

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOD TRAVEL MANAGEMENT SERVICE
ARRANGEMENTS**

Report No. 95-200

May 24, 1995

20000121 080

Department of Defense

DISTRIBUTION STATEMENT A

Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 1

AOI 00-04-0991

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: DOD Travel Management Service Management

B. DATE Report Downloaded From the Internet: 01/21/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 01/21/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.

Additional Copies

Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

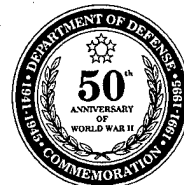
Acronyms

CTO
MOU
SATO

Commercial Travel Office
Memorandum of Understanding
Scheduled Airlines Traffic Office



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



Report No. 95-200

May 24, 1995

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
COMMANDER, MILITARY TRAFFIC MANAGEMENT
COMMAND**

**SUBJECT: Audit of DoD Travel Management Service Arrangements
(Project No. 5LC-5002)**

Introduction

We are providing this final report for your information and use. The audit was requested by the Deputy Chief Staff for Operations, Military Traffic Management Command. We were asked to evaluate the effectiveness and efficiency of arrangements used by DoD to provide travel management services. Travel management services include ticketing for leisure¹ and official air, bus, and rail travel, and making lodging and rental car reservations.

Audit Results

The arrangements used to provide travel management services could be made more efficient and cost-effective. Additionally, some DoD organizations were not in compliance with established criteria to competitively acquire travel management services. Further, contracting authority to acquire travel management services was fragmented within DoD. Except for third-party rebates, internal controls to ensure the receipt of rebates were adequate. We did not quantify the potential benefits of the audit, because ongoing management actions to implement the recommendations of the DoD Task Force to Reengineer Travel (Task Force) will address the issues discussed in this report. The Task Force initiatives, recommendations, and management actions are summarized in Other Matters of Interest.

¹Commercial Travel Offices provide ticketing and reservation services for personal travel for DoD personnel. Those services are rendered at no cost to DoD and paid for by the military and DoD civilian personnel. Rebates on leisure travel are normally returned to a designated organization's morale, welfare, and recreation fund.

Audit Objectives

The objectives were to evaluate the effectiveness and efficiency of DoD arrangements used to provide travel management services, and evaluate applicable internal controls as they relate to the audit objective. We did not review the adequacy of the implementation of the DoD internal management control program as it applied to the audit objectives, because of the Task Force initiatives.

Scope and Methodology

The audit included all the Military Departments, five Defense agencies, and three Defense field activities. The agencies were the Defense Commissary Agency, Defense Contract Audit Agency, Defense Finance and Accounting Service, Defense Information Systems Agency, and Defense Logistics Agency. The field activities were the Armed Forces Information Service; Office of the Inspector General, DoD; and the Washington Headquarters Services. Worldwide air, bus, and rail sales for leisure and official travel at organizations reviewed totaled approximately \$1.7 billion during FY 1994.

We obtained data on travel services acquired and the methods used to obtain those services during FY 1994. The above organizations used 172 contractual or in-house travel management service arrangements. See Enclosure 1 for a detailed breakout of total air, bus, and rail sales by DoD Component and by methods used to provide travel services. Total sales for lodging and rental car services could not be readily quantified. We reviewed travel management service contracts, correspondence, sales data, sales commissions by commercial travel offices (CTO), and staffing and operating costs for in-house operations. For purposes of this report, sales commissions are the CTO contractual share of the travel costs charged by the airline, bus, lodging, rail, and rental car vendors. We also reviewed information developed by the Task Force for senior DoD management.

This economy and efficiency audit was conducted from October 1994 through February 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The audit did not rely on the use of computer-processed data or statistical sampling procedures. A complete list of organizations visited or contacted during the audit is in Enclosure 5.

Management Control Program

We reviewed the overall internal controls applicable to the methods used to provide travel services. We did not review the implementation of the DoD internal management control program as it applied to contracting for travel management services, because of ongoing Task Force efforts. However, we did review controls over discounts and rebates of sales commissions. Discounts and rebates are the methods use by DoD to collect its contractual share of the sales commissions from the CTOs. The audit disclosed material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, in the procedures used to control the receipt of third-party rebates. Third-party rebates are associated with lodging and rental car services, which are paid directly by the traveler. A copy of this report will be provided to the senior official responsible for internal controls in the Office of the Secretary of Defense. See discussion for more details.

