

November 2009

## BUDGET ISSUES

# Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure Is Needed



GAO

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Highlights of [GAO-10-11](#), a report to congressional requesters

## Why GAO Did This Study

The Department of the Treasury's Financial Management Service (FMS) collections program provides services to agencies to collect, deposit, and account for collections through a variety of methods. Electronic collection methods can reduce government borrowing costs and agency administrative costs, while improving compliance and security. GAO was asked to identify (1) the extent to which agencies other than IRS use various collection methods, (2) ways to maximize the benefits of and overcome any barriers to agency use of the various collection methods, and (3) issues that FMS should consider in its plans to improve the efficiency and security of collections. GAO analyzed collections data, plans, and documents from FMS and five case-study agencies in the Departments of the Interior and Commerce that use a variety of collection methods, observed fee collection methods, and interviewed FMS and case-study agency officials. GAO also interviewed selected payer groups for case study agencies.

## What GAO Recommends

GAO is making recommendations to the Secretary of the Treasury to facilitate transition to more cost-effective collection methods and to the Secretaries of the Interior and Commerce to consider all collection costs, including FMS's, as available, in managing their programs. All three agencies generally agreed with GAO's findings and recommendations.

[View GAO-10-11 or key components.](#)

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## BUDGET ISSUES

### Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure Is Needed

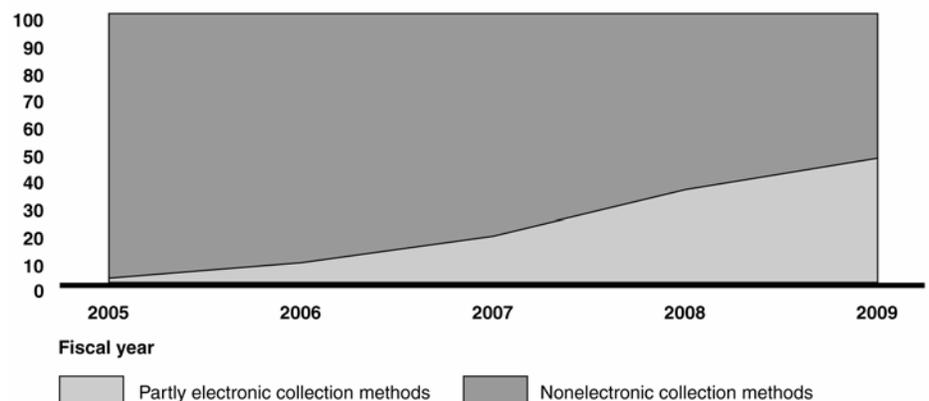
#### What GAO Found

Over the past 5 years, more than 80 percent of funds collected by agencies other than the Internal Revenue Service (IRS) were collected using fully electronic methods, including wire transfers and credit cards. As shown in the figure below, from fiscal year 2005 through 2009 there was a significant shift from nonelectronic collection methods to partly electronic methods. This shift was largely a result of a growth in electronic check-processing capacity.

Moving to electronic collection methods can reduce costs and mitigate risks, such as theft, but the specific circumstances of individual agencies and payers have affected agencies' ability to fully adopt these methods. Use of electronic methods can result in cost savings, increased processing speed and accuracy, and improved security of staff and deposits. Specifically, FMS reports that on average the government saves 78 cents for each electronic transaction. Additionally, case-study agencies and payer groups GAO spoke with reported reduced costs when using electronic collection methods. Despite the advantages, payer characteristics, other agency considerations, and set-up costs or required system changes have limited agencies' adoption of electronic collection methods. Also, agencies may not have enough information to make cost-effective decisions about their choice of collection method.

FMS is implementing a plan to improve the efficiency and effectiveness of federal collections, but the plan excludes important cost considerations and does not use all available incentives. Specifically, the plan does not consider the cost differences among different electronic methods or ensure the consistent application of policies on reimbursement for certain services. The FMS plan also does not include a strategy for incorporating key lessons-learned from agency reviews into its guidance and communicating that information to agencies. With such information, agencies not scheduled for review until later years could begin to transition to more efficient methods.

Growth in Use of Partly Electronic Collection Methods, Fiscal Years 2005-2009  
Percent



Source: GAO analysis of FMS data.

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## Abbreviations

ACH PAD	automated clearing house pre-authorized debits
CCC	Commodity Credit Corporation
ECP	electronic check processing
FMS	Financial Management Service
FRB	Federal Reserve Bank
IOAA	Independent Offices Appropriation Act of 1952
IRS	Internal Revenue Service
ITGA	International Treasury General Account
MMS	Minerals Management Service
NESDIS	National Environmental Satellite, Data, and Information Service
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPS	National Park Service
OMB	Office of Management and Budget
PCC	paper check conversion
TGA	Treasury General Account
Treasury	Department of the Treasury
USGS	U.S. Geological Survey
USPTO	United States Patent and Trademark Office

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United States Government Accountability Office  
Washington, DC 20548

November 20, 2009

The Honorable Richard J. Durbin  
Chairman  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate

The Honorable José E. Serrano  
Chairman  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
House of Representatives

The Department of the Treasury's (Treasury) Financial Management Service (FMS) collected almost \$509 billion in funds received by agencies other than the Internal Revenue Service (non-IRS collections) in fiscal year 2009. In prior work we found that the method used to collect payments can affect compliance with payment requirements as well as administrative costs for both agencies and fee payers.<sup>1</sup> Although certain FMS collections services can reduce government borrowing costs, reduce agency/payer administrative costs, and improve the security of collections, some agencies do not use these services for collections, relying instead on agency deposit of paper-based collections. As a result we reported there were delays between the time payments were received and the time they were deposited into the Treasury, thus increasing government borrowing costs.<sup>2</sup>

This report responds to your request that we examine opportunities to improve the efficiency of federal collections governmentwide. Specifically, we examined (1) the extent to which agencies other than IRS use collection methods in FMS's collections program, (2) how FMS and these agencies can maximize the benefits of and overcome any barriers to use of the various collection methods, and (3) issues FMS should consider as it

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<sup>1</sup>See GAO, *Federal User Fees: A Design Guide*, [GAO-08-386SP](#) (Washington, D.C.: May 29, 2008).

<sup>2</sup>See GAO, *Federal User Fees: Additional Analyses and Timely Reviews Could Improve Immigration and Naturalization User Fee Design and USCIS Operations*, [GAO-09-180](#) (Washington, D.C.: Jan. 23, 2009).

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implements its plans for improving the efficiency and security of these collections. As agreed with your offices, we did not review IRS collections. Also excluded from the review are collections of the Commodity Credit Corporation (CCC), a federal corporation within the U.S. Department of Agriculture.<sup>3</sup>

To assess the extent to which agencies use various collection methods, we analyzed FMS data on collections received by agencies other than IRS for fiscal years 2005 through 2009, by collection method.<sup>4</sup> We reviewed FMS guidance and interviewed FMS officials to gather operational information on each collection method and understand why use of the various collection methods changed over time. To identify ways FMS and selected agencies can maximize the benefits of and overcome any barriers to the use of collection methods, we conducted case-study reviews of five agencies within two departments: the Minerals Management Service (MMS), the National Park Service (NPS), and the U.S. Geological Survey (USGS) in the Department of the Interior; and the United States Patent and Trademark Office (USPTO) and the National Oceanic and Atmospheric Administration (NOAA) in the Department of Commerce. The case-study agencies selected permitted us to cover the variety of collection methods and payer characteristics, however the findings cannot be generalized across the government. For each case-study agency, we analyzed collections data; observed agency collection processes; reviewed relevant legislation, regulations, agency guidance, and audit reports; and interviewed agency officials. We also reviewed FMS regulations and guidance, analyzed FMS data related to the costs and benefits of the various collection methods, and interviewed FMS officials. We also met with four payer groups identified by case-study agencies to gain an understanding of the effects of the shift to electronic collections on payers. These payer groups were trade organizations, one private-sector company, and representatives from state governments. To identify the issues FMS should consider in implementing its plans for improving the efficiency and security of collections, we reviewed legislation and FMS plans and agency agreements, applied relevant findings from our case

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<sup>3</sup>According to FMS officials, CCC does not use the FMS collections program in the same way as other agencies. CCC uses its own network of banks to process collections (generally loan repayments), which totaled over \$4 billion in fiscal year 2009. For the purposes of this report, non-IRS collections also exclude CCC collections.

<sup>4</sup>The almost \$509 billion of non-IRS collections was about 18 percent of the \$2.9 trillion collected through FMS's collections program in fiscal year 2009.

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studies, and interviewed FMS and case-study agency officials. We assessed the reliability of the data we used for this review and determined that they were sufficiently reliable for our purposes. Appendix I provides additional details about the scope and methodology of our review.

We conducted this performance audit from October 2008 through November 2009 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

As the government's financial manager, FMS establishes and implements collections policies, regulations, standards, and procedures for the federal government.<sup>5</sup> Through its collections program, FMS also provides services to federal agencies to collect, deposit, and account for federal collections.<sup>6</sup> Its collections program provides a means for individuals and organizations, including businesses, state and local governments, and nonprofit organizations, to remit funds such as taxes, duties, fees, sales, leases, and loan repayments to the government. FMS offers a range of fully electronic, partly electronic,<sup>7</sup> and nonelectronic collection methods (see table 1 and fig. 1).

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<sup>5</sup>The Secretary of the Treasury has authority to designate fiscal agents and depositories of the U.S. government and to promulgate regulations implementing that authority. See 12 U.S.C. § 90. FMS implements Treasury regulations pertaining to the designation of such fiscal agents and depositories. See 31 C.F.R. Pt. 202.

<sup>6</sup>The FMS collections program is a centralized, consolidated governmentwide service with one national infrastructure operated by a network of commercial financial institutions and Federal Reserve Banks designated by FMS.

<sup>7</sup>FMS tracks collections in two categories: (1) electronic methods and (2) nonelectronic methods.

