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United States Government Accountability Office
Washington, DC 20548

September 25, 2008

Mr. Jonathan Scharfen
Acting Director
U.S. Citizenship and Immigration Services

Subject: *Federal User Fees: Improvements Could Be Made to Performance Standards and Penalties in USCIS's Service Center Contracts*

Dear Mr. Scharfen:

The Department of Homeland Security's (DHS) U.S. Citizenship and Immigration Services (USCIS) is responsible for granting or denying applications or petitions of foreign nationals seeking to become citizens of the United States or to study, work, or live in this country. In order to process the millions of applications and petitions that USCIS receives each year, USCIS uses contractors to perform various support services including SI International, Inc. and Stanley Associates for mail operations, fee collection, data collection, and file operations at its four service centers, in California, Nebraska, Vermont, and Texas. The contracts with these two firms are expiring, and USCIS has the option to extend the contracts for one year beginning in December 2008. We understand that USCIS may be planning to propose possible contract changes for the option year.

Based on our ongoing work on USCIS user fees, we believe that improvements could be made to these contracts before the options to extend the contracts are exercised. The purpose of this report is to summarize our initial observations on performance standards and financial deductions to assist USCIS in obtaining the most value and highest level of performance from its contracts and contractors. In our forthcoming report we will address contract management issues.

Our initial observations are based on how operations are affected by the 2007 adjustment of the application fee schedule. We reviewed USCIS's service center contracts with SI International, Inc. and Stanley Associates. We analyzed contractor performance data from January through August 2008. In addition, we interviewed agency officials from USCIS headquarters; the Burlington, Vermont contracting office; the Nebraska, Vermont, Texas, and California service centers; and the National Benefit Center.

We conducted this performance audit from November 2007 through September 2008, 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.

Performance Standards Often Do Not Apply Because Application Volume Thresholds Do Not Reflect Known Workload Patterns

The service center contracts generally require that fees that accompany applications be deposited within 24 hours.¹ The contracts provide for financial deductions for noncompliance. The contractors are expected to maintain the capability to accommodate surges in volume of receipts of up to 20 percent above the daily average receipt volume for the previous 20 business days, known as the rolling daily average; receipts in excess of 120-percent are not held to the 24-hour deposit standard and may be processed on the next business day without financial deduction. For example, the Vermont Service Center received 8,523 applications in 1 day, but the rolling daily average for the prior 20 days was 6,098 applications. The contractor was responsible for meeting the 24-hour deposit standard for 6,098, plus 20 percent (1,220)—7,318 applications in total. The 24-hour timeliness standard did not apply for the additional 1,205 applications above the 120-percent threshold.

USCIS Service Center Operations officials said that they consider the 120-percent threshold a reasonable standard, based on their experience. However, our analysis of USCIS's servicewide daily application receipts indicates that application volume regularly and predictably meets or exceeds this threshold. Specifically, application volume met or exceeded the surge threshold an average of nearly 65 percent, and as much as 74 percent of the Mondays or days after a holiday from January 1 through August 6, 2008. These surges were often large—at times more than 170 percent of the rolling daily average (see table 1).

¹Specifically, the contract states that the fees be deposited not later than the depository pick-up time on the next business day after the receipt of the fees in service centers.

Table 1: Percentage of Days USCIS’s Four Service Centers Exceeded the Application Volume Threshold, January 1, 2008 through August 6, 2008

	California Service Center	Vermont Service Center	Nebraska Service Center	Texas Service Center	Average total
Percentage of days that application surge threshold was exceeded	27 percent	26 percent	28 percent	17 percent	25 percent
Percentage of Mondays and days after holidays that exceeded the application surge threshold	58 percent	68 percent	74 percent	55 percent	64 percent
Percentage of Mondays and days after holidays when volume met or exceeded 140 percent of the rolling daily average	19 percent	26 percent	23 percent	13 percent	20 percent

Source: GAO analysis of USCIS data.