Prior Audits and Other Reviews

There were four prior or ongoing audits or other reviews related to travel management services within the last 5 years. See Enclosure 2 for details.

Other Matters of Interest

The Task Force was established in July 1994 as a joint initiative by the Under Secretary of Defense for Acquisition and Technology, Under Secretary of Defense for Personnel and Readiness, Under Secretary of Defense (Comptroller), and the Director of Administration and Management. The Task Force's charter was to conduct a comprehensive and systemic review of the DoD travel network, which would ultimately lead to the development of a new and improved system for DoD travelers.

In January 1995, the Task Force issued its "Report of the Department of Defense Task Force to Reengineer Travel." The report stated that the existing travel system was expensive and not customer or mission oriented. The Task Force report concluded that those conditions exist because travel policies and programs focus on rigid compliance with rules rather than performance of the mission. Also, DoD travel practices were outmoded, and the travel network was fragmented.

The Task Force reported that if DoD is to improve its travel system and lower cost, DoD must change its travel philosophy to one of mission support, adopt and standardize the best business practices from Government and the private

sector, and redesign the travel delivery system so that it meets the needs of the mission, the traveler, and the taxpayer. The report made recommendations that impact on the overall travel system.

On January 23, 1995, the Deputy Secretary of Defense signed a memorandum directing that the Under Secretary of Defense (Comptroller) oversee the implementation of the Task Force recommendations. A Task Force Transition Team was established, headed by the Under Secretary of Defense (Comptroller) and composed of core Task Force management, a senior management advisory group, and teams specializing in different functional areas.

The teams, with representation from the Office of Inspector General, DoD, will be responsible for assisting core Task Force management with the transition from present practices to the full implementation of the Task Force recommendations. Milestones have been established within each functional area to implement the recommendations. The Task Force plans to test and evaluate the new travel system beginning in July 1995 at various pilot test sites.

Background

DoD organizations are required to competitively obtain travel management services. Public Law 99-145, "Department of Defense Appropriations Act for FY 1986," section 1464, required that DoD competitively acquire travel services. As a result, DoD Instruction 4500.42, "DoD Passenger Transportation Reservation and Ticketing Service," January 5, 1987, was issued mandating that all DoD organizations initiate competitive procurement of travel management services from CTOs within 1 year. A CTO is a full service travel agency operation that provides ticketing for air, bus, and rail transportation, and reservations for lodging and rental cars services.

As of February 1995, travel management services included in our review were provided through the use of 172 contractual or in-house travel management service arrangements, including 106 DoD CTO contractual arrangements, 23 General Services Administration CTO arrangements, 32 memorandum of understanding (MOU) arrangements with the Scheduled Airline Traffic Office (SATO)², and 11 organizations with in-house Government travel office arrangements. See Enclosure 3 for more details on the methods used to provide travel management services.

²SATO (now SatoTravel) is a not-for-profit corporation owned by 11 major airlines that provides ticketing and reservations services under CTO contracts and a 1981 MOU. The MOU generally did not provide for discounts or rebates on commissions.

Discussion

The travel management service arrangements used to provide travel services could be made more efficient and cost-effective. Additionally, of the 172 contractual or in-house travel management service arrangements that we reviewed, 43 were not in compliance with established criteria to competitively acquire travel management services. Compliance with the intent of Congress and DoD guidance and consolidation of contracting authority would improve the efficiency and cost-effectiveness of providing travel management services. Improvements in the internal controls over third-party rebates are needed to ensure that DoD purchasing organizations receive their contractual share of CTO commissions.

Compliance With Established Criteria. The organizations using 32 MOUs with SATO and 11 organizations using in-house Government travel office arrangements were not in compliance with public law and DoD guidance requiring competitive procurement of travel management services. Those organizations continued to obtain travel management services on a noncompetitive basis under a 1981 MOU with SATO or through in-house Government travel office arrangements. As a result, DoD did not realize revenues generated through discounts and rebates of sales commissions that normally would have been received on sales of travel services under CTO contracts, and unnecessary costs to maintain in-house travel offices were incurred.