**Table 1: Federal Collection Methods**

Collection type	Collection method	Description
Fully electronic	Wire transfers	<b>Fedwire:</b> The payer initiates a real-time transfer of funds from its bank to the Treasury's account in the Federal Reserve Bank (FRB).
	Automated clearing house (ACH) transfers <sup>a</sup>	<b>ACH Remittance Express:</b> The payer electronically sends an ACH credit through its financial institution to a unique routing number at the FRB.
		<b>ACH pre-authorized debits (ACH PAD):</b> An electronic transfer of funds from the payer's bank through the ACH network to the Treasury's account, authorized in advance by the payer.
		<b>Lockbox ACH:</b> The payer sends payment information to a designated lockbox bank through its financial institution. The lockbox bank then deposits funds into the Treasury's account using the payer's financial information.
	Credit or debit cards <sup>a</sup>	<b>Credit/debit card:</b> Agencies collect credit or debit card payments through a Web interface, at the point of sale, or by mail, phone, or fax and transmit the data through a designated financial agent, which transfers the funds to the Treasury's account.
Partly electronic	Electronic check processing	<b>Agency paper check conversion (PCC):</b> Agencies collect paper checks over-the-counter at the point of sale or by mail, which are then converted on site to an electronic transaction or substitute check <sup>b</sup> and deposited into the Treasury's account.
		<b>Lockbox<sup>c</sup> electronic check processing (ECP):</b> Paper checks received through the general lockbox network are converted into an electronic transaction or substitute check for deposit into the Treasury's account.
Nonelectronic	Paper checks and cash	<b>Federal Reserve Bank deposits:</b> Checks and cash received by the agency are mailed or taken by courier or armored car to the nearest FRB for deposit to the Treasury's account.
		<b>Treasury General Account (TGA) and International Treasury General Account (ITGA) deposits:</b> Agencies collect cash and checks and deposit them at a local TGA bank (if domestic) or an ITGA bank (if international). The bank then transfers the funds to the Treasury's account.
		<b>Lockbox<sup>c</sup> General:</b> Paper checks are mailed to a post office box designated by the collecting agency and FMS, where they are picked up by a courier and delivered to a lockbox bank, and then processed and deposited into the Treasury's account.

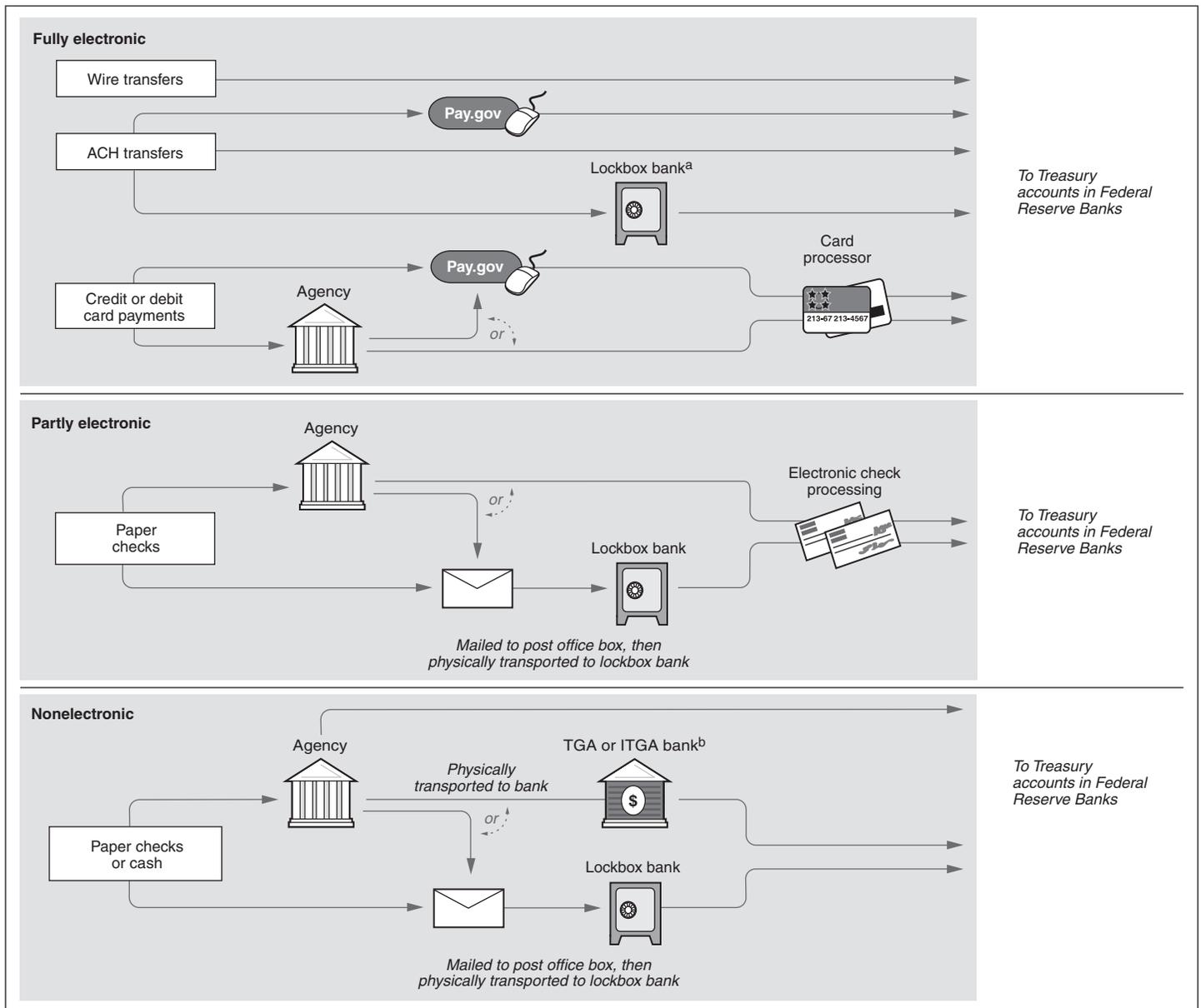
Source: GAO analysis of FMS information.

<sup>a</sup>Pay.gov, FMS's Web-based, governmentwide collections portal, processes collections made by ACH transfer and credit card.

<sup>b</sup>A substitute check is a paper copy of an image of the front and back of the original check.

<sup>c</sup>FMS enters into lockbox service agreements with commercial banks to collect certain payments on behalf of federal agencies. FMS uses two lockbox networks: the general network for all payments except federal taxes and the Internal Revenue Service (IRS) lockbox network for federal tax payments. The banks establish post office boxes and electronic accounts to receive payments.

**Figure 1: Collection Methods Flowchart**



Source: GAO analysis of FMS information.

<sup>a</sup>A few lockbox accounts also accept and process payments by wire transfer, credit/debit cards, or both.

<sup>b</sup>Some TGA and ITGA banks process checks using electronic check processing.

The agencies we examined for our case studies use a variety of these collection methods (see table 2).

**Table 2: Case-Study Agency Collections—Percent of Dollars Collected, by Collection Method, Fiscal Year 2008**

Agency	Collections	Fully electronic collection methods			Partly electronic collection methods	Nonelectronic collection methods
		Wire transfers	ACH transfers	Credit/debit cards	Electronic check processing	Paper checks and cash
Minerals Management Service (MMS)	Rents, royalties, lease sales, other cost recovery services and payments	93	5	< 1	0	2
National Park Service (NPS)	Recreation, special park use, concessions, and commercial use fees; other reimbursables	14	13	12	0	61
U.S. Geological Survey (USGS)	Payments for cooperative water programs, reimbursable programs, product sales	2	0	5	73	21
U.S. Patent and Trademark Office (USPTO)	Patent fees, trademark fees	28	15	24	9	24
National Oceanic and Atmospheric Administration (NOAA)	Data sales, inspection fees, permit fees, civil monetary penalties, other reimbursables	8	9	4	45	35

Source: GAO analysis of FMS data and agency information.

Note: Totals do not always sum to 100 because of rounding.

FMS manages the services through which all federal collections are deposited in the Treasury and strives to minimize the time between when funds are collected and when they are deposited in the Treasury. Treasury regulations state that when it is cost effective, practicable, and consistent with current statutory authority, electronic transfers of funds are the optimal method for federal collections, especially when fees are recurring or of large dollar amounts.<sup>8</sup> Accordingly, FMS may require an agency wishing to use a collection method other than electronic transfer to provide a cost-benefit analysis to justify this selection. In past work, we highlighted the benefits of electronic collection processing. Specifically, we reported that electronic collections provide better accuracy, lower

<sup>8</sup>31 C.F.R. § 206.4(a).

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mailing and processing costs, and fewer delinquencies and defaults.<sup>9</sup> When the Federal Reserve moved to electronic conversions of paper checks, work hours spent on check processing decreased by almost half and transportation costs associated with check processing decreased by about 11 percent. In recent years FMS has made it a priority to increase the use of electronic collection methods and reduce collection costs.<sup>10</sup> FMS has begun an initiative, called the Holistic Approach, to further these goals.

Selection of the best collection mechanism is a joint responsibility of agencies and FMS.<sup>11</sup> Agencies have responsibility for working with FMS to conduct cash-management reviews, gathering volume and dollar data relative to the operation of the systems, and funding any implementation and operational costs above those normally funded by Treasury. FMS provides guidance to agencies in its Treasury Financial Manual regarding the selection and cost-effective use of collection mechanisms. Agencies must provide FMS with a recommended mechanism for any new or modified cash flows. FMS reviews the recommendations, approves a mechanism, and assists with implementation.

FMS's oversight of federal agencies' cash-management activities includes review of collections.<sup>12</sup> FMS uses findings from such reviews to develop initiatives to improve an agency's collections and set and monitor dates by which the agency must implement changes. Moreover, FMS may charge agencies that do not meet the implementation deadlines for the amount of interest savings that would have been realized by timely implementation.<sup>13</sup>

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<sup>9</sup>GAO, *Tax Administration: Increasing EFT Usage for Installment Agreements Could Benefit IRS*, GAO/GGD-98-112 (Washington, D.C.: June 10, 1998). Specific to governmentwide efforts to transition to electronic conversions of paper checks, we reported that the efforts had not yet resulted in economic efficiencies, but that officials expected greater efficiencies in the future. See GAO, *Check 21 Act: Most Consumers Have Accepted and Banks Are Progressing Toward Full Adoption of Check Truncation*, GAO-09-8 (Washington, D.C.: Oct. 28, 2008).

<sup>10</sup>Treasury's fiscal year 2009 budget justification outlines several performance goals for the collections program, such as the unit cost to process a collection transaction and the percent of the dollar amount of receipts collected electronically. These goals were reiterated in Treasury's fiscal year 2010 budget justification.

<sup>11</sup>31 C.F.R. § 206.4(c).

<sup>12</sup>31 C.F.R. § 206.6 (d); 1 TFM 6-8075.30.

<sup>13</sup>Any noncompliance charges are required by law to be deposited into the Cash Management Improvement Fund and are available to develop systems for the collection and timely deposit of federal funds. 31 U.S.C. § 3720(a). According to FMS officials, to date Treasury has not imposed any such charges.

