

United States Department of Agriculture  
Animal and Plant Health Inspection Service  
Agricultural Quarantine and Inspection Program

Fee Setting Process Documentation and  
Recommendations



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# Table of Contents

- 1. Introduction..... 1**
- 2. Existing AQI Fee Setting Methodology.....2**
  - 2.1 Background..... 2
  - 2.2 Determining the Cost of the AQI Program ..... 2
  - 2.3 Projecting Costs for Future Years ..... 3
  - 2.4 Distribution of Costs by Fee Category ..... 4
  - 2.5 Projecting Volumes for each Fee Category..... 4
  - 2.6 Calculation of User Fees ..... 4
- 3. Existing Process for Determining AQI Revenue and Reserve Projection.....5**
- 4. Fee Setting Recommendations .....6**
  - 4.1 Overview of Activity Based Costing Methodology ..... 6
  - 4.2 Recommendations to Improve and Maintain the Fee Setting Process..... 7
- 5. Other Observations ..... 12**
- Appendix A: Existing Fee Setting Process..... 14**

# 1. Introduction

The United States Department of Agriculture (USDA) Animal Plant Health and Inspection Service (APHIS) Agricultural Quarantine and Inspection Program (AQI) protects America’s animal and plant resources from agricultural pests and diseases. To fund the program, AQI charges fees for inspection of international passengers and cargo conveyances, and APHIS is required to ensure that full cost recovery for the program is obtained through rate-setting. The agency has an existing rate-setting process that establishes fees for commercial vessels, trucks, railroad cars, aircraft, and from international passengers which are intended to recover the AQI costs. Recently, these fees have not covered costs. APHIS engaged Grant Thornton to conduct a comprehensive fee review to determine the full cost of AQI services, identify potential changes to the fee structure, and recommend new fees. Part of the fee review was to document APHIS’ current processes for fee setting, revenue projection, and tracking excess collections over expenditures and provide recommendations based on industry best practices.

This document addresses several AQI fee review deliverables as shown in the table below.

Deliverable	Document Section
<b>Deliverable 5-1:</b> Document the existing methodologies and practices employed in AQI rate-setting	Section 2 – Existing AQI Rate Setting Methodology
<b>Deliverable 5-2:</b> Document the existing method of revenue projection employed in the AQI program.	Section 3 – Existing Process for Identifying AQI Reserve and Revenue Projection
<b>Deliverable 5-3:</b> Document the existing process of tracking excess collections over expenditures employed in the AQI program	Section 3 – Existing Process for Identifying AQI Reserve and Revenue Projection
<b>Deliverable 5-4:</b> Establish and document recommendations for rate-setting, revenue projection, and tracking excess collections over expenditures processes and practices in a manner that enables APHIS’ decisions to be transparent and fully defensible.	Section 4 – Fee Setting and Business Process Recommendations
<b>Deliverable 2-1:</b> Document potential areas for improvement to current AQI business practices based on site visits, discussions with AQI SMEs, etc. Make specific recommendations for improvements where appropriate.	Section 5 – Other Observations

## 2. Existing AQI Fee Setting Methodology

### 2.1 Background

APHIS sets fees for the AQI program based on fee authority provided in Section 2509(a) of the Food, Agriculture, Conservation, and Trade Act of 1990 (21 U.S.C. 136a). This is referred to as the FACT Act and authorizes APHIS to collect user fees for AQI services provided at ports of entry into the United States. The FACT Act states that user fees should recover the full cost of providing and administering AQI services for specific conveyances and passengers including commercial vessels, commercial trucks, commercial railroad cars, commercial aircraft, and international passengers. To ensure that fee collections are recovering costs, adjustments have been made to the fees over time to cover routine increases in the cost of providing AQI services due to inflation, replacement of equipment, unforeseen events or certain policy decisions.

The most recent attempt to increase AQI fees in 2009 was attributed to the downturn of the U.S. economy, which led to a decrease in imports and travel and associated fee revenue. However, inspection services and level of effort during this downturn did not decrease and costs remained at current levels leading to a deficit between fee revenues and costs required to run the AQI program. The 2009 attempt to propose new fees was retracted and no new rule was published in the federal register. The last implemented rule is from 2004 and contains a fee schedule from FY2005-FY2010. In this document, the methodology used in the 2004 past fee-setting approach is described in detail.

Fees were raised in 2004 due to routine increases in providing AQI services and increased post-September 11<sup>th</sup> security concerns. After September 11<sup>th</sup>, the number of international passengers coming into the country fell dramatically and did not recover to previous levels. During the same timeframe, the number of inspections at ports of entry rose in order to address the additional security concerns. Increases in staff were met with decreases in travel/trade volume causing revenues to be lower than costs. To recover this increase in costs, APHIS proposed adjustments to existing fees. The methodology for calculating a new schedule is discussed in the following sections. The following steps were taken by APHIS to implement fees in FY2004:

- 1) Determine the Cost of the AQI Program
- 2) Project Costs for Future Years
- 3) Project Workload Volumes for Future Years
- 4) Determine Required Reserve Amount
- 5) Calculate User Fees

### 2.2 Determining the Cost of the AQI Program

When fees were first implemented for AQI in 1992, the agency established a set of accounting procedures to separate AQI-related costs from costs related to other APHIS programs. These costs included direct-charge costs and distributable costs. Breaking out cost this way allowed APHIS personnel to develop a total cost for the AQI program. According to APHIS, there is no official documentation on why certain costs were included or excluded in the first place for calculating the total cost of the AQI program. After FY1992, APHIS adjusted existing year AQI program costs to project and calculate new fees.