Noncompetitively Acquired Commercial Travel Management Services. Of the \$1.7 billion in FY 1994 sales for travel services, about \$475 million (28 percent) was provided under an MOU with SATO. Use of the MOU with SATO generally did not result in direct cost outlays by DoD. However, DoD did not realize discounts and rebates on official travel for all the organizations using the MOU with SATO arrangement that normally would have been earned under a CTO contract. We could not quantify the amount of rebates on sales commissions that DoD did not realize by using the MOU with SATO instead of a CTO contract, because rebates and commissions vary even when CTO contracts are used. However, if CTO contracts had been in effect at these organizations and had a representative average of 3 percent been earned on sales of \$475 million, approximately \$14.2 million in rebates or discounts could have been realized. Discount and rebate percentages on official air, bus and rail travel ranged from 0 to 10 percent. See Enclosure 4 for a summary of CTO discounts and rebates by DoD Component.

In-house Government Travel Offices. Of the \$1.7 billion in FY 1994 sales for travel services, approximately \$27 million (1.6 percent) was acquired through in-house Government travel offices. By using in-house equipment, facilities, and DoD personnel to provide travel management services instead of a CTO, DoD not only did not realize revenue from discounts or rebates, but also incurred additional cost outlays. For example, the Washington Headquarters Services uses an in-house travel office to acquire about \$8 million annually in air, bus, and rail services. If those services were provided under a local Army

CTO contract, DoD would have realized \$248,000 in additional discounts and rebates. Further, direct costs of \$191,000 in benefits, equipment, facilities, salaries, and supplies would have been avoided.

Consolidation of Contracting. Consolidation of CTO contracting authority under a single procurement organization would be more efficient and cost-effective than the existing fragmented approach. Contracting responsibilities include developing statements of work, soliciting proposals, evaluating and negotiating offers, and awarding and administering contracts. The diverse organizations and contractual arrangements in the DoD travel network have resulted in fragmented authority, unnecessary replication of contracting efforts, and nonstandard contracts.

Fragmented Authority. Authority to execute the CTO contracting process was diffused among various DoD organizations and management levels. Contracts were awarded by geographic region, a specific installation or organization, or by clusters of installations or organizations. Some of the DoD Components had centralized their CTO contracting authority, while others were fragmented, using several contracting entities. For example, the Army had a single contracting entity covering all 50 states and Panama. That Army procurement office awarded and managed six contracts that provided commercial travel management services to the Army, the Defense Contract Audit Agency, the Defense Logistics Agency headquarters organizations, and all Air Force installations in the North Central United States. In contrast, the Air Force had 28 separate contracting entities covering the same geographic area. See Enclosure 1 for a summary of CTO contracts by DoD Component.

Contracting Efforts Replicated. The fragmented state of CTO contracting authority has resulted in significant replication of the contracting process. For instance, several CTO contracts were in effect within the same localized geographical area. The Navy had a CTO contract in place that covered all Navy installations in a given region, while Army, Air Force, and Marine Corps installations, and DoD organizations in the same region were covered under one or more separate CTO contracts awarded by their respective contracting entities. That condition is especially prevalent in areas with large concentrations of DoD military and civilian personnel, such as Norfolk, Virginia; the Washington, D.C., metropolitan area; and the Hawaiian Island of Oahu. Consolidating the CTO contracting authority under a single DoD contracting entity with CTO contracts on a regional basis would eliminate the replication and overlap of contracting management resources described above. Further, it would enable DoD to develop and retain expertise in contracting for travel management services and reduce the contracting entities from approximately 100 to a single entity. This would facilitate efforts to standardize CTO contract requirements.

Contract Standardization. Nonstandard CTO contracting has resulted in variances in contract terms. In comparing different CTO contracts, variances in contract terms frequently occur because the knowledge and expertise of the contracting personnel involved vary. For example, discount and rebate

percentages on official travel ranged from none at an Air Force organization to a high of 10 percent at a Defense Logistics Agency organization. See Enclosure 4 for a detail summary of CTO discounts and rebates by DoD Component. The travel reservation procedures and required management reports to be provided by the CTO also varied. A process action team chaired by the Military Traffic Management Command and including other Military Component representatives is developing a standardized statement of work for CTO contracts. The standardized statement of work would streamline contract administration and allow CTO contractors to realize economies and efficiencies through standard procedures and reports and would result in better contractual arrangements for DoD.