Service center officials said that surges in applications on Mondays and the days following federal holidays are common because of the additional volume from the undelivered Saturday mail or what would have been delivered on the holiday. However, even though these surges are well-known and can be anticipated, the contract terms do not reflect this known workload pattern. In other words, despite the known pattern of increased receipts on Mondays and the days after a holiday, the application surge threshold remains the same. As a result, the service centers regularly have large numbers—as many as 5,000 a day at a single center—of application fees averaging \$438 each that are not deposited within 24 hours of receipt with no financial deduction assessed against the contractor. The 24-hour deposit requirement is consistent with Chapter 8000 of the Treasury Financial Manual. When fees are not deposited in accordance with this standard, additional control processes must be employed to secure inventory, such as tracking mechanisms and a secure and locked storage area for all unprocessed fees. In the past, USCIS has found deficiencies in these areas of internal control. Better aligning the threshold at which the timeliness standard is not applied with known workload patterns should encourage the contractors to manage their resources in a way that will allow them to better address known workload surges and should reduce the need for special handling of undeposited checks. Further, the U.S. government could earn more interest if more fees were deposited within 24 hours.

Financial Deductions for Substandard Performance Do Not Provide a Graduated System to Discourage Poor or Deteriorating Performance

USCIS levies financial deductions on its service center contractors when they do not meet certain performance standards associated with data and fee collection, but the effectiveness of these standards is limited by the lack of a tiered financial deduction system. Four of the five financial deductions are applied at the same rate regardless of the magnitude by which the contractor fails to meet performance standards. Two of the five financial deductions are applied at the same rate regardless of the number of times the contractor fails to meet the standards.

The contracts for pre-adjudicative activities at the service centers detail five performance requirements, the expected performance standard, measurement method, and financial deduction schedule, as shown in table 2.

Table 2: Schedule of Financial Deductions for Missed Performance Standards

Section	Performance requirement	Expected performance standard	Measure	Deduction schedule
Data collection	The contractor shall review applications and/or petitions for acceptability in accordance with USCIS policies and procedures.	2% or less acceptable forms are rejected because of contractor error.	Random sampling	2% or less.....None >2%.....\$15,000 Per service center per month Rate does not change with magnitude of violation
Data collection	The contractor shall collect information from source documents and input data into various formatted screens in accordance with USCIS policies and procedures.	Accurate data entry of all forms must be completed no later than the close of business on the 2 nd day after being received in the service center.	Random sampling	98% or higher.....None <98%.....\$15,000 Per service center per month Rate does not change with magnitude of violation
Data collection	The contractor shall appropriately and correctly prepare and affix barcode labels and other identifiers.	All identifiers, including barcode labels, are appropriately and correctly prepared and affixed to all applications, petitions, and file jackets in accordance with USCIS policies and procedures.	Validated USCIS complaints	6 or fewer.....None >6.....\$15,000 Per service center per month Rate does not change with magnitude of violation
Fee collection	The contractor shall endorse and deposit fees not later than the depository pick-up on the next business day after the fees were received in the service center (a.k.a. 24-hour deposit).	Contractor endorses and deposits all fees not later than the depository pick-up on the next business day after the fees were received in the service center.	100% audits and validated customer complaints	Each infraction...\$5,000 Rate does not change with magnitude of violation
Fee collection	The contractor shall monitor and safeguard fees at all times while within the contractor's custody in accordance with USCIS policies and procedures.	All fees are monitored and safeguarded at all times when in the custody of the contractor.	Periodic observation & validated customer complaints	Each infraction...\$2,000

Source: USCIS.

USCIS may levy a financial deduction of \$15,000 if a contractor fails to meet any of the data collection standards in a given month. However, this deduction is not modified based on the magnitude by which a contractor fails to meet the performance standards. For example, the contracts establish that a \$15,000 financial deduction is to be levied if more than six labels are prepared or affixed incorrectly, but the contracts do not provide for any difference in the financial deduction whether

the number of incorrectly prepared or affixed labels is a small or large number. This is also true for the two percentage-based data collection standards.

USCIS may also levy a financial deduction of \$5,000 if a contractor fails to meet the 24-hour deposit standard, though in certain instances, this standard does not apply, as described in preceding section. However, the deduction is not modified based on the magnitude or number of times that a contractor fails to meet the performance standard. For example, the contracts establish that a \$5,000 deduction is to be levied each day that fees are not deposited within 24 hours of delivery to the service centers, but the contracts do not provide for any difference in the financial deduction whether the contractor failed to deposit a small or large number of fees. Nor do the contracts provide for any difference in the financial deduction whether the performance standard is not met for one or many days—the contractor still pays \$5,000 per infraction.

In addition, USCIS may levy a financial deduction of \$2,000 if a contractor fails to meet the fee safeguarding standard. However, this deduction is not modified based on the number of times that the contractor fails to meet the performance standard. For example, the contracts establish a \$2,000 financial deduction to be levied each time a fee is identified as being unsecured, but the contracts do not provide for any difference in the financial deduction whether one or many fees have been found unsecured—the contractor still pays \$2,000 per infraction.