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According to Treasury regulations, when funds are not collected electronically, agencies generally must deposit funds into the Treasury or a designated depository on the day of receipt.<sup>14</sup>

FMS's collections program is funded in part by permanent and indefinite appropriations for all financial agent (banking) services required or directed by Treasury.<sup>15</sup> In some cases federal agencies reimburse FMS for a part or all of these costs. For fiscal year 2009, FMS obligated \$568 million for banking services, an 8 percent increase over the \$528 million obligated in fiscal year 2008.<sup>16</sup> Fiscal year 2009 reimbursements for these banking services were \$92 million. Such reimbursements are deposited in the Treasury's general fund.

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## Use of Electronic Collection Methods Has Increased

Since 2005, agency use of collection methods has reflected FMS's increased focus on electronic payments. Fully electronic payments accounted for more than 80 percent of dollars collected by agencies other than IRS for fiscal years 2005 through 2009, with \$441 billion of the almost \$509 billion collected using fully electronic methods in fiscal year 2009. While the percentage of funds collected through nonelectronic methods in 2009 was low, it constituted over \$36 billion. Nor does it represent a similarly low percentage of transactions. For example, in fiscal year 2008, MMS's Minerals Revenue Management program collected over \$23 billion in federal rents and royalties from the public; while payments by check represented only 2 percent of the dollars collected, they represented 77 percent of the total number of its transactions.

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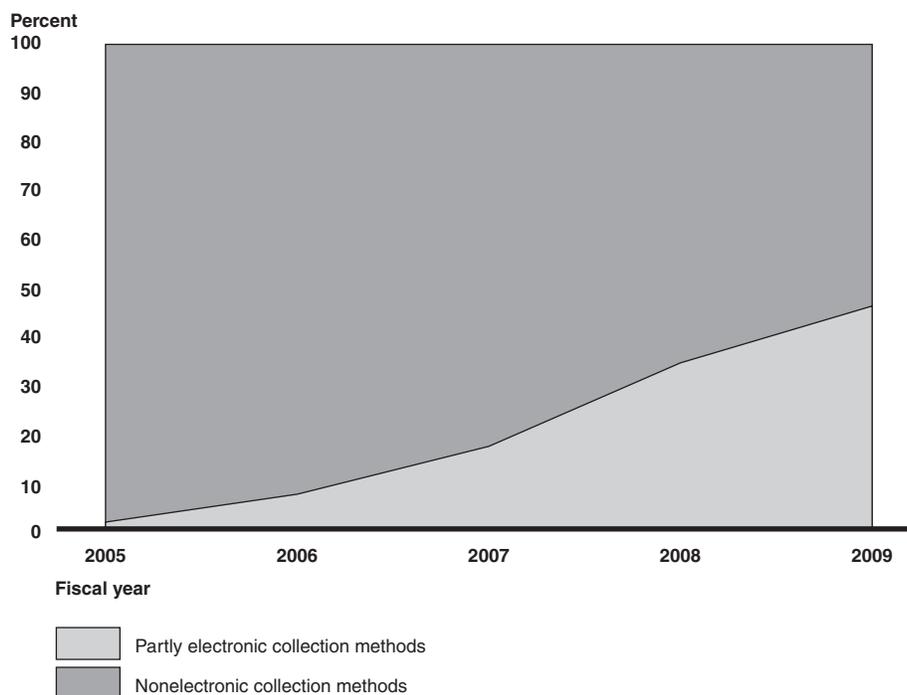
<sup>14</sup>31 C.F.R. § 206.5. Under federal law, federal officials in custody of public money must deposit it no later than the third day after receiving the money. 31 U.S.C. § 3302(c)(1). However, the Secretary of the Treasury is authorized by law to prescribe by regulation a different time frame than the one established by statute. 31 U.S.C. § 3302(c)(2).

<sup>15</sup>12 U.S.C. § 391a and 12 U.S.C. § 5018, note. Section 218 of the Transportation, Treasury, and Independent Agencies Appropriation Act, 2004, Pub. L. No. 108-199, Div. F, 118 Stat. 279, 321 (Jan. 23, 2004), established a permanent, indefinite appropriation for Treasury to reimburse financial institutions for depository and financial services. Before 2004, Treasury reimbursed banks for these services with compensating balances—noninterest-bearing balances deposited in banks to compensate them for collecting tax and nontax receipts. See GAO, *Debt Management: Backup Funding Options Would Enhance Treasury's Resilience to a Financial Market Disruption*, [GAO-06-1007](#) (Washington D.C.: Sept. 26, 2006).

<sup>16</sup>According to FMS, the increase was primarily related to lockbox collection services for passport and immigration programs as well as implementation of an enterprise architecture.

In fiscal year 2009, of the almost \$509 billion in non-IRS collections, about \$68 billion was collected as cash or checks and processed using either partly electronic or nonelectronic collection methods. As shown in figure 2, there was a significant shift from nonelectronic to partly electronic methods from 2005 to 2009. In 2005, partly electronic collection methods accounted for just under 2 percent of cash and check collections, but by 2009 this share had increased to over 46 percent. Given the significant process and cost differences between fully electronic and partly electronic collection methods, we distinguish between them in this analysis.

**Figure 2: Growth in Use of Partly Electronic Collection Methods by Agencies other than IRS, Fiscal Years 2005–2009**



Source: GAO analysis of FMS data.

Note: Consistent with FMS's data-collection methods, the chart represents dollars collected, not number of transactions. According to FMS officials, FMS does not have reliable data on the number of transactions for most collection methods but they plan to collect these data.

The data do not contain any dollars collected through methods designed for the IRS to collect taxes. IRS collections may be included in other categories if the agency or taxpayer used nontax methods to collect or pay fees. The data may contain taxes that are not collected by the IRS, such as customs excise taxes.

The growth in partly electronic payments largely represents a change in agency processes rather than in payer behavior: the shift is largely the

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result of a growth in electronic check processing capacity both at agencies and through lockbox banks. In fiscal year 2008 almost \$24 billion in collections settled as paper checks at lockbox banks, but in fiscal year 2009 less than \$2.4 billion was settled this way.<sup>17</sup> Conversely, collections through electronic check processing were about \$27 billion in fiscal year 2008, but were over \$31 billion in fiscal year 2009. FMS attributes this growth to a large marketing effort and new electronic check processing locations (according to FMS officials, 209 new locations—185 agency PCC and 24 lockbox ECP locations—were added in fiscal year 2009).

FMS plans to discontinue some current electronic collection methods and shift programs that use those methods to Pay.gov—a Web-based portal that processes collections made through ACH transfer and credit card—which will consolidate and simplify the number of collection methods available through FMS. FMS officials told us that they expect ACH pre-authorized debits will be phased out and replaced by Pay.gov by the end of calendar year 2009. In addition, FMS plans to shift most of the existing 32 lockbox ACH accounts to Pay.gov or other electronic collection methods, leaving only 2 such accounts in existence at the end of calendar year 2010. There are also plans to shift certain collections from nonelectronic methods to Pay.gov; for example, MMS is currently shifting its rent collections from paper checks to Pay.gov and, according to MMS officials, will continue to expand its use of Pay.gov in 2010.

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<sup>17</sup>According to FMS, as of August 2009, 99 percent of checks and dollars collected through lockbox banks are settled using electronic check processing. According to FMS officials, a few lockbox accounts have not converted to ECP either because the collection will soon move to a different collection method and the lockbox contract will end or because some aspect of the collection makes conversion to ECP exceptionally complicated.

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## Movement to Electronic Collection Methods Can Reduce Costs and Mitigate Some Risks, but Agency-Specific Circumstances Have Affected Adoption of These Methods

FMS, case-study agencies, and the payer groups we interviewed have identified a variety of cost savings stemming from the use of electronic collection methods. These savings stem from more efficient agency processing, expected lower future costs for system changes, the acceleration of deposits to the Treasury, and a lower administrative burden for payer groups. The shift to electronic methods has also mitigated some security and accuracy risks for agencies. Nevertheless, some organizations identified agency-specific circumstances that make full adoption of electronic collection methods less beneficial. These circumstances were determined by the characteristics of an agency's payer base, other agency considerations, and the initial system or equipment costs related to the transition.

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## Electronic Collection Methods Have Reduced FMS's, Agencies', and Customers' Costs

Officials from all five case-study agencies cited a decrease in current or estimated future costs resulting from the use of electronic collection methods but none of the agencies could fully quantify these savings.

- In some cases, agencies increased the efficiency of internal processing operations. For example, officials at USGS said their 2008 move from nonelectronic check processing to partly-electronic paper check conversion increased process efficiency. Specifically, according to officials in one USGS office that underwent the transition,<sup>18</sup> the change reduced the time it takes staff to process checks, thus freeing up staff to undertake additional tasks. This office disseminates USGS products such as maps and books and processes checks, credit card payments, and small amounts of cash from its sales. Prior to the transition, the nonelectronic check process required manual preparation of the deposit and a staff member to take the deposit to the bank each day. The new partly electronic process permits a Web-based deposit process and reduces the need to physically go to the bank.
- In another case, a decrease in agency processing costs has the potential to reduce the size of cost-recovery fees. A NOAA regional permit official said that an upcoming shift from using a lockbox bank to Pay.gov for its fee collections is expected to increase staff efficiency and reduce payment processing costs such as the office's mailing costs. If these cost savings are realized, the cost reductions may be passed along to the payers of the fee.

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<sup>18</sup>USGS's Central Region Geospatial Information Office in Denver, Colorado.

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- In addition, fully electronic collection methods may incorporate electronic submission of remittance data, enabling automatic transfers of payment and remittance data to the agency's accounting system. For example, to account for ACH transfers after funds are deposited in the Treasury, MMS prints out detailed payment information from FMS, matches payment information to the correct payer, and manually enters the detailed data into MMS's internal accounting system. MMS officials told us that they are planning to update their accounting software to make this process automatic. They also said they expect that the implementation of Pay.gov will be designed to automate this process and thus reduce costs.
  - In May 2008 USPTO shifted its credit card processing function to Pay.gov both to decrease current costs and avoid future system costs for the agency. Adopting Pay.gov enabled USPTO to discontinue the lease of a line to a credit card authorization provider, a monthly savings of about \$1,000. Agency officials also said they expect that costs associated with future agency system changes stemming from a change in the FMS credit card processor will be eliminated because Pay.gov will manage the transition. Potential exists for similar savings at other agencies; according to officials at NPS and USGS, they also incurred costs for system and equipment changes that were required after FMS changed its credit card processor.

Some payer groups also cited benefits of a shift towards electronic collection methods. Three of the four payer groups we spoke with reported that the increased use of electronic methods has improved efficiency and saved money for their organizations or members by reducing administrative time, costs, or both. For example, state government representatives agreed that for many organizations, paying by ACH transfer is preferred because paying by check is expensive in terms of the cost and time of printing, mailing, and reconciling payments. More specifically, a representative of the state of Mississippi said that the state requires all vendors, besides federal agencies, to accept payments from the state electronically. The specific challenges faced by these payers when using federal agency collection methods is discussed later in this report.