## Direct Charge Costs

The AQI accounting procedures used in previous fee setting exercises included separate codes to record costs related to AQI inspection activities. Examples of the “direct charge” costs used to calculate the FY2005-FY2010 fee schedule are salaries and benefits for inspectors, canine officers, supervisors, and clerical staff. Other costs included equipment used to support AQI services and any applicable contracts. Although CBP took over many direct functions from APHIS around this time, it appears that the accounting codes had not been updated before the FY2005-FY2010 fee schedule was released.

Since CBP has taken over many of the direct functions of the AQI program, the direct costs that are included in the current AQI accounting system include salary and benefit and other costs (travel, supplies, rent, and equipment) for different types of APHIS personnel who perform AQI-related functions. Primary activities performed by APHIS personnel include:

- Pest and plant disease identification and treatment services
- Issuing commodity and pest permits
- Investigations and enforcement
- Smuggling interdiction and trade compliance activities.

CBP now tracks its direct charge accounts for costs related to salaries and benefits for inspectors and canine officers, supervisors, and clerical staff as well as AQI-related equipment and contracts.

## Distributable Costs

For the FY2005-FY2010 fee schedule, APHIS identified other program delivery costs that were not considered direct. These “distributable” costs were performed at the state level or below and supported all APHIS work (not just AQI) and included utilities, rent, telephone, vehicles, office supplies, etc. The AQI user fee portion of these costs was identified by calculating the proportion of “direct charges” to total costs and then applying this proportion against the total distributable costs.

## Support Costs

APHIS included program direction and support costs from the regional, headquarter, and USDA levels. The AQI user fee portion of these costs was calculated by utilizing a standard overhead rate of 13.9% of gross total costs or 16.15% percent of net costs. This is the rate that has always been used by the agency to determine the amount that needs to be added to reimbursable AQI user fee charges.

## 2.3 Projecting Costs for Future Years

APHIS provided Grant Thornton with a spreadsheet that was used to determine the FY2005-FY2010 fee schedule. This spreadsheet is included in Appendix A. For the FY2005-FY2010 fee schedule, APHIS took total FY2004 costs and split them between APHIS and CBP based on a 59.4% - CBP, 40.6% APHIS split. This split was based on the transfer of staff years from APHIS to CBP in 2003. Each agency’s costs then had inflationary factors applied based on OMB economic assumptions. This factor was 1.5% for both pay increase and general inflation costs and was applied for all future years. The next step was to determine what the reserve component of the total costs should be. This amount was based on an estimate of the reserve (discussed further in Section 3) required to run the operations of the AQI program for 3 months or 25% of

the year. APHIS decided to build this reserve over three years, thus achieving the desired amount by FY2007. After the 3-month reserve level was reached, the fees would continue to contain a component designed to provide reserve funds. A reserve level of three to five months of operating costs is considered reasonable. APHIS planned to review the reserve level and make any needed adjustments to the user fees (up or down) to set the fee levels properly. To calculate the amount that needed to be added to the costs each year, APHIS 1) took 25% of estimated FY2007 costs, 2) subtracted the FY2004 year end reserve balance 3) added the projected reserve for the first quarter of FY2005 (when the new fees would not yet be in effect) and 4) divided this number by 3 to estimate the amount of reserve required per year from FY2005 – FY2007.

## 2.4 Distribution of Costs by Fee Category

After projecting the total costs for the AQI program for FY2005-FY2010, the next step was to distribute the total cost based on how much of these would be recovered by each fee category. Fee categories included international air passengers, commercial aircraft clearance, commercial vessels, commercial trucks, commercial truck decal, and railroad cars. APHIS split total costs by using historical percentages based on what the fee categories have recovered over time. Details of this can be found in Appendix A.

## 2.5 Projecting Volumes for each Fee Category

To establish the unit cost for each fee category, APHIS first needed to calculate the projected number of people/conveyances subject to inspection for each of the fee categories. This was done by analyzing actual volumes from past years and also taking into account factors that affected the volumes. An example of one of these factors was the decrease in air travel from the September 11<sup>th</sup> attacks. For the most part, volume estimates were based on the average percentage change of years past.

## 2.6 Calculation of User Fees

Once total costs and volumes were estimated for each fee category, the unit cost was calculated and a fee was determined. The unit cost calculation was the total cost of the AQI fee service divided by the number of passengers/conveyances subject to inspection in a given year. This resulted in a 'raw fee' that was rounded up to ensure that enough revenue was collected to maintain the reserve balance. To project revenue, APHIS multiplied the rounded user fee by the estimated volume for each applicable fiscal year.