Internal Controls. Except for third-party rebates, internal controls were adequate to ensure that DoD purchasing organizations received their contractual share of CTO commissions. DoD uses two methods to contractually require the CTO to return those commissions to DoD. Most CTO contracts provide for discounts, rebates, or a combination of both methods. The adequacy of internal controls varied by method.

Discount Method. CTO contracts that provide for sales commissions using the discount method generally had adequate internal controls. Discounts generally apply to air, bus, or rail ticket sales. The price of the ticket is reduced by an agreed upon percentage amount of the cost of the ticket, and the DoD purchasing organization pays the net amount to the vendor that provided the travel service. The CTO contracts normally require management information reports showing the ticket price and the amount of the discount. The DoD purchasing organization need only ensure that the correct discount percentage was used and that the computations were accurate. Discounts negate the need for further controls to collect the DoD share of sales commissions. We believe this to be the simplest and most effective method to ensure that the DoD purchasing organization receives the correct sales commissions.

Rebate Method. Except for third-party rebates, internal controls were generally adequate for CTO contracts using the rebate method. Rebates involved the return of a specified percentage of the travel service cost or a portion of the CTO sales commissions received from the vendors. Internal controls differed depending on the vendor source. Generally, the CTO arranged for the DoD purchasing organization to pay air, bus, and rail vendors directly. However, lodging and rental car vendors were paid by a third party, the traveler.

Air, Bus, and Rail Rebates. The DoD purchasing organization could readily reconcile the rebates due from air, bus, and rail ticket sales because the CTO arranged for the DoD purchasing organization to make direct payment to the vendor. Therefore, the actual sales were known by both the CTO and the DoD purchasing organization and the amount of rebate could be computed in advance and reconciled to the rebates received from the CTO and shown in a detailed management report prepared by the CTO.

Third-Party Lodging and Rental Car Rebates. Internal controls over rebates on lodging and rental car services were less effective because those services were paid by a third party, the DoD traveler. To determine the DoD share of the commission on lodging and rental car services paid by the third party, the DoD purchasing organization must know the total amount of services and the applicable sales commission percentage on each transaction. Those percentages are independently negotiated by the CTO and the lodging and rental car vendors. Neither the DoD purchasing organization nor the DoD traveler have access to this information.

Because the DoD traveler pays for those travel services directly, it is difficult for the DoD purchasing organization to determine the total sales even if the applicable commission percentage were known. Therefore, rebates due cannot be readily reconciled with rebates received. The CTO depends on the vendor to compute the rebate amount and forward the proper amount to the CTO. The DoD purchasing organization relies on the CTO to pay the DoD organization its share.

Procedures have been developed to identify the third-party sales transactions to which the rebates apply. However, the current travel system does not provide for reconciliation of actual lodging and rental car charges to the reservations actually used. Although DoD organizations could obtain listings of actual charges from the travel card company serving the Government, the listings would not necessarily be complete, because use of the card was neither universal nor mandatory. Use of reservations data alone would be similarly ineffective, because there is no assurance that the traveler used the reservation and was billed the specified amount in effect at the time the reservation was made. Even if reliable information on actual lodging and rental car charges were available, reconciliation of third-party rebates would not be possible, because the DoD purchasing organizations do not know the actual percentage of commission the CTO and vendor had agreed upon.

Rebates on third-party sales transactions were not properly credited to the appropriation account originally charged with the travel cost. The Army, the Navy, and some DoD organizations included provisions for payment of third-party rebates in CTO contracts they awarded; and the Air Force and the Marine Corps did not. DoD Instruction 4500.42 requires that rebates on official travel be credited to the appropriation originally charged with the cost of the travel. However, crediting was not always done. Generally, CTOs issue monthly checks representing the DoD purchasing organizations' shares of commissions received from lodging and rental car vendors. For example, monthly checks issued under Navy CTO contracts for third-party rebates were forwarded to the Bureau of Naval Personnel. Although the Navy scanned the checks for reasonableness, no formal reconciliation to third-party sales transactions was performed. As a result, there was no assurance that the rebates were accurate or received. Further, according to Navy financial personnel, the rebates were not credited to the appropriation originally charged with the travel cost. The rebates were deposited in a general fund and returned as collections to the U.S. Treasury, and as a result they were unavailable to the originating DoD purchasing organization to pay future travel costs.