As we have previously reported, the acceleration of deposits to the Treasury can reduce the amount Treasury needs to borrow each day to pay government obligations.<sup>19</sup> According to FMS, moving to electronic check processing reduces processing time by 1 day on average, whether done at the agency or at a lockbox bank. These total times range from 1

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<sup>19</sup>See GAO, *IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed*, GAO-03-299 (Washington, D.C.: Jan. 15, 2003).

day to 6 days depending on the collection method selected and whether mail time is included (see table 3). In the case of paper check conversion, this improvement brings check processing on par with some fully electronic collection methods such as ACH transfers and credit cards.

**Table 3: Collection Processing Times, by Collection Method**

Collection type	Collection method	Description	Average total processing time (in days)	Average settlement time <sup>a</sup>
Fully electronic	Wire transfers	Fedwire	1	Varies
		Automated clearing house (ACH) transfers	2	Varies
	Credit or debit cards <sup>b</sup>	ACH PAD	2	Next day
		Lockbox ACH	2	Next day
		Pay.gov ACH	2	Next day
		Credit/debit card	2	Next day
Partly electronic	Electronic check processing	Agency paper check conversion	2	Next day
		Lockbox electronic check processing	5 <sup>c</sup>	Next day
Nonelectronic	Paper checks and cash	Lockbox General	6 <sup>c</sup>	Next day
		Federal Reserve Bank deposits	1 to 2 days	Checks—next day; cash—same day
		Treasury General Account and International Treasury General Account deposits	3 to 6 days	Next day

Source: GAO analysis of FMS information.

<sup>a</sup>Settlement cut off times may vary. Later cut off times permit more collections to be processed in a given day.

<sup>b</sup>Amounts collected by credit card may also be processed by Pay.gov.

<sup>c</sup>Includes typical mailing time estimate of 3 days.

### Case-Study Agencies Make Collection Decisions without Full Information

Although the shift to electronic collection methods has increased efficiencies and decreased costs, agencies are generally unable to consider the full range of the federal government’s expenses—specifically FMS’s total collection costs—when analyzing program costs and setting fee rates. This is because FMS generally does not provide these cost data to

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agencies, although according to officials, it could.<sup>20</sup> FMS officials stated that FMS does not track cost of collection information by agency, but instead by collection method and bank. FMS has this cost information and could provide it, but based on past practices, it generally has not. As we have previously reported, reliable information on the costs of federal programs and activities is crucial for effective management of government operations.<sup>21</sup> Currently, agencies make decisions about collection methods without the benefit of this information. Moreover, agencies could determine whether such costs should be considered in the design and level of full-cost recovery fees. To the extent such cost data are provided, agencies that are authorized to charge full-cost recovery fees—for example, fees charged under the Independent Offices Appropriation Act of 1952 (IOAA)—could, in some cases, include FMS’s cost of collections in their fee rates and deposit these funds into the Treasury.<sup>22</sup>

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### Electronic Collection Methods Mitigate Security Concerns and Risks of Inaccuracy, Potentially Decreasing Collection Losses

Officials from all five case-study agencies and FMS stated that use of electronic collection methods have reduced the risk of either security problems or processing errors. Four of the five case-study agencies stated that electronic collection methods alleviated security concerns for staff members, reduced the risk of theft, or both.

- As noted above, prior to the move to paper check conversion, USGS staff drove deposits to a local bank, exposing staff to risk of theft or injury.

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<sup>20</sup>FMS officials told us that they have provided collection cost information upon an agency’s request.

<sup>21</sup>As discussed in Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* (July 31, 1995). See [GAO-08-386SP](#).

<sup>22</sup>Whether an agency can recover certain costs will be limited by the statute providing authority to charge a particular fee and the application of federal case law regarding the proper scope of fee-setting authority. For a discussion on the legal parameters of setting fees and other user charges, see GAO, *Principles of Federal Appropriations Law*, Vol. III, 3rd ed., Ch. 12D. Office of Management and Budget (OMB) Circular No. A-25 specifies that “full cost” includes all direct and indirect costs to any part of the federal government (such as collection costs). User fees may be assessed under specific statutory authority or under the broad authority of the IOAA, 31 U.S.C. § 9701. OMB Circular No. A-25 provides guidance regarding assessments of user charges not only under IOAA, but also under other more specific fee statutes to the extent permitted by law—that is, the provisions of a more specific user fee statute take precedence over the circular’s guidance, and indeed over the more general provisions of IOAA itself (see GAO, *Federal User Fees: Substantive Reviews Needed to Align Port-Related Fees with the Programs They Support*, [GAO-08-321](#) (Washington, D.C.: Feb. 22, 2008).

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USGS officials said that the move to paper check conversion reduced these safety concerns. Alternatively, some agencies reduced concerns about staff safety by making bank deposits by means of a courier service. However, using couriers poses other security risks and adds costs to the collections process.<sup>23</sup> For example, MMS officials said that courier costs at its Denver office are approximately \$80,000 a year for two daily mail deliveries and one daily bank deposit.

- NPS guidance also deals with security concerns pertaining to cash collections and the use of personnel to collect fees. For example, this guidance notes that parks' implementation of a type of ACH transfer that is primarily used for commercial tour groups reduces the amount of cash handled by staff and therefore improves security.<sup>24</sup> In addition, officials at the Rocky Mountain National Park said that permitting unattended entrance stations to accept only credit cards, rather than both cash and credit cards, reduced collection costs and made the machines less vulnerable to attempted theft.

Officials from three of our case-study agencies stated that the electronic collection or provision of payment data has lowered the risk of processing errors, reducing repeated work and lost time and effort.

- USGS staff said that using paper check conversion has reduced the errors in the process because the system confirms deposit totals before completing a deposit.
- Similarly, MMS officials reported a decrease in administrative errors stemming from the use of Pay.gov for a selection of its fees.
- USPTO's adoption of an automated method for uploading remittance information for organizations making multiple payments also reduced errors. In some cases, USPTO may receive several thousand patent renewals in one submission from a single company that manages these renewals for multiple customers. In the past, these renewals would be sent to a lockbox bank and remittance information would be entered manually. This new system allows maintenance fee payment information to be submitted on a single compact disc and the data file on the disc to be uploaded directly into USPTO's internal accounting system.

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<sup>23</sup>Recently we reported instances of couriers not properly safeguarding IRS receipts in transit to depository institutions. See GAO, *Management Report: Improvements Are Needed to Enhance IRS's Internal Controls and Operating Effectiveness*, [GAO-09-513R](#) (Washington, D.C.: June 24, 2009).

<sup>24</sup>NPS recently replaced this type of ACH transfer with transfers through Pay.gov.

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## Agency-Specific Circumstances Can Affect Adoption of Electronic Collection Methods

An agency's payer base characteristics and other issues can influence collection method selection, sometimes causing agencies to leave nonelectronic collection methods in place and incur costs associated with maintaining separate collection methods. In its work with agencies, FMS recognizes the importance of considering an agency's payer base and whether those payers are likely to accept electronic collection methods. All five of our case-study agencies stated that payer characteristics and customer needs affected the selection of collection methods. In some cases, customer preferences as well as customer access to banks and online banking systems have influenced the different payment methods that agencies offer.

- MMS said that its customers, while typically large companies, also include smaller operations that may not be amenable to electronic collections. When MMS mandated electronic submission of royalty collections, it granted waivers for those that appealed the requirement—approximately 100 of the 2,100 entities for which it processes royalty revenues. Although a small percentage, such accommodation requires that the agency manage a waiver system and requires the maintenance of a nonelectronic or partly electronic collection method alongside the new fully electronic collection method. In the case of MMS, the agency maintained its nonelectronic check processing for collections other than royalties, so the nonelectronic processes were not solely maintained for those customers with waivers.
- A representative of a commercial tour operator industry group stated that smaller operators in his membership would prefer the maintenance of a more flexible method of payment for NPS entrance fees than that preferred by larger operators. NPS is considering adopting Pay.gov to allow customers to use a Web portal to make online purchases. The tour representative recommended that NPS continue to accept credit cards from commercial operators at its entrances in order to accommodate smaller operators as the agency shifts to Pay.gov. While credit cards are an electronic collection method, the desire to maintain this alternative payment option in order to better serve its customers imposes costs on the agency, such as the purchase of necessary equipment.<sup>25</sup>

Other agency considerations also influence the selection and adoption of collection methods. MMS officials told us that they decided to pursue Pay.gov for MMS's rent collections rather than selecting a commercial lockbox because a lockbox service would not meet their internal process

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<sup>25</sup>In all of the case studies done for this engagement, we found no evidence that the cost associated with maintaining separate collection methods eliminated the net benefit of even a partial move to electronic collection methods.

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needs. Although the shift to Pay.gov is underway, officials acknowledge there will always be some paper check collections to manage. In another case, NPS officials told us that the services provided by those performing collection activities go beyond the collection itself. They explained that they do not wish to remove all representatives from entrance fee collection stations—even if it were possible—because fee collectors are often “ambassadors” for the park and provide an important public service. Nonetheless, it requires that NPS incur some level of labor costs related to collections.

For two case-study agencies the setup costs or required system changes necessary to implement electronic collection methods affected the ability or the extent to which the agency or program office could adopt or maintain electronic collection methods.

- In 2002 and 2003, one NOAA regional permit office used Pay.gov as a payment method. The office discontinued the use of Pay.gov because of changes to the office’s database system and lack of information technology support required to establish the new system’s connection to Pay.gov. Nonetheless, a current project aims to reestablish the link to Pay.gov.
- NPS reports that at some remote park locations the telephone and Internet access necessary to support electronic collection methods may be difficult to establish. Even in less remote areas, geographic dispersion may create challenges, such as the need to maintain and purchase equipment for multiple collection or processing points within one park. For example, Rocky Mountain National Park, which covers 265,800 acres and has four entrances, maintains two remittance offices to prepare collections for deposit because the road crossing the park also crosses the continental divide and is impassable during winter months. Therefore, collections cannot be transported from one side of the park to the other and must be prepared for deposit separately.

Finally, meeting the varying system requirements for some electronic collection methods can also be a barrier for customer use. Officials from three state governments that submit payments to USGS told us that, while they prefer electronic collection methods such as ACH transfers, the differing technical requirements and data formats at each federal agency can make such transfers a burdensome, manual process. Our prior work has found a similar lack of standardization across federal grant-making agencies. For example, the use of multiple payment systems has resulted

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in an excessive administrative burden for grantees.<sup>26</sup> FMS officials stated that limited funding is often cited as a barrier to agency adoption of new collection methods.