### 3. Existing Process for Determining AQI Revenue and Reserve Projection

When determining a fee structure in the past, APHIS required reserve projections to identify the correct amount to charge for each fee schedule item. The reserve provides continuity of AQI services due to foreseeable and unforeseeable circumstances. If the agency wanted a larger reserve, a higher fee would need to be set and vice versa. In the past, a target reserve of 25% of the AQI program costs was established and a reserve-building component included in each user fee.

Once APHIS calculated the AQI program's cost, the agency could then identify its desired reserve (excess collection). Adding the reserve amount to program costs results in the estimated revenue APHIS expects to collect in a given fiscal year to cover costs and reserve. A basic example of this calculation is shown below and is based on notional numbers.

Total Costs FY ∞	25% Reserve Target	Expected Total Revenue
150 M	37.5 M	187.5 M

The reserve account is used to track excess collections over expenditures of the AQI program. Typically, the agency strives to keep a reserve equal to 3-5 months (approx. 25%) of operating expenses. The AQI reserve serves several purposes including the following:

- Cash Flow Balance:** This reserve account can help alleviate cash flow issues that may arise from delinquent fee remittance/insolvency by certain industries or from unexpected volume changes. A common example is if an airline does not pay its fees on time, the reserve account can be used to fill the gap in cash flow and keep the program afloat until payments are received. In addition, collections for international air passengers and aircraft clearance are due 31 days after the close of the quarter during which they were collected. This creates a lag in collections to cover costs CBP and APHIS incur.
- Capital Investments:** Excess fee collections provide monetary resources for capital investments. AQI may use the money to make strategic business purchases that will help benefit the program in future years. An example is renovating a plant inspection station or buying new equipment for identifiers.
- Emergency Funds:** Reserve account funds may be needed to support AQI work in the result of an emergency. Emergencies can include natural disasters, terrorist attacks, or any other instance that could cause an increase in workload for the AQI program or a sudden decrease in volumes and fees needed to fund operations.

APHIS monitors the reserve on a quarterly basis by comparing program costs (APHIS and CBP) to the amount of revenue collected. The difference between cost and revenue in a given quarter indicates whether the reserve has increased or decreased and by how much.

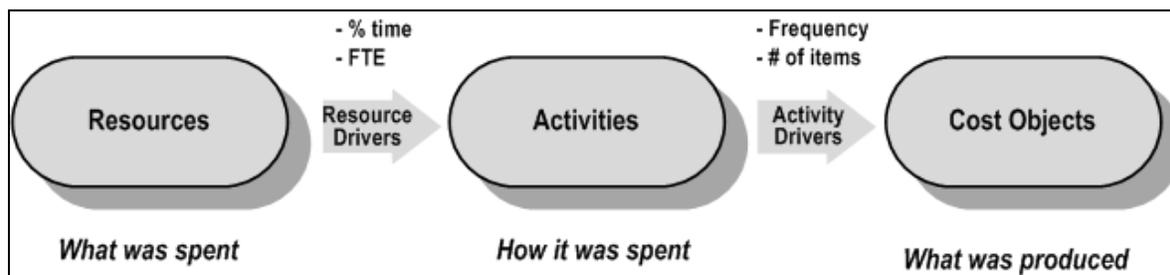
## 4. Fee Setting Recommendations

The methodology discussed above is APHIS' existing methodology for determining user fees used to successfully publish a rule in the Federal Register. The major issue with this methodology is that it does not take into account how AQI operational activities occur and what outputs they affect. For example, direct AQI costs identified by APHIS are based on how salary and benefit costs are recorded in the accounting system. This does not demonstrate what kind of work is being done, the output it contributes to, or the fee category where it should be recovered. Another issue is that the current fee setting process does not capture the full cost of the AQI program. Costs that have not been taken into account in past AQI fee-setting processes include imputed costs and depreciation. OMB Circular A-25 requires that all costs to the government be recovered fees, including imputed costs and depreciation.

We recommend that APHIS utilize the current AQI fee review, including activity-based costing (ABC), as the basis for future fee setting. ABC represents a different way of calculating AQI program costs compared to past practices, and will enable APHIS to more accurately project program costs, align costs with the appropriate fee services, and set new fees in the future. Grant Thornton has demonstrated this methodology for APHIS in the form of a sustainable AQI cost model that incorporates baseline (actual) costs and projected costs for future periods. An overview of our ABC methodology is below and details of the cost model can be found in a separate deliverable. In this section, we also discuss what APHIS needs to do to maintain the cost model and effectively set new fees in the future.

### 4.1 Overview of Activity Based Costing Methodology

The cost modeling effort included developing baseline cost information using FY2010 financial and workload data. The activity-based costing (ABC) methodology was used to determine the cost of AQI activities and outputs in support of the fee review. ABC supports the philosophy of full cost, complies with the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and other regulatory guidance regarding full cost, and provides the functional elements and data for cost and business process analysis.