The Task Force addressed the reconciliation of third-party rebates in its January 1995 report. As one revision in the travel system, the Task Force recommended that use of the Government travel card would be maximized and the travel card company would provide DoD organizations with information reports detailing actual lodging and rental car charges. As a result, travel personnel at the DoD purchasing organizations would be able to match third-party sales transactions from the travel card company management reports to data provided by CTOs. In addition, the Task Force recommended that DoD organizations receive their share of third-party sales commissions in the form of discounts rather than rebates, thereby eliminating the need for further collection controls. Travelers would be charged the discounted price for lodging and rental car services.

Changing Market Conditions

In February 1995, two domestic airlines instituted a major change in the payment of commissions to CTOs. The two airlines instituted a \$50 limit on the commission paid to a CTO for processing an airline ticket sale instead of a percentage of the ticket cost normally paid. That policy change may expand to other airlines and may radically alter the relationship among the airlines, CTOs, DoD purchasing organizations, and the travelers. Normally, the CTO operating costs are recovered from commissions paid by the airlines and other vendors, and neither the DoD purchasing organization nor the DoD traveler are charged directly for services received. However, implementation of a commission limitation may result in the CTO providing no discounts or rebates, or directly charging the DoD purchasing organizations or travelers for ticketing and reservation services. The Task Force needs to be alert to those changes in market conditions, because in our opinion, it could have serious financial implications for DoD.

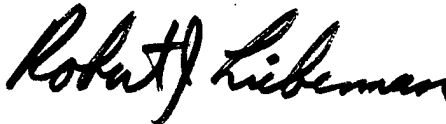
Conclusion

Opportunities exist to improve the efficiency and cost-effectiveness of acquiring travel services. Some organizations need to comply with regulations and acquire travel management services competitively. In addition, DoD should consolidate contracting authority to procure travel management services under a single entity. Also, internal controls over the receipt of third-party commissions need to be strengthened by using the discount method. If use of the discount method on third-party commissions cannot be achieved, then consideration should be given to eliminate the third-party commissions, which could result in higher discounts on air, bus, and rail ticketing sales and enhanced services. Further, the Task Force needs to consider those issues and changing market conditions.

Management Comments

We provided a draft of this report to the addressees on March 20, 1995. Because the report contains no findings or no recommendations, no comments were required, and none were received. Therefore, we are publishing this memorandum report in final form.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427) or Mr. Albert L. Putnam, Audit Project Manager, at (703) 604-9462 (DSN 664-9462). See the inside back cover of this report for a list of audit team members. The planned distribution of this report is listed in Enclosure 6.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Summary of FY 1994 Travel Data By Method Used to Provide Travel Management Services and by DoD Component

Method and Component ¹	Number of Contracts/MOUs		Sales Volume (in millions)			
	CONUS ¹	OCONUS ¹	CONUS		OCONUS	
			Official	Leisure	Official	Leisure
DoD CTO Contract						
Army ²	3	9	\$145.0	\$38.0	\$78.0	\$74.6
Navy (Official) ³	3	--	396.0	22.0	--	--
Navy (Leisure)	17	10	--	62.1	--	13.5
MC	8	2	31.7	24.6	11.2	5.9
Air Force	26	5	185.8	50.3	31.5	17.9
DISA	1	--	2.1	0.1	--	--
DLA	15	6	1.1	--	*	*
IG, DoD	1	--	2.2	0.1	--	--
MOUs with SATO						
Army ⁴	3	--	287.0	70.0	--	--
Air Force	13	15	72.0	13.7	20.9	10.1
DFAS	1	--	0.8	*	--	--
DoD In-House Operations						
Army ²	--	3	--	--	3.6	*
Navy	1	1	0	0.1	0	2.6
Air Force	--	2	--	--	4.4	--
DLA	--	3	--	--	*	*
WHS ⁵	1	--	16.0	--	--	--
GSA CTO Contract						
AFIS ⁶	1	--	0.2	0	--	--
DCAA ⁶	14	1	*	*	*	*
DeCA ⁶	5	--	0.5	*	--	--
DFAS ⁶	1	--	0.4	*	--	--
DLA	1	--	0.1	*	--	--
Total	115	57	\$1,140.9	\$281.0	\$149.6	\$124.6
Total Sales Volume = \$1,696.1						

* Data not available

¹ Acronyms used: AFIS = Armed Forces Information Service, CONUS = Continental United States, DCAA = Defense Contract Audit Agency, DeCA = Defense Commissary Agency, DFAS = Defense Finance and Accounting Service, DISA = Defense Information Systems Agency, DLA = Defense Logistics Agency, IG, DoD = DoD Inspector General, GSA = General Services Administration, MC = Marine Corps, OCONUS = Outside Continental United States, WHS = Washington Headquarters Services.