While we have not yet completed our analysis on the extent to which these financial deductions are affecting contractor performance, in at least one instance, service center officials said that the deductions had been insufficient to motivate improved contractor performance. Service center officials also said that the only tool available to them beyond financial deductions was termination of the contract.

We have previously reported that a tiered penalty system that creates incremental incentives and disincentives instead of a fixed amount may improve the effectiveness of a performance accountability mechanism.² Such a penalty system may prove more effective in managing USCIS's contract services.

Conclusions

Given USCIS's options to extend the service center contracts with SI International, Inc. and Stanley Associates, our initial observations may be useful in supporting the agency's efforts to improve contractor performance by modifying the contracts prior to exercising the options. The application volume thresholds at which performance standards do not apply could be revised to reflect known workload patterns. In addition, the schedule of financial deductions may be revised to increase deduction rates for egregious or repeated infractions. Collectively, these changes could result in

² See GAO, *Federal User Fees: Key Aspects of International Air Passenger Inspection Fees Should Be Addressed Regardless of Whether Fees Are Consolidated*, GAO-07-1131 (Washington, D.C.: September 24, 2007).

improved performance and greater assurance that the government is receiving what it is paying for. Although our work is still in progress, USCIS could begin further analysis in these areas to obtain better service from contractual agreements.

Recommendations for Executive Action

We recommend that the Acting Director of the United States Citizenship and Immigration Services take the following two actions:

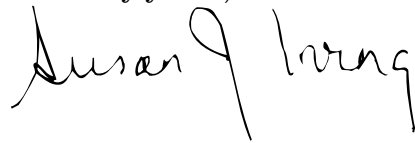
- revise the threshold at which the timeliness performance requirement does not apply to better reflect known workload patterns, especially on Mondays and the days after holidays;
- consider developing and implementing a system of graduated deductions in order to better encourage improved performance.

Agency Comments

We provided a draft of this report to the Acting Director of USCIS for review and received written comments which are reprinted in Enclosure. USCIS concurred with our recommendations and provided a technical comment, which was incorporated.

We are sending copies of this report to the Acting Director of USCIS and interested congressional committees. We will also make copies available upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Should you wish to discuss these matters, please contact Susan J. Irving at (202) 512-8288 or William T. Woods at (202) 512-8214. Major contributors to this report included Jacqueline Nowicki (Assistant Director), Emily Eischen, Chelsa Gurkin, Leah Probst, and Nathan Tranquilli.

Sincerely yours,



Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues



William T. Woods
Director
Acquisition and Sourcing Management

Enclosure

Comments from the U.S. Citizenship and Immigration Services

U.S. Department of Homeland Security
U.S. Citizenship and Immigration Services
Office of the Director
Washington, DC 20529



U.S. Citizenship
and Immigration
Services

GAO-08-1170 Federal User Fees

September 24, 2008

Susan Irving and William Woods
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Irving and Mr. Woods:

This letter is provided in response to the draft management letter regarding *Federal User Fees: Improvements Could Be Made to Performance Standards and Penalties in USCIS' Service Center Contracts*, GAO-08-1170. According to your staff, the draft management letter is an interim portion of a larger report the GAO is undertaking concerning USCIS' user fees.

In 2007, USCIS published a revised fee structure to ensure full cost recovery¹, improve customer service, strengthen the security and integrity of our immigration system and modernize business operations for the 21st century. As part of USCIS' efforts to modernize processes and improve the services USCIS delivers, USCIS has also examined ways to strengthen controls over administrative processes, including enhancing agency contracting efforts. The recommendations included in the draft management letter could be a helpful part of that process. USCIS finds the contract modifications you suggest desirable and will propose them, or similar provisions, in future contract negotiations.

Regarding technical comments on the management letter, USCIS' Chief Financial Officer provided a technical correction to your staff and was advised that it will be incorporated in the final report.

USCIS appreciates the opportunity to provide comments on your draft management letter and looks forward to reviewing the rest of the work pertaining to USCIS user fees.

¹ See GAO, *Immigration Application Fees: Current Fees are Not Sufficient to Fund U.S. Citizenship and Immigration Services' Operations* (GAO-04-309R, January 5, 2004).

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Susan Irving and William Woods
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Sincerely,

/s/

Michael Aytes
Acting Deputy Director

(450705)

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