**Figure 4-1**

ABC is a two-step methodology to assign an organization’s costs to its work activities and related outputs, as described below:

- Resources are an organization’s costs, such as salaries and benefits, rent, equipment, etc. Resources are assigned to activities, which describe the work that the people in an organization perform.
- In the first step, resource costs are assigned to activities using resource drivers, which typically represent a cause-and-effect relationship to establish “how much” of a resource is consumed by the activity. For example, if an organization spends 10% of its effort performing a particular activity, that activity will receive 10% of certain costs (e.g., salary and benefits) for which level of effort is a good indicator of resources consumed.
- The second step assigns these activity costs to the outputs produced in performing the activities. This cost assignment is done using activity drivers, again based on a cause-and-effect relationship. For example, if an activity is performed for more than one type of output, the cost of the activity is assigned to the outputs based on the workload data (volume) associated with each output.

The AQI cost model design is based on the ABC methodology but incorporates several more “layers” to provide more transparent cost assignment and reporting. This included identifying and costing outputs at a more detailed level to provide flexibility for restructuring the AQI fee schedule. In addition, expected future costs and workload were added to the baseline costs to estimate the total costs and workload for the period the new fees will be in place. The cost model, including future period costs and workload projections, is documented in detail in a separate deliverable.

## 4.2 Recommendations to Improve and Maintain the Fee Setting Process

The ABC methodology discussed above provides the basis for establishing the full cost of the AQI program. To identify full cost and effectively set appropriate fees, several improvement and maintenance factors should be considered. These factors are described below.

### 1. Include all costs required for full costing

The baseline AQI cost model contains all costs necessary to show the full cost of the AQI program. APHIS should include all costs from this model when deciding on a new fee schedule. OMB Circular A-25 and FASAB Statement #4, mandate that a specific set of costs be included when calculating the full cost of a government entity. Common examples of overlooked costs required for full cost are imputed costs, depreciation, and overhead/support costs. All of these costs are included in the baseline AQI cost model.

## 2. Maintain and/or modify aspects of the AQI cost model

As previously discussed, the baseline AQI cost model developed for the AQI fee review is inclusive of all costs necessary for calculating accurate user fees for the AQI program moving forward. It is imperative for APHIS to maintain and update the cost model with the appropriate information. Aspects of the cost model that would need to be updated and potentially modified are listed below:

- **APHIS and CBP Resource Costs:** These costs should be requested from both agencies. APHIS was able to provide this data out of its financial system. CBP provided resource cost information by activity from its cost model. The cost model documentation deliverable provides more detailed information regarding the specific data elements for APHIS and CBP resources.
- **APHIS and CBP Overhead Costs:** These costs should be requested from both agencies based on the parameters discussed in the baseline AQI cost model documentation. Specifically for APHIS, a new overhead rate has been calculated for the AQI program. It will be important for APHIS to review and potentially refresh this rate each time the cost model is updated. The overhead rate is provided in the cost model documentation deliverable.
- **APHIS and CBP Imputed Costs:** In the past, these costs have not been included for fee setting purposes but should be requested from both agencies based on how each was calculated for the baseline AQI cost model. Specifically for depreciation costs, APHIS should show a sub-account in the AQI reserve account that includes the portion of the reserve related to depreciation. This will provide greater transparency into capital cost recovery.
- **Future Period Costs:** In past fee setting exercises, APHIS has applied COLA and inflationary factors to the AQI program's estimated baseline cost to help project future year costs. This practice should continue under the new fee setting process. The AQI cost model can be adjusted to reflect changes in COLA/inflation and is discussed further in the cost model documentation. Grant Thornton has accounted for these increases when creating future year models for FY2011-FY2015. Additionally, when projecting future costs, APHIS should identify specific budget initiatives slated to begin or end during the period that the new fees will be in effect. These initiatives could increase or decrease costs.
- **APHIS Activity Survey:** The APHIS activity (labor) survey should be updated yearly to maintain an accurate representation of the work performed by APHIS personnel. At a minimum, the activity dictionary and survey percentages should be reviewed to see if any significant changes have occurred. As an alternative, to distributing a survey each year, APHIS could modify its time and attendance system to include the same activities that are captured by the survey and have employees enter time by activity. APHIS would then have real-time data for AQI-efforts throughout the agency. Additional activity survey modifications are represented under recommendation #4 in this section.
- **CBP Activity Costs:** These costs are pulled directly from CBP's existing cost model and CBP has confirmed that all costs used in the baseline cost model are directly related or support the AQI program. The cost model documentation provides the complete list of CBP activities included in the AQI cost model.
- **APHIS and CBP workload data:** The workload (output) data received from both agencies is considered to be reasonably accurate. There were instances where the same set of data was requested from two different people and Grant Thornton received two different sets of numbers. CBP and APHIS should make sure that queries for required data, especially workload data, are run

consistently within each agency. To project costs of the AQI program, APHIS will need to project future period workload. The agency should use reliable sources and analysis to estimate future workload instead of relying on past trends. These specific sources are discussed in the cost model documentation.

