, the Coast Guard did not ensure riverboat casino owners paid required fees before it performed inspections, and did not assess civil penalties for failure to pay user fees. The Coast Guard also did not establish user fees for all eligible inspection services.

Payment of User Fees

Annual inspection fees are due on the first of the month following the certificate anniversary date. The MSIS automatically issues notices to operators before due dates. Owners are responsible for applying to the Coast Guard for certificate renewals, paying user fees, and setting a mutually agreeable time for the Coast Guard to perform the inspections. Riverboat casino owners mail user fees to a central location and the Coast Guard updates the MSIS. According to Coast Guard procedures, inspectors are to review MSIS data to ensure fee payments are current before inspecting riverboat casinos.

We found the Coast Guard provided inspection services for certificate renewals on 64 riverboat casinos, although 10 of the 64 owners had not paid inspection fees totaling \$36,675. For the remaining 54 riverboat casinos, Coast Guard collected about \$188,000 from 49 casinos. The remaining five riverboat casinos were deactivated before the Coast Guard could collect its inspection fees. Coast Guard inspectors said they continued to provide inspection services because MSIS data were unreliable, and they were not sure amounts in the MSIS were from the current year or for inspections performed in a prior year.

We reviewed payment records for Fiscal Year (FY) 1995 and FY 1996 through June 30, 1996. We selectively tested MSIS payment data for accuracy and whether payments were for current or prior year inspections. We contacted eight riverboat casino operators and verified the MSIS accuracy of their payment status. We contacted the Coast Guard's User Fee Administrator and accounts receivable officials at the Coast Guard Finance Center. We verified that accounts shown as unpaid in the MSIS were accurate. Consequently, the inspectors' concerns about MSIS accuracy were not warranted based on the data we reviewed.

Assessment of Civil Penalties

On April 17, 1996, Coast Guard issued an enforcement policy letter for collecting user fees for inspection services. The policy letter directed inspectors to begin

enforcing user fee payments, and stated they should not conduct inspections until owners make payments. The policy further states, "If services are provided before payment is received, civil penalty action should be initiated." For the 10 riverboat casinos that were inspected and user fees had not been paid, we found the Coast Guard did not initiate civil penalties.

Establishment of Additional User Fees

Title 46, CFR, requires Coast Guard to review and approve vessel construction and major rebuilding plans. The Coast Guard also conducts inspections during construction and before issuing initial certificates. The Coast Guard had not established fees for any of these inspections. Coast Guard officials stated they had not performed the cost analysis, or proposed rulemaking required to establish these user fees. They planned to establish fees for new vessel reviews and initial inspections, but said higher priorities caused delays.

We reviewed MSIS inspection records for FY 1995 and FY 1996 through June 30, 1996. Inspectors spent 11,840 hours inspecting 21 newly constructed riverboat casinos. Using the Coast Guard's standard cost of \$87 per inspection hour, we estimate the Coast Guard performed, at no cost to riverboat casino operators, inspection services valued at about \$1 million.

Conclusion

Since 1990, the Coast Guard has been required to establish and collect user fees for inspection-related services where specific benefiting groups can be identified. In our opinion, riverboat casinos are a benefiting group that receives free inspection services. The Coast Guard needs to aggressively enforce existing user fee requirements to ensure fees are paid, and expedite rulemaking to establish user fees for other inspection services.

RECOMMENDATIONS

We recommend the Chief of Staff:

1. Emphasize that data in the MSIS are to be used in enforcing requirements for payment of user fees before inspection services are performed and assessing civil penalties for nonpayment of user fees;
2. clarify the time period to which user fees apply;
3. initiate action to assess civil penalties for those cases where Coast Guard inspections are performed before user fees are paid; and

4. expedite rulemaking to establish user fees for inspections associated with plan reviews, new vessel construction or conversion, and initial certificates of inspection.

Management Response

In its response on September 10, 1997, the Coast Guard expressed safety concerns about the impact of not offering inspection services (except for Inspections of Certification), and advised that its policy is to provide services to ensure safety even though vessel user fees are unpaid. The Coast Guard agreed to provide guidance to the field reemphasizing the importance of aggressive enforcement to maintain the integrity of the collections process. Further, the Coast Guard agreed to reexamine the issue of charging user fees for plan review, new construction inspection, etc., for all vessel classes. The Coast Guard plans to complete corrective action at specified times throughout FY 1998.

Office of Inspector General Comments

The Coast Guard's planned actions are reasonable. Accordingly, no further response to this report is required.

We appreciate the courtesy and cooperation of Coast Guard representatives. If you have any questions, please contact me on (202) 366-1992, or Ronald H. Hoogenboom on (312) 353-0104.