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## FMS Is Working to Improve the Efficiency of Collections, but Reviews Exclude Important Considerations and Do Not Make Full Use of Available Incentives

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### FMS Reviews of Agency Collections Exclude Important Considerations

As the financial manager and principal fiscal agent for the federal government, FMS is responsible for planning and managing federal collections and has oversight responsibilities to ensure that agencies are making adequate progress in improving their cash-management practices. Consistent with these responsibilities, FMS developed a 5-year “Holistic Approach” plan, which establishes a framework for increasing the use of electronic collection mechanisms governmentwide; streamlining the collections process; offering collection mechanisms that are easy to use, convenient, and secure; managing depository services that banks provide to federal agencies; and providing timely collection of federal receipts.<sup>27</sup> To implement this plan, FMS ranked agencies for review based largely on

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<sup>26</sup>See GAO, *Grants Management: Grantees’ Concerns with Efforts to Streamline and Simplify Processes*, [GAO-06-566](#) (Washington, D.C.: July 28, 2006).

<sup>27</sup>For prior work related to FMS efforts to increase the use of electronic collections and payments, see GAO, *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist*, [GAO-08-558](#) (Washington, D.C.: May 15, 2008) and GAO, *Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use*, [GAO-08-645](#) (Washington, D.C.: June 23, 2008).

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their dollar volume of collections using nonelectronic methods. It plans to review the collections of and draft Strategic Cash Management Agreements with 112 agencies spread about evenly over fiscal years 2009 through 2013.<sup>28</sup> During the development of the agreements, FMS reviews all agency collections, including those already using electronic methods, to see if a more efficient method could be adopted. According to FMS officials and as described above, the payer and type of collection are key factors in choosing a collection method. Each interagency Strategic Cash Management Agreement will outline the methods currently used by the agency for each of its collections; recommend electronic collection mechanisms; set conversion timelines, agencywide goals, and metrics; and estimate savings from conversion. The agreements commit both FMS and the agencies to implement improvements to agencies' overall cash-management practices.

As laid out in its Holistic Approach plan, FMS estimates savings of conversion from nonelectronic to electronic collection methods as part of each agency review. FMS estimates that average per transaction collection costs are \$1.679 for nonelectronic methods and \$0.897 for electronic methods.<sup>29</sup> Using these figures, FMS estimates that shifting to electronic collections will save an average of \$0.78 per transaction.<sup>30</sup> However, there are significant differences in cost per transaction between different electronic collection methods which may be obscured by using only these two broad categories to estimate savings. For example, FMS estimates that, on average, ACH transfers processed through Pay.gov cost \$0.64 per transaction, credit card transactions cost \$1.30 per transaction, and lockbox ECP costs \$0.58 per transaction.<sup>31</sup>

Although the cost of using different collection methods also can vary by the dollar amount of the transaction, FMS officials said they do not use volume threshold guidelines when working with agencies to select payment methods. Specifically, credit card merchant fees are, in part, a

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<sup>28</sup>As of September 30, 2009, FMS had signed agreements with 10 agencies and draft agreements were under review by an additional 6 agencies.

<sup>29</sup>FMS groups partly electronic transactions—electronic check processing—with other electronic methods.

<sup>30</sup>FMS's estimates include only costs borne by FMS, not any potential savings realized by federal agencies.

<sup>31</sup>The average cost of lockbox ECP processing reflects costs of both electronic and paper services provided by the banks.

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percentage of the value of the transaction. Though it may be less costly to process a small collection by credit card than by check, the reverse may be the case for large-dollar-value collections. We recently reported that the average merchant discount rate FMS paid in fiscal year 2007 was 1.43 percent.<sup>32</sup> In a hypothetical example using this rate, the total fees for a \$100 transaction would be \$1.43 and the fees for a \$10,000 transaction would be \$143. FMS limits individual credit card transactions to under \$100,000 in order to limit merchant fees.

FMS's Holistic Approach plan does not provide for all available incentives to encourage agencies to increase the use of more cost effective collection methods. By using FMS services, agencies can reduce their own costs of collection. Specifically, as noted earlier, agencies that collect credit card payments through Pay.gov would be able to avoid the costs of future system changes because with Pay.gov those changes would be handled by FMS. The Holistic Approach plan includes a provision for an inefficiency charge of \$1.00 per transaction for any collection not converted by the deadline as outlined in the agreement. Although FMS has the authority to assess inefficiency charges against agencies regardless of an agreement, according to FMS officials, the charge is only assessed on agencies that voluntarily sign an agreement and then only if the agency misses agreed-upon and likely flexible deadlines. Furthermore, FMS officials said they are not using the Holistic Approach to review whether agencies are paying for certain collection services as required. FMS guidance—Treasury Bulletin 94-07—requires that agencies reimburse FMS for ancillary services and for standard lockbox collection services unless lockbox processing provides a net financial benefit to the Treasury's general fund.<sup>33</sup> In one case, we found that charges for a NOAA lockbox were initiated by FMS and then halted for an unknown reason. In the past, NOAA reimbursed FMS for services on one of its lockboxes. However, when the lockbox was moved to a different bank in 2005, the reimbursement charge

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<sup>32</sup>The type of card, the method in which it is accepted, and other factors affect the rate charged for any particular transaction. See [GAO-08-558](#).

<sup>33</sup>Examples of ancillary services are special handling of remittances including notation, date stamping, document matching, assembly, and stapling as well as special or detailed sorting. Reimbursements to the Treasury for ancillary services may be authorized under The Economy Act (31 U.S.C. § 1535) or 31 U.S.C. § 327. 31 U.S.C. § 327 authorizes Treasury to be reimbursed or advanced costs for services for which the Treasury does not receive an appropriation.

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was discontinued.<sup>34</sup> FMS officials do not have any records of why they ceased to charge NOAA; NOAA officials were also not aware of the reason why the charges were discontinued. By not reviewing agency responsibility to pay for collection services, FMS does not make use of an available incentive to agencies to move to more efficient collection methods. FMS officials stated that as part of the review, FMS negotiates the collections proposals with the agency, but that agencies may have other, higher priorities than making the investments needed for a change. If FMS also reviewed whether the agency should reimburse FMS for the collection services and charged the agency based on the findings of that review, the agency would have a financial incentive to adopt the more cost-effective method.

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### FMS Plan Does Not Include Strategy for Communicating and Incorporating Lessons Learned from Agency Reviews as It Proceeds with Expanded Implementation

The Holistic Approach plan does not include a strategy for communicating lessons-learned from earlier reviews to agencies. Without such information, agencies not scheduled for review until later years<sup>35</sup> might not have an opportunity to correct common problems. As part of the reviews, FMS assesses whether the agencies use unauthorized or inefficient cash management practices. In its reviews to date, FMS found that two agencies were holding funds outside of TGA banks and is aware of some inefficient collection practices that do not rise to the level of being unauthorized cash-management practices.<sup>36</sup> In our case-study reviews we also found examples of inefficient collection practices, including the following:

- On a few occasions, USPTO accepted credit cards as payment for multiple, individual sale transactions processed on the same day to the same credit card account number. This resulted in the sum of the payments to the same credit card account number to be at or near the dollar limit for credit card transactions. Because credit card fees are based in part on a percentage of the dollar amount charged, the cost of processing large collections by credit card may be more than by other methods.

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<sup>34</sup>The current lockbox agreement states that NOAA will be responsible for paying the costs of the lockbox account.

<sup>35</sup>FMS plans to review the collections of approximately 22 agencies per year in fiscal years 2009 through 2013.

<sup>36</sup>FMS officials stated that they work with agencies to immediately eliminate unauthorized practices and negotiate with agencies to change inefficient practices when developing Strategic Cash Management Agreements.

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- NOAA maintains some lockbox accounts with volumes below what FMS officials told us was their rule-of-thumb for lockbox services. FMS does not have an official volume threshold for lockboxes, but officials stated that processing checks through a lockbox might be a good choice for a program collecting a minimum of 1,000 checks and \$1 million per month. Of the eight NOAA lockboxes,<sup>37</sup> all had calendar year 2008 collections volume that averaged less than 1,000 checks per month and only one processed over \$1 million per month on average; one lockbox processed 208 checks totaling less than \$5,000 that year. Check volume affects the per-transaction cost of lockbox services because some lockbox bank charges are fixed (e.g., monthly account maintenance charges).
  - As a standard practice for one NOAA regional permit office, payers mailed checks to the office and then NOAA mailed the checks to the lockbox bank for processing on a weekly basis. This practice delays deposit of the collections.

Agencies not scheduled for review until later years also may lack information on how to overcome barriers to the use of electronic collection methods or invest in more cost-effective collection methods. Such barriers include agency regulations that define the methods an agency uses to make collections, and payers that are less amenable to electronic collection methods. With better information about the capabilities and benefits of the various collection methods, agencies could in turn communicate that information to their payer groups. According to payer groups we spoke with, their members would be more likely to adopt electronic collection methods if agencies encouraged them. According to FMS, existing agency collection contracts and systems can be a barrier to adoption of more efficient collection methods.

Some FMS collections guidance is outdated, but the Holistic Approach plan does not include a strategy for updating guidance based on lessons-learned from the agency reviews. The primary guidance to agencies on the various options for collection methods—FMS’s Cash Management Made Easy—was last updated in April 2002 and includes outdated descriptions of some methods. FMS’s guidance for the situations in which agencies must reimburse FMS for costs of lockbox services—Treasury Bulletin 94-

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<sup>37</sup>NOAA maintains nine lockboxes, but the collections for two of the lockboxes are processed together.

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07—is, in some respects, also outdated.<sup>38</sup> It bases the responsibility to pay for the costs of standard lockbox services on the net benefit to the Treasury’s general account of accelerated deposits. However, since the time the bulletin was issued, electronic processing of checks has become an option for agencies. In some cases, this new option may be a more cost-effective choice.

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## Conclusions

FMS has made important progress helping the federal government improve the efficiency and effectiveness of non-IRS collections; in fiscal year 2009, almost 87 percent of these funds were collected using fully electronic methods. As work continues to overcome barriers to electronic collection methods, several benefits continue to accrue: the cost of government borrowing is decreased as the time to process collections is reduced; agencies, customers, and FMS may enjoy lower costs of collection; and security of collections and staff are improved.

Reliable information on the costs of federal programs and activities is crucial for effective management of government operations. However, it can be difficult for agencies to effectively manage their programs or make informed choices among collection options because FMS generally does not provide agencies data or information on FMS’s costs of collections for a given agency, program, or collection method. FMS has cost information by collection method but generally does not provide it to agencies. While FMS officials said that they could and have provided cost information upon request, we believe provision of such data should not be ad hoc. Rather, data should be distributed systematically to facilitate agency program management. The lack of information on FMS’s costs of collections means that agencies do not have complete information for analysis of their fee structure and level. For some full-cost recovery fees this means that the federal government may be inappropriately foregoing revenues.