- **APHIS and CBP driver data:** Similar to workload data, driver data in the baseline AQI cost model is deemed accurate and usable but the queries used to pull this data should be constant across the board. On occasion, we received two different sets of data representing the same data request. An example of this involved the collection of PestID system data used to drive several activities in the baseline AQI cost model. Depending on how the data is queried, a user can get different results. It took several iterations before we were comfortable with the results of this system. APHIS should standardize and establish a validation process for its data queries.

Keeping the cost model and its components up to date will not only facilitate the future fee setting process but will also provide relevant information to management for decision making purposes.

APHIS should also develop a manual or checklist for updating the baseline AQI cost model. A manual can act as a guide and plan for updating the model each year and will help eliminate variation from one version to the next. The cost model documentation deliverable acts as a starting point for such a manual because it provides useful information on how the model was built and data sources/specifications.

### 3. Calculating and Depositing Imputed Costs

APHIS should set up a process to calculate and deposit Office of Personnel Management (OPM) and Department of Labor (DOL) imputed costs to Treasury. This is necessary because these costs are not paid from the AQI fund and thus should not be retained in the fund. Calculating the imputed costs to be deposited in Treasury can be done by using the AQI cost model to determine the portion of each fee service's unit cost related to OPM and DOL imputed costs (discussed in the AQI cost model documentation). The component unit costs would then be multiplied by the actual workload volumes (passengers, conveyances) processed to estimate the amount due to Treasury. If some caps stay in place, APHIS would need to determine the proportion of AQI program costs funded through appropriation and back out the OPM and DOL imputed costs associated with them. This could be done on a quarterly basis and APHIS would need to work with Treasury to clarify the details for depositing these funds.

### 4. Improve the APHIS Labor Survey and update the APHIS Activity Dictionary

While conducting the AQI fee review, an issue arose when the survey was distributed to APHIS field offices for completion. To ease the amount of effort required for filling out the survey, we included the number of AQI-related hours charged by each APHIS employee for FY2010. Several respondents disagreed with the amount of AQI-related hours for employees in their organizations. A number of organizations indicated these hours were inaccurate and did not reflect the amount of AQI work performed. In some cases they indicated the data reflected people who no longer worked in a given organization and/or did not include everyone that currently works there. This could be a result of a disconnection between the human resources, payroll, and financial systems. For example, when an employee moves from one state or program to another, this move may be updated in one system but not the other. The linkage between these systems needs to be examined before executing another labor survey.

An activity dictionary was developed for the APHIS AQI labor survey and was vetted by several APHIS personnel. Upon conducting the survey, several additional AQI-related activities were identified by the

respondents as not being included in the original dictionary, and these activities were added to the activity dictionary and the baseline cost model. These activities should be included in any additional survey conducted by the agency. Survey respondents also identified additional activities that are funded by AQI but are not considered AQI. The cost associated with these activities were included in the cost model but excluded from the amount to be recovered by fees. Any erroneous charges should be stopped immediately and should not be included in calculating the future total cost of the AQI program. The activity dictionary overall should be updated every few years as the work performed in the field and at headquarters will not vary dramatically in the short-term.

If an AQI labor survey is distributed again, APHIS should hold information sessions with survey respondents to eliminate any issues beforehand and convey to the field the importance of conducting such a survey. We did hold information sessions at the State Plant and Health Director (SPHD) level. The SPHDs were not the ones filling out the survey and several of the same issues and questions arose from respondents that had already been covered in the information session.

## 5. Identify inspection split between maritime cargo conveyances

For future iterations of the APHIS cost model, the agency should determine the cost of maritime cargo inspections between container, break-bulk, and bulk ships. The amount of effort required to inspect a container ship may be much greater than the effort required to inspect a bulk or break-bulk ship. We attempted to develop this cost information during the AQI fee review but not all of the required data was available.

In order to separate the costs amongst these types of ships, a two pronged approach needs to be taken. First, APHIS would need to be able to identify the number of container ships, break-bulk ships, and bulk ship subject to inspection entering the country in a given year. Secondly, the average amount of time required to inspect each type of each ship would need to be calculated. Alternatively, APHIS could develop factors to indicate the relative amount of time. For example, if a bulk cargo ship takes the shortest time, break bulk might take twice as long and container ships may take three times as long. These factors could be used as weightings to differentiate the costs of each type of vessel.

Currently, CBP only collects information about the number of containers that enter the country but not container ships. We recommend that CBP and APHIS work together to identify the total number of each type of ship that enter the country.

## 6. Identify split between conducting and monitoring treatments

Similar to identifying the split between maritime cargo conveyances, it could be useful for APHIS to determine the difference in cost between performing a treatment and monitoring a treatment. We attempted to develop this cost information during the fee review but APHIS subject matter experts were not comfortable trying to estimate the difference in level of effort. APHIS would need to identify the number of each type and the average amount of time it takes to perform or conduct the treatment. These numbers could then be used to calculate the cost difference between conducting and monitoring treatments.

## 7. Review the APHIS/CBP allocation each year

In the past, AQI has used a pre-designated percentage to calculate the revenue allocation between APHIS and CBP. This allocation between the agencies should be based on actual or projected costs for each agency and

the allocation should be reexamined each year. The fee schedule alternatives, developed as a separate deliverable, include the associated APHIS/CBP allocation for each alternative based on projected costs.

## 8. Monitor the reserve balance

Maintaining a reserve balance for the AQI fee program is important for covering any unforeseen costs, capital investments, cash flow imbalances due to volume changes or carrier insolvency, and any uncollectable debts. We developed a formula for calculating the total reserve accumulated for each year and the number of days of operational costs it will cover for each fee schedule alternative. This calculation separately accounts for the total cost of the program and then shows excess revenue. In the past APHIS has included its reserve requirement when determining the unit cost of a fee schedule item. This is inaccurate because the reserve is considered an excess collection and should not be included when calculating unit costs.

Also, when conducting the next fee review, APHIS will need to consider the state of the reserve and determine how much additional reserve may be needed. If the reserve is stable and at the desired level, the new fees may not need to include significant adjustments for additional reserve.

Details on the reserve calculation can be found in the fee setting alternatives deliverable.

## 9. Understand the effects of fee caps

We analyzed the impact of the fee caps on the AQI program, which is provided in a separate deliverable for assessing the fee schedule and identifying alternatives. We were able to identify the amount of revenue lost for each type of cap. For trucks, we were also able to identify how many times, on average, a truck with a transponder crossed the border in a given year. However, this information was not available for other types of conveyances because they do not use transponders. Also, while we were able to calculate the average number of crossings for trucks with transponders, we were not able to determine the distribution around the average. Consequently, we could not determine the portion of trucks that are above and below the average. This is an important issue when considering how to set a fee for truck transponders. If the transponder price were increased from 20 times to 40 times the individual truck fee, some number of trucks would discontinue use of transponders. However without knowing the distribution around the average, it is not possible to estimate how much this will change with a given increase in the transponder fee. It would be useful if APHIS was able to understand the average number of crossings for each type of cargo conveyance and the distribution of these crossing around the mean. For any conveyance where a cap will still be in place, APHIS would need access to data to determine the average and distribution for each conveyance type.

## 5. Other Observations

Section 4 provided recommendations for improving and standardizing fee setting practices. This section includes some general observations and recommendations based on our visits to ports and discussions with APHIS and CBP staff and subject matter experts.

### 1. AQI data standards

When conducting the fee study and shift analysis of the AQI program, we identified an inconsistency in the way data is collected in the Eastern and Western regions. For pest identification, ports in the Eastern Region use a spreadsheet called the Q-log that tracks additional details about pest interceptions, submissions, and identifications. The Q-log does not exist in the Western Region which limits how the data can be analyzed across the AQI program. Other instances exist where a port may be collecting information that no one else in the country is collecting. This was seen at Miami where local spreadsheets or databases are used to track the time of day that fumigations occur. This data collection technique is useful for Miami and could potentially be useful for comparing other ports. APHIS should identify other examples of local “cuff” data records and see if the data should be used elsewhere.

In addition, we noted inconsistencies in how data is entered by CBP at the ports. For example, a CBP agriculture specialist may find a pest and fill out a Pest ID (Form 309) entry and only enter information into required fields. Another agriculture specialist may find a pest and enter information into required and optional fields. One of these optional fields is the type of conveyance on which the pest was found and is required for populating the baseline AQI cost model. Considering this field optional left a number of Pest ID forms labeled as ‘Other’ instead of labeled by a specific type of conveyance. APHIS was eventually able to identify how these ‘Other’ forms should be categorized but the process took an extended period of time. APHIS should standardize how information is recorded in its national systems.

### 2. Continue to collect data and streamline data entry process

APHIS and CBP do a commendable job of collecting data on a daily basis. The plethora and usefulness of data expedited the completion of the baseline AQI cost model. The two agencies should continue to collect data but should consider integrating the data entry process for entering similar data elements into multiple system. Currently, data entry may be duplicative and can result in additional work or data inconsistencies. This time could otherwise be spent performing inspections or identifications critical to achieving the AQI mission. An example of duplicative data entry was seen at the Los Angeles Airport in passenger operations. CBP Agriculture Specialists must fill out Form 277 which is issued to record the number of referrals and quarantine actions taken from passenger/crew baggage items at airports. Data from this form must then be entered monthly into the WADS database.

### 3. Improved communication between agencies

Since DHS took over the inspection work of the AQI program, there has been a lack of communication between CBP and APHIS. This communication issue affects both agencies and may be hurting the effectiveness of each agency in carrying out the AQI program. Ideas to improve the overall mission of the program may be lost or data that could be useful to one agency may never be seen by the other. We also

heard of cases where CBP and APHIS do not communicate directly at the port level, but instead go through their respective headquarters organizations to communicate information and issues. This is inefficient and results in delays to complete clearance of cargo for fee payers.