FMS’s ongoing initiative to analyze and review the collection activity in each agency through implementation of its Holistic Approach plan facilitates growth in the use of electronic collection methods. However, two aspects of the approach may lead to decisions that are not the most

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<sup>38</sup>In commenting on a draft of this report, FMS said that it was in the process of rewriting the Cash Management Made Easy guidance and updating Treasury Bulletin 94-07. According to FMS officials the updated guidance will set criteria for determining what FMS collection services are ancillary and should be reimbursed by agencies.

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cost-effective. First, FMS groups all fully and partially electronic methods together when developing an estimate of the cost savings of shifts from nonelectronic to other collection methods. Second, FMS does not make use of all available financial incentives—including enforcing its own guidance by requiring agencies to reimburse it for certain collection services.

Finally, some inefficient agency collection practices may persist longer than necessary because FMS's Holistic Approach plan does not include either a strategy to communicate key lessons-learned from early agency reviews to other agencies whose reviews are scheduled for future years or a way to use the information to update FMS guidance to agencies. Interim updates of collections guidance and regulations could allow agencies to benefit from key lessons-learned during FMS reviews.

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## Recommendations for Executive Action

We are making five recommendations in this report.

To strengthen oversight of the costs of collecting federal fees and other receipts, we recommend that the Secretary of the Treasury direct the FMS Commissioner to take the following four actions:

- (1) Provide each agency with information on FMS's annual costs of processing related to that agency's collections by, for example, providing information on the agency's total collections, by collection method, and FMS's costs by collection method.
- (2) Revise FMS's Holistic Approach plan to assure that the reviews of agency collections will consider the differences in costs of the various electronic collection methods.
- (3) Enforce FMS guidance by
  - a. specifying criteria for determining whether FMS collection services are either ancillary or are lockbox services not providing a net benefit to the Treasury's general account and so should be reimbursed by the agency; and
  - b. using these criteria during Holistic Approach plan reviews to determine whether each agency should reimburse FMS for services and document that decision.

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(4) Establish a process for updating collections guidance and regulations based on key lessons-learned from its reviews and communicating that information to all agencies so that agencies whose review is scheduled for later years can begin to implement changes.

We recommend that the Secretaries of the Interior and Commerce include FMS's costs of collection, as available, in analyzing MMS, NPS, USGS, USPTO, and NOAA programs and, as appropriate, the design and level of user fees.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Secretaries of the Treasury, the Interior, and Commerce for review. We received written comments from the Department of the Treasury's Financial Management Service, the Department of the Interior, and the Department of Commerce, which are reprinted in appendixes VII, VIII, and IX, respectively. In addition, Treasury provided technical comments, which we incorporated as appropriate. We also provided portions of the report to nonfederal stakeholders for their review and made technical corrections as appropriate.

FMS agreed with our recommendations and stated that it will develop an action plan to address each recommendation. Initially, the draft's third recommendation said that, while implementing the Holistic Approach reviews, FMS should specify criteria for determining whether its collection services are ancillary and should therefore be reimbursed by the agency. FMS commented that it is working on establishing such criteria in an initiative separate from the Holistic Approach. In describing this initiative to us, FMS officials explained that by separating the two initiatives they expect to be able to review and update the policy on reimbursement more quickly. They expect to complete the review of the reimbursement policy by April 2010. The officials also noted that enforcement of the policy may need to be phased-in over time as agencies will need to ensure that their appropriations allow reimbursement to FMS for certain collection services. In response to these comments, we revised the recommendation to clarify that the reimbursement criteria need not be developed as part of the Holistic Approach plan, only that, to consistently enforce FMS policies, the criteria should be applied as part of the reviews.

The Department of the Interior concurred with our findings and recommendation and stated that the report accurately depicts their efforts to implement electronic collection methods.

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The Department of Commerce also agreed with our recommendation and expressed its commitment to implementing the recommendation and to working with Treasury to improve the efficiency and effectiveness of collection processes. It also provided technical comments specifically with regard to the USPTO, which we incorporated as appropriate.

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We are sending copies of this report to the Honorable Timothy F. Geithner, Secretary of the Treasury; the Honorable Ken Salazar, Secretary of the Interior; and the Honorable Gary Locke, Secretary of Commerce. This report is also available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staff have any questions about this report, please contact me on (202) 512-6806 or [irvings@gao.gov](mailto:irvings@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in Appendix X.



Susan J. Irving  
Director for Federal Budget Analysis, Strategic Issues

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# Appendix I: Objectives, Scope, and Methodology

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To analyze opportunities to improve the efficiency of federal collections governmentwide we examined (1) the extent to which agencies other than the Internal Revenue Service (IRS) use collection methods in the Financial Management Service's (FMS) collections program, (2) how FMS and these agencies can maximize the benefits of and overcome barriers to use of the various collection methods, and (3) issues FMS should consider as it implements its plans for improving the efficiency and security of these collections.

To assess the extent to which agencies use various collection methods, we analyzed data on governmentwide collections by collection method from FMS's Total Collections Report for fiscal years 2005 through 2009. We worked with FMS to group collection methods consistently over time and to categorize them as fully electronic, partly electronic, and nonelectronic. In order to focus our analysis on nontax collections, we excluded collections FMS identified as IRS collections. However, according to FMS, some IRS collections may nonetheless be included in the remaining data. We also excluded collections of the Commodity Credit Corporation (CCC)—a federal corporation within the U.S. Department of Agriculture—because, according to FMS officials, CCC does not use the FMS collections program in the same way as other agencies. CCC uses its own network of banks to process collections. We reviewed FMS guidance and interviewed FMS officials to gather operational information on each collection method and understand why use of the various collection methods changed over time.

To analyze ways FMS and selected agencies can maximize the benefits of and overcome barriers to the use of collection methods, we conducted case-study reviews of five agencies: the Minerals Management Service (MMS), the National Park Service (NPS), the United States Geological Survey (USGS), the United States Patent and Trademark Office (USPTO), and the National Oceanic and Atmospheric Administration (NOAA). We selected this set of case-study agencies to cover the use of the variety of collection methods, a variety of payer and payment characteristics, programs with significant collection totals, representation of at least two departments, potential for improved efficiency, and instances of a recent change in collection method. These case studies are not intended to be representative and therefore the information gleaned from them cannot be generalized across the government. We used fiscal year 2006 OMB data on fee collections and fiscal year 2008 FMS data on collections by method to identify the case-study agencies. For each case-study agency, we analyzed collections data, interviewed agency officials, and reviewed relevant legislation, regulations, agency guidance, and audit reports. We performed

site visits at NPS's Rocky Mountain National Park in Estes Park, Colorado, and USGS's Central Region Geospatial Information Office and MMS's Minerals Revenue Management office both in Denver, Colorado. At each site-visit location, we observed collection processes and interviewed agency officials. We also observed the lockbox process and interviewed bank officials at a U.S. Bank lockbox location in St. Louis, Missouri that provides lockbox services to NOAA and USPTO. We also interviewed representatives or members from four payer organizations—the American Petroleum Institute, the National Tour Association, Computer Packages Inc., and the National Association of State Auditors, Comptrollers and Treasurers—to gain an understanding of the effects of the shift to electronic collections on payers. We selected these organizations from stakeholder or payer organizations suggested by each case-study agency. We also reviewed FMS regulations and guidance, analyzed FMS data related to the costs and benefits of the various collection methods, and interviewed FMS officials.

To identify the issues FMS should consider in implementing its plans for improving the efficiency and security of collections, we reviewed relevant legislation and FMS plans and agency agreements, applied relevant findings from our case studies, and interviewed FMS and case-study agency officials.

We assessed the reliability of the data we used for this review and determined that it was sufficiently reliable for our purposes. We conducted this performance audit from October 2008 through November 2009 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Minerals Management Service Collections

## Agency Description

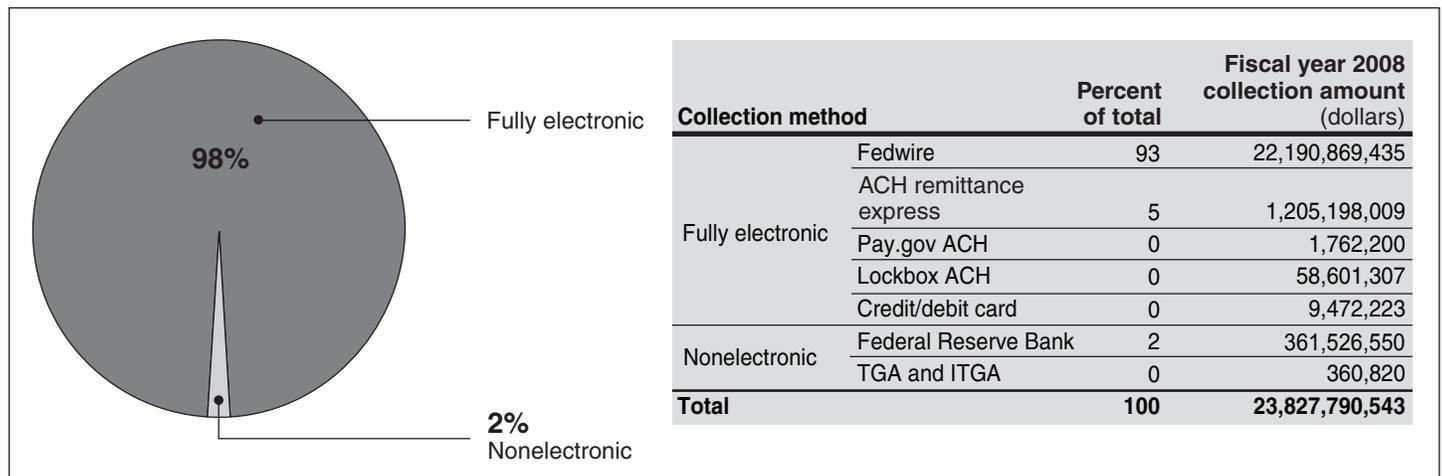
The Minerals Management Service (MMS), a bureau in the Department of the Interior, manages the nation's natural gas, oil, and other mineral resources on the outer continental shelf. The agency also collects, accounts for, and disburses more than \$8 billion per year in revenues from federal offshore mineral leases and from onshore mineral leases on federal and Indian lands.