Improved communication is required to run the program more efficiently. APHIS and CBP should consider having more frequent meetings and/or establish other forms of communication to share knowledge and information and devise a plan to accomplish this. This will become a larger issue because as more CBP agriculture specialist journeymen begin to leave CBP, the greater the gap between the two agencies may become. A number of APHIS and CBP personnel know each other because they worked together when the entire AQI program was within APHIS. As more senior APHIS and CBP personnel retire, there will be fewer professional relationships that can help with communications.

#### **4. Outreach to stakeholders**

A common observation through the project is that stakeholders may not understand what APHIS does for the AQI program. They understand that CBP inspects their cargo and what agriculture specialists do, but may not understand why APHIS has an involvement in overseeing the program or many not even know that APHIS has any involvement at all. Although there is a one-face-at-the-border initiative at CBP, APHIS still needs to convey its role in the program to various stakeholders. This is important because APHIS has overall responsibility for the AQI program and is also responsible for key activities such as pest identification and treatment, as well as issuing a rule that affects user fees and import requirements. We also recognize that APHIS is working to address this issue as part of the AQI outreach program being conducted by APHIS and CBP.

## Appendix A: Existing Fee Setting Process

The screenshots that follow represent the process used to calculate the FY2005-FY2010 fee schedule.

### Proposed budget

AQI USER FEES							
Status Quo with inflation only, no Canadian costs/volumes and no vessel passenger fees							
Prepared: September 9, 2004							
<b>Proposed Budgets</b>							
<b>BASIS FOR CALCULATING FUNDING NEED:</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
<b>PROGRAM COSTS:</b>							
APHIS PROGRAM NEEDS:	\$133,000,000	\$134,995,000	\$137,019,925	\$139,075,224	\$141,161,352	\$143,278,773	\$145,427,954
DHS PROGRAM NEEDS:	<u>\$194,000,000</u>	<u>\$196,910,000</u>	<u>\$199,863,650</u>	<u>\$202,861,605</u>	<u>\$205,904,529</u>	<u>\$208,993,097</u>	<u>\$212,127,993</u>
TOTAL PROGRAM COSTS:	\$327,000,000	\$331,905,000	\$336,883,575	\$341,936,829	\$347,065,881	\$352,271,869	\$357,555,947
RESERVE COMPONENT:		<u>\$23,733,753</u>	<u>\$23,733,753</u>	<u>\$23,733,753</u>	<u>\$23,733,753</u>	<u>\$23,733,753</u>	<u>\$23,733,753</u>
<b>TOTAL COSTS</b>		<u><b>\$355,638,753</b></u>	<u><b>\$360,617,328</b></u>	<u><b>\$365,670,582</b></u>	<u><b>\$370,799,634</b></u>	<u><b>\$376,005,622</b></u>	<u><b>\$381,289,700</b></u>
<b>The following information is used to add inflation to our costs for the outyears:</b>							
APHIS OTHER COSTS - GDP @ 1.5 % 20 % of all other costs	\$399,000	\$404,985	\$411,060	\$417,226	\$423,484	\$429,836	\$436,284
APHIS EMPLOYEE COSTS - COLA @ 1.5 % 80 percent of personnel costs	\$1,596,000	\$1,619,940	\$1,644,239	\$1,668,903	\$1,693,936	\$1,719,345	\$1,745,135
DHS OTHER COSTS - GDP @ 1.5 % 20 % of all other costs	\$582,000	\$590,730	\$599,591	\$608,585	\$617,714	\$626,979	\$636,384
DHS EMPLOYEE COSTS - COLA @ 1.5 % 80 percent of personnel costs	\$2,328,000	\$2,362,920	\$2,398,364	\$2,434,339	\$2,470,854	\$2,507,917	\$2,545,536
<b>Reserve Calculation:</b>							
(a) Reserve to build to = 25% of total program costs at the end of FY'07				\$85,484,207			
(b) Projected reserve amount at the end of FY'04 (Per Noah Chart Dated 5-21-04)				\$19,759,968			
(c) Amount for the first quarter of FY'05 for which the fees will not be effective		\$5,477,020 *					
Reserve Amount to be built into the fees each fiscal year				<b>\$23,733,753</b>			
* This calculated amount equals 25% of the yearly amount calculated as if the fees were implemented at the start of FY'05./kc							