## Types of Collections

MMS's Minerals Revenue Management collects rents, royalties, and proceeds from lease sales by means of automated clearing house (ACH) transfers, wire transfers, and Federal Reserve Bank deposits. Although most of the payments MMS receives are transmitted electronically, as of October 2008 MMS still received nearly 50,000 checks per year. In fiscal year 2008, rents and royalties totaled \$13.4 billion and lease sales totaled \$10.2 billion. Royalty payments are typically high-dollar payments, while onshore and offshore rent payments can range from a few hundred to several thousand dollars.

MMS's Offshore Energy and Minerals Management program also collects fees for cost-recovery services and payments, public-information service fees, and linear rental fees, totaling \$11.2 million in fiscal year 2008. These collections are solely made through Pay.gov. MMS fee-paying customers are often large companies, but also include smaller organizations and individuals.

**Figure 3: MMS Collections by Type and Method**



Source: GAO analysis of FMS data.

Note: Amounts collected by credit card may also be processed by Pay.gov.

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# Appendix III: National Park Service Collections

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## Agency Description

The National Park Service (NPS) is a bureau of the Department of the Interior. The national park system is comprised of 391 areas covering more than 84 million acres. These areas include national parks, monuments, battlefields, military parks, historical parks, historic sites, lakeshores, seashores, recreation areas, scenic rivers and trails, and the White House.

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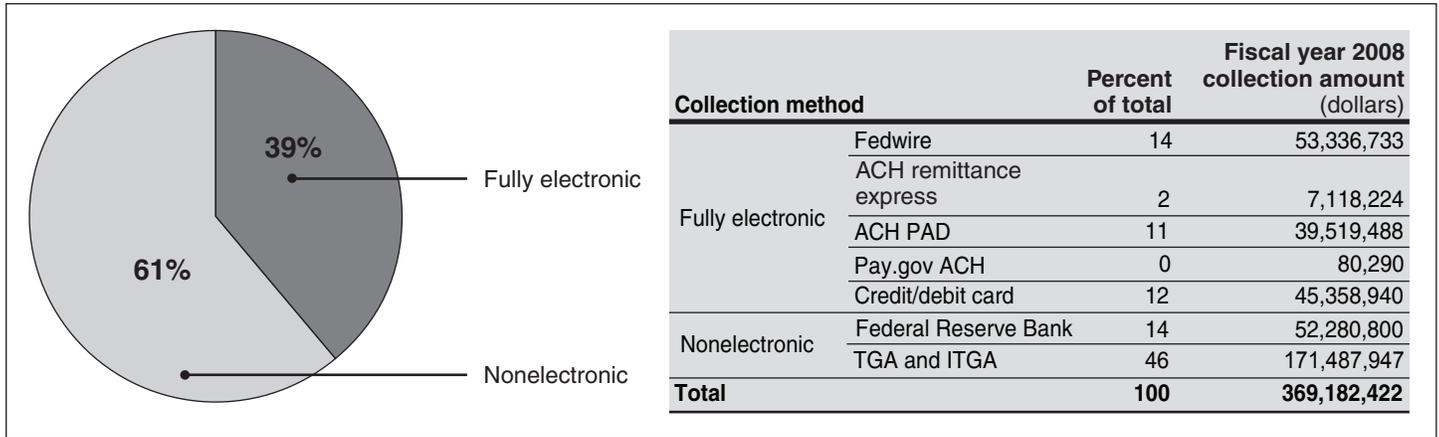
## Types of Collections

NPS collects funds from the public for recreation fees, special park use permits and fees, transportation fees, and other collections such as payments from concessionaires and commercial use fees and other forms of debt collection. Recreation fees include park entrance fees and special recreation permit fees. Recreation fees range from \$5 to \$25, or more for large group purchases. Special use fees are charged for the use of park lands or facilities for activities that occur in a park and provide benefit to an individual, group, or organization rather than the public at large. These administrative fees are intended to recover full costs and are calculated on a case-by-case basis, but range from \$50 to \$50,000. Transportation fees are collected to recover costs associated with an NPS-provided transportation system.

In fiscal year 2008 NPS collected approximately \$179 million in recreation fees through credit cards, automated clearing house (ACH) transfers, Federal Reserve Bank (FRB) deposits, Treasury General Account (TGA) deposits, and Pay.gov. Fiscal year 2008 special park use fees totaled \$12,938,317 and were collected predominantly through TGA deposits and some credit card collections. Transportation fees totaled \$13,883,451 in fiscal year 2008. NPS fee-paying customers include individuals, tour operators, concessionaires, and commercial operators.

**Appendix III: National Park Service  
Collections**

**Figure 4: NPS Collections by Type and Method**



Source: GAO analysis of FMS data.  
Note: Amounts collected by credit card may also be processed by Pay.gov.

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# Appendix IV: United States Geological Survey Collections

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## Agency Description

The U.S. Geological Survey (USGS), a Department of the Interior agency, is the nation's largest water, earth, and biological science and civilian mapping agency. The USGS collects, monitors, analyzes, and provides scientific understanding about natural resource conditions, issues, and problems.

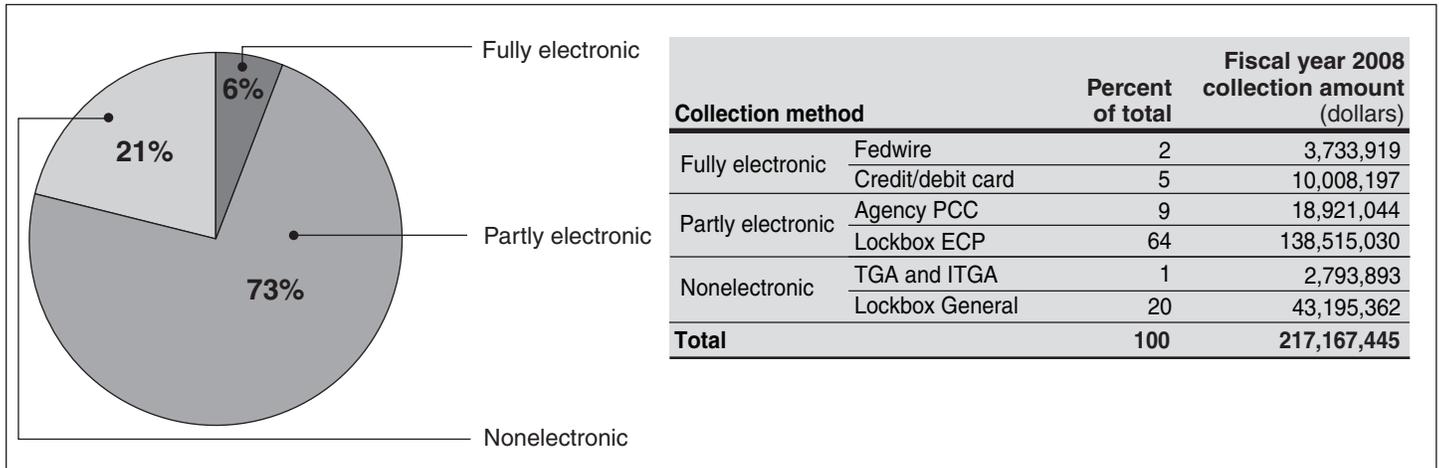
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## Types of Collections

USGS collects funds for products sales (mostly relating to mapping products), cooperative water program agreements, and fully-reimbursable programs. Under the cooperative water program, cooperators partner with USGS and reimburse USGS for a portion of the costs of specific USGS data-collection activities, investigations, or studies. Payments under these agreements vary, with 40 percent of agreements yielding \$25,000 per year or less and the largest agreement falling between \$2 million and \$3 million. These funds make up the majority of USGS collections and are mostly collected by lockbox electronic check processing (ECP). Other collections, including those for product sales and reimbursable agreements, are made via agency paper check conversion (PCC), Treasury General Account (TGA) deposits, International Treasury General Account (ITGA) deposits, credit cards, and wire transfers.

Fiscal year 2008 collections totaled \$217 million, with the majority of this amount (\$215 million) stemming from reimbursables. Reimbursables include reimbursements from nonfederal sources such as states, tribes, and municipalities for cooperative efforts and proceeds from the sale of photographs and record copies; reimbursements for permits and licenses of the Federal Energy Regulatory Commission; and reimbursements from foreign countries and international organizations for technical assistance.

Figure 5: USGS Collections by Type and Method



Source: GAO analysis of FMS data.

# Appendix V: U.S. Patent and Trademark Office Collections

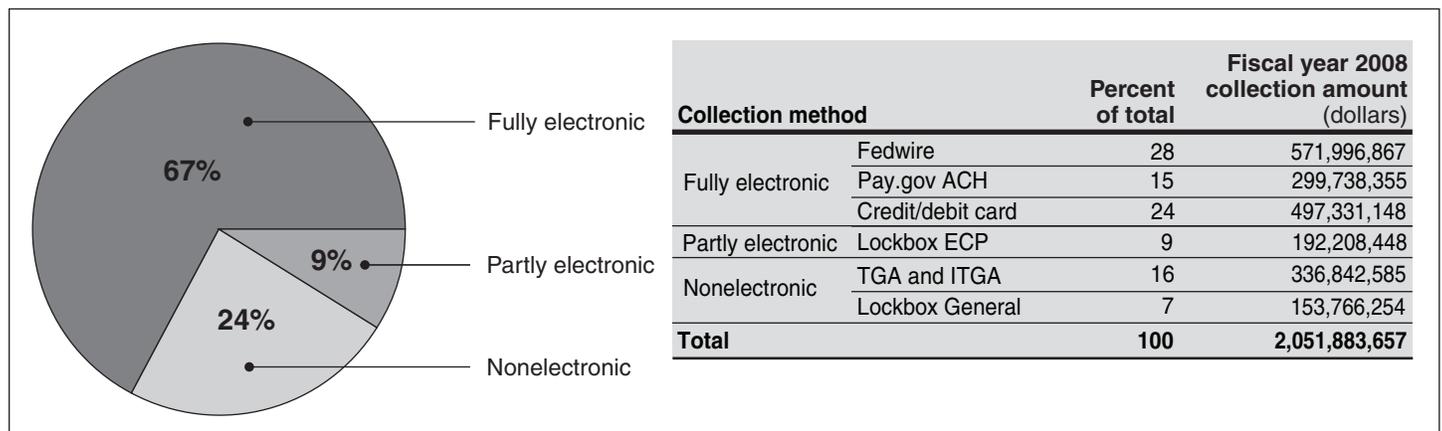
## Agency Description

The U.S. Patent and Trademark Office (USPTO) is an agency of the Department of Commerce. The agency's main functions are the examination and issuance of patents and the examination and registration of trademarks.

## Types of Collections

USPTO receives its funding through fees that are paid to obtain and renew patents and trademarks. Patent fees, for activities such as application filing, maintenance, and patent extensions, totaled \$1.6 billion in fiscal year 2008. These fees can range from \$3 for a patent copy to over \$8,000 for other services such as *inter partes* reexamination. Patent fee payments are accepted through credit cards, Pay.gov accepting credit cards or automated clearing house (ACH) transfers, lockbox electronic check processing (ECP) and Treasury General Account (TGA) deposits. Trademark fees, charged for services such as trademark processing and services, totaled \$236 million in fiscal year 2008. Trademark fees range from \$3 to \$400 and are paid through credit cards, Pay.gov accepting credit cards or ACH transfers, and TGA deposits. USPTO also accepts replenishments to deposit accounts through wire transfers, lockbox ECP, and TGA deposits. Payments for some fees from foreign sources are sent through wire transfers. Payers for patent and trademark fees are individuals, attorneys, law firms, small businesses, nonprofits, and large corporations. Patent fees are also paid by annuity companies.

**Figure 6: USPTO Collections by Type and Method**



Source: GAO analysis of FMS data.

Note: Amounts collected by credit card may also be processed by Pay.gov. FMS and agency accounting of deposits may differ due to deposits in transit. Collections totals include normal fee collections, as well as other collections for deposit accounts and amounts provided to the USPTO that are passed through from and to other entities.

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# Appendix VI: National Oceanic and Atmospheric Administration Collections

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## Agency Description

The National Oceanic and Atmospheric Administration (NOAA) is a science-based federal agency within the Department of Commerce with regulatory, operational, and information-service responsibilities. NOAA's mission is to understand and predict changes in the earth's environment and to conserve, protect, and manage coastal, marine, and Great Lakes' resources to meet our nation's economic, social, and environmental needs. NOAA offices include the National Environmental Satellite, Data, and Information Service (NESDIS), the National Marine Fisheries Service (NMFS), the National Ocean Service, National Weather Service, the Office of Marine and Aviation Operations, the Office of Oceanic and Atmospheric Research, and the Office of Program Planning and Integration.

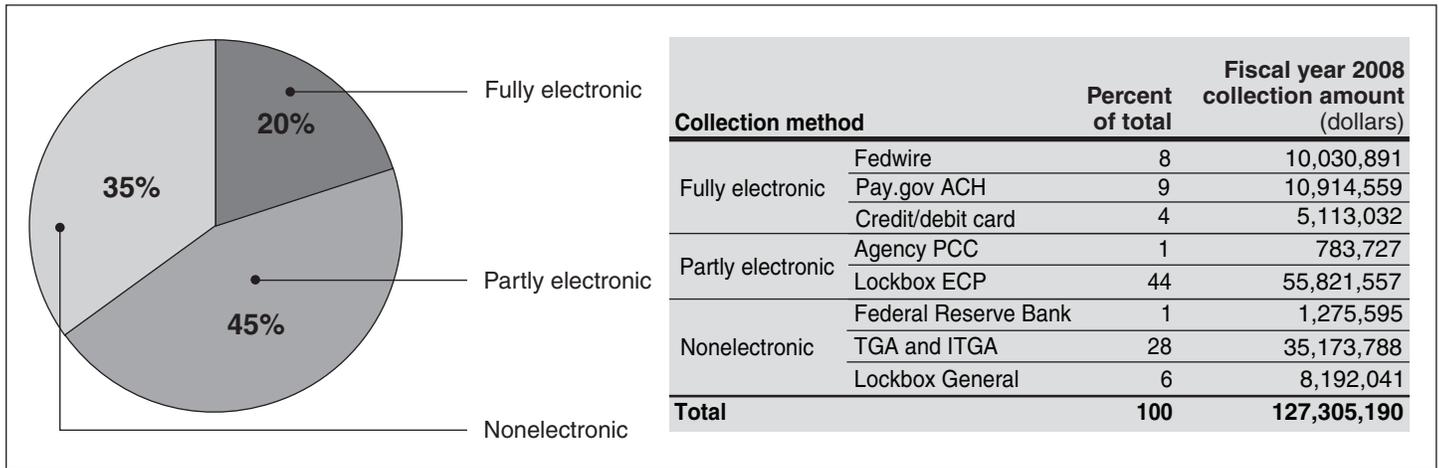
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## Types of Collections

NOAA offices receive collections for various programs using a wide range of collection methods. In fiscal year 2008, NESDIS received \$1.7 million in revenue for its sales of data. These collections were made through a combination of lockbox electronic check processing (ECP), Pay.gov, lockbox general, and Treasury General Account (TGA) deposits. Pay.gov processed the largest amount of these collections at \$1.2 million. NMFS receives fees for a variety of permits, penalties, and inspections, totaling over \$48 million in fiscal year 2008. Seafood inspection fees, for example, averaged over \$23,000 per fee collected and were collected by means of wire transfer, Federal Reserve Bank deposits, lockbox ECP, Pay.gov, lockbox general, and TGA deposits. Other NMFS collections averaged from \$26 for tuna permits to over \$6,000 for civil monetary penalties. Other NOAA collections include payments to the Damage Assessment and Restoration Revolving Fund, loan and buy back payments, and other reimbursables. Payer groups for NOAA fees vary, but include private and corporate customers for NESDIS data sales as well as individual fishermen and fishing companies for NMFS permit fees.

**Appendix VI: National Oceanic and  
Atmospheric Administration Collections**

**Figure 7: NOAA Collections by Type and Method**



Source: GAO analysis of FMS data.  
Note: Amounts collected by credit card may also be processed by Pay.gov.

# Appendix VII: Comments from the Department of the Treasury's Financial Management Service



DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

October 23, 2009

Ms. Susan Irving  
Director of Strategic Issues  
US Government Accountability Office  
441 G Street, NW  
Room 2908  
Washington, DC 20548

Dear Ms. Irving:

Thank you for the opportunity to review and comment on the November 2009 draft report entitled "Budget Issues: Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure is Needed (GAO-10-11)".

FMS agrees with the four Recommendations for Executive Action and will develop a plan of action to address each recommendation.

Recommendation number three specifies establishing criteria for determining whether FMS collection services are ancillary and should be reimbursed by the agency while implementing the Holistic Approach reviews. FMS will implement actions to address this recommendation; however, we are working on this effort as a separate initiative from the Holistic Approach.

If you have any questions, please feel free to call me on (202) 874-7000 or Sheryl Morrow on (202) 874-6847.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Lebryk".

David A. Lebryk

# Appendix VIII: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240



OCT 23 2009

Ms. Susan J. Irving  
Director, Federal Budget Analysis, Strategic Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Ms. Irving:

Thank you for providing the Department of the Interior the opportunity to review and comment on the draft Government Accountability Office (GAO) Report - *BUDGET ISSUES: Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure is Needed*, Report No. GAO-10-11.

The leadership in the Department of the Interior and its bureaus has actively promoted the benefits of adopting the electronic collection methods offered by Treasury's Financial Management Service (FMS). We find that the GAO's draft report accurately depicts our efforts to implement these collection methods.

We concur with GAO's finding and recommendation. As the cost of FMS' various collection methods are made available, they will be taken into consideration in determining which electronic collection methods to implement.

The Department appreciates the opportunity to participate in GAO's review of FMS electronic processing of collections. We hope these comments will assist you in preparing the final report. If you have any questions, or need additional information, please contact Ms. Karen Baker at (703)648-7261.

Sincerely,

Rhea Suh  
Assistant Secretary for  
Policy, Management and Budget

# Appendix IX: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE  
The Secretary of Commerce  
Washington, D.C. 20230

October 27, 2009

Ms. Carol Henn  
Assistant Director, Strategic Issues  
Government Accountability Office  
441 G Street, N.W., Room 2440  
Washington, DC 20548

Dear Ms. Henn:

Thank you for the opportunity to review and provide comments for your Government-wide assessment of electronic user fee collection methods. The Department of Commerce appreciates the Government Accountability Office's (GAO) recommendations concerning agencies' adoption of electronic collection methods for Federal fees, and we look forward to working with the Department of the Treasury's implementation of a plan to improve the efficiency and effectiveness of Federal collections that are non-Internal Revenue Service. Our efforts are meant to assist in identifying the electronic collections costs for Federal agencies and making a determination as to whether these agencies should reimburse the Financial Management Service (FMS) for the specific electronic services that they provide. Below you will find the Department of Commerce's comments on the draft report:

**GAO Recommendation:** We recommend that the Secretaries of the Interior and Commerce include FMS costs of collection, as available, in analyzing MMS, NPS, USGS, USPTO and NOAA programs and, as appropriate, the design and level of user fees.

The following comments are provided specifically with regard to the United States Patent and Trademark Office (USPTO): The USPTO agrees with the GAO recommendation. If the USPTO is granted fee-setting authority for all fees, the available costs of collection in calculating the user fee amounts to recover costs of the services would be included. Additionally, the following changes in terminology are recommended, also regarding the USPTO:

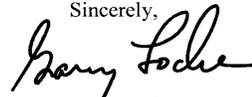
1. Page 11: change the phrase "collect as cash or checks..." to "collected as cash or checks...."
2. Page 26: change the first bullet that begins, "On a few occasions, USPTO accepted..." to read, "On a few occasions, USPTO accepted credit cards as payment for multiple individual sale transactions processed on the same day to the same credit card account number, which resulted in the sum of the payments to the same credit card account number to be at or near the dollar limit for credit card transactions."

Ms. Carol Henn  
Page 2

3. Page 40, paragraph 3, line 4: change the sentence that begins with “USPTO also accepts replenishments...” to read, “USPTO also accepts replenishments to deposit accounts via wire transfers, Lockbox ECP, and TGA deposits.”

Again, I thank the Government Accountability Office for the opportunity to comment on the report. Every effort will be made to meet the recommendations in a diligent manner, and we will gratefully accept suggestions as we move forward to ensure that the USPTO fee collection process is an effective system that will enable us to attain the goals of the Department of Commerce.

Sincerely,



Gary Locke

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# Appendix X: GAO Contact and Staff Acknowledgments

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## GAO Contact

Susan J. Irving, (202) 512-6806 or [irvings@gao.gov](mailto:irvings@gao.gov)

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## Staff Acknowledgments

In addition to the individual listed above, Carol Henn, Assistant Director; Mallory Bulman; Susan Etzel; Katherine Hamer; and Elizabeth Hosler made significant contributions to this report. Charles Fox, Cody Goebel, Christine Houle, Paul Kinney, Felicia Lopez, Julie Matta, Anu Mittal, Donna Miller, Robin Nazzaro, Jacqueline M. Nowicki, Melanie Papasian, Sheila Rajabiun, Thomas Short, and Jay Smale also made key contributions to this report.

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