## Distribution of costs amongst conveyance types for future periods

AQI USER FEES							
Status Quo with inflation only, no Canadian costs/volumes and no vessel passenger fees							
Prepared: September 9, 2004							
<b>Cost Distribution</b>							
	Distribution						
<u>User Fee Category</u>	<u>Percentages</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
International Air Passenger	82.694100%	294,092,266	298,209,254	302,387,996	306,629,420	310,934,465	315,304,086
Commercial Aircraft Clearance	8.390000%	29,838,091	30,255,794	30,679,762	31,110,089	31,546,872	31,990,206
Commercial Vessels	7.040000%	25,036,968	25,387,460	25,743,209	26,104,294	26,470,796	26,842,795
Commercial Trucks	0.810000%	2,880,674	2,921,000	2,961,932	3,003,477	3,045,646	3,088,447
Commercial Truck Decal	0.686900%	2,442,883	2,477,080	2,511,791	2,547,023	2,582,783	2,619,079
Railroad Cars	0.379000%	1,347,871	1,366,740	1,385,892	1,405,331	1,425,061	1,445,088
Total to be Distributed	<u>100.000000%</u>	<u>\$355,638,753</u>	<u>\$360,617,328</u>	<u>\$365,670,582</u>	<u>\$370,799,634</u>	<u>\$376,005,622</u>	<u>\$381,289,700</u>

## Project volume calculations

AQI USER FEES							
Status Quo with inflation only, no Canadian costs/volumes and no vessel passenger fees							
Prepared: September 9, 2004							
<b>Cost Distribution</b>							
	Distribution						
<u>User Fee Category</u>	<u>Percentages</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
International Air Passenger	82.694100%	294,092,266	298,209,254	302,387,996	306,629,420	310,934,465	315,304,086
Commercial Aircraft Clearance	8.390000%	29,838,091	30,255,794	30,679,762	31,110,089	31,546,872	31,990,206
Commercial Vessels	7.040000%	25,036,968	25,387,460	25,743,209	26,104,294	26,470,796	26,842,795
Commercial Trucks	0.810000%	2,880,674	2,921,000	2,961,932	3,003,477	3,045,646	3,088,447
Commercial Truck Decal	0.686900%	2,442,883	2,477,080	2,511,791	2,547,023	2,582,783	2,619,079
Railroad Cars	0.379000%	1,347,871	1,366,740	1,385,892	1,405,331	1,425,061	1,445,088
Total to be Distributed	<u>100.000000%</u>	<u>\$355,638,753</u>	<u>\$360,617,328</u>	<u>\$365,670,582</u>	<u>\$370,799,634</u>	<u>\$376,005,622</u>	<u>\$381,289,700</u>

## Project revenue calculations

AQI USER FEES							
Status Quo with inflation only, no Canadian costs/volumes and no vessel passenger fees							
Prepared: September 9, 2004							
<b>Projected Revenue Using Rounded Fees</b>							
	Current	Projected	Projected	Projected	Projected	Projected	Projected
User Fee Type	Fees	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
		FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
International Air Passengers	\$182,119,315	\$294,234,902	\$300,714,014	\$304,262,439	\$307,852,736	\$311,485,398	\$315,160,926
Commercial Aircraft Clearance	\$27,502,418	\$29,852,663	\$30,312,799	\$30,779,638	\$31,142,838	\$31,622,062	\$31,995,202
Commercial Vessel	\$24,508,864	\$25,037,296	\$25,391,733	\$25,750,756	\$26,114,420	\$26,482,782	\$26,855,899
Commercial Trucks	\$2,725,360	\$2,884,574	\$3,045,457	\$3,062,202	\$3,079,040	\$3,095,970	\$3,112,993
Commercial Truck Decals	\$2,297,860	\$2,442,988	\$2,590,789	\$2,616,697	\$2,642,864	\$2,669,292	\$2,695,985
Loaded Railroad Cars	\$1,241,625	\$1,348,220	\$1,366,369	\$1,430,921	\$1,450,183	\$1,469,705	\$1,489,489
<b>Totals</b>	<b>\$240,395,441</b>	<b>\$355,800,644</b>	<b>\$363,421,162</b>	<b>\$367,902,653</b>	<b>\$372,282,080</b>	<b>\$376,825,209</b>	<b>\$381,310,495</b>
<b>Estimated Revenue in FY'05 if the Fees are Not Increased:</b>							
	Projected						
	Revenue						
<b>User Fee Type</b>	<b>FY 05</b>						
International Air Passengers	\$184,268,323						
Commercial Aircraft Clearance	\$27,826,947						
Commercial Vessel	\$24,753,952						
Commercial Trucks	\$2,740,345						
Commercial Truck Decals	\$2,320,839						
Loaded Railroad Cars	\$1,258,339						
<b>Totals</b>	<b>\$243,168,744</b>						



## Effective Dates for Fees

<b>Estimated AQI User Fee Collections - Based on Emergency Rule</b>			
<u>If the Revised Fees Are Effective December 1, 2005:</u>			
Estimated Fee Collections for FY'05	\$	313,800,376	
AQI Program Costs	\$	<u>331,905,000</u>	
Shortage	\$	(18,104,624)	
FY'05 Beginning Reserve	\$	<u>19,759,968</u>	
FY'05 Estimated Reserve at End of Year	\$	<u>1,655,344</u>	
5 months / 12 months			41.67%
7 months / 12 months			<u>58.33%</u>
			100.00%