² A portion of sales volume data for the Army in South Korea was not available.

³ The three Navy official CTO contracts cover the Navy worldwide.

⁴ Army has awarded CTO contracts in all six of its Defense Travel Regions. However, in three of the six regions, conversion from MOUs with SATO to CTO contracts has been delayed as a result of bid protests. Implementation of the three contracts is expected within 120 days.

⁵ The \$16 million of official travel includes all travel costs, including per diem. Official air, bus and rail travel amounts to \$8 million.

⁶ AFIS, DCAA, DeCA, and DFAS have not separately procured CTO travel management services, but do use CTO services provided through contracts awarded by the Military Departments and GSA at various locations.

ENCLOSURE 1

Prior Audits and Other Reviews

General Accounting Office. The General Accounting Office issued Report No. GAO/AIMD/NSIAD-95-90, "Travel Process Reengineering: DoD Faces Challenges in Using Industry Practices to Reduce Costs," March 2, 1995. The General Accounting Office's audit objectives included reviewing the DoD travel management processes and costs, identifying the best practices resulting from industry's revamping of their travel programs and comparing them to the DoD current practices, and evaluating the DoD Task Force to Reengineer Travel initiatives for improving the travel process. The General Accounting Office recommended that DoD set milestones for implementing Task Force recommendations; determine and document the projected costs, benefits, and savings associated with the implementation; and establish performance indicators to monitor progress on meeting travel improvement objectives. The General Accounting Office also recommended that the Secretary of Defense provide the Task Force transition team with the necessary resources, authority to carry out the Task Force recommendations, leadership, and oversight to ensure successful implementation. The DoD Task Force transition team is incorporating the General Accounting Office recommendations into its initiatives.

Army. The Army Audit Agency issued Report No. SW 90-18, "Transportation Operations - III Corps and Fort Hood," May 30, 1990. The audit disclosed that the CTO did not provide temporary duty travelers with the most cost-effective airfares. The auditors recommended and management agreed that the Army:

- o issue policy guidance to the CTOs on use of discount airfares,
- o instruct CTOs to offer the most cost-effective routes to travelers,
- o reduce the review requirement for airline itineraries from a 100-percent review to a statistical review,
- o document interactions between the contracting officer's representative and the contractor regarding booking errors and reimbursement agreements, and
- o require the contracting officer's representative to monitor suspense dates assigned to reimbursement requests and submit requests not settled to the contracting officer for resolution.

ENCLOSURE 2
(Page 1 of 3)

Prior Audits and Other Reviews

Air Force. The Air Force Audit Agency issued Report No. 9076414, "Contracting for Travel Services," July 24, 1990. The Air Force initiated a pilot test program to convert travel management operations under an MOU with SATO at six installations to competitive CTO contracts during the 1987 and 1988 time frame. The audit stated that:

- o CTO quality assurance programs were either nonexistent or inadequate,

- o rebates to the Air Force were not appropriate or accurate,

- o CTOs did not always offer the lowest possible airfares or provide the required insurance coverage,

- o contract incentive and award fee clauses were ineffective, and

- o allegations of unfair competition and contract noncompliance were unsubstantiated.

The auditors recommended and management agreed that the Air Force:

- o direct the applicable major commands for the CTO test locations to establish and implement a quality assurance evaluation program for CTO contracts and require Air Force-wide implementation of the quality assurance evaluation program when contract travel services are expanded Air Force-wide;

- o require test locations to develop and implement procedures to validate the accuracy of contractor concession fees and ensure that the correct amount of fees are collected, and assist the field in developing automation procedures to more efficiently accomplish the concession fee validation process;

- o develop and implement uniform accounting procedures that provide a reasonable and equitable distribution of concession fees among appropriate user organizations;

- o direct major commands to require CTOs to identify when lower-cost, restricted air fares are available, require installation transportation officials to encourage travelers to use lower-cost, restricted air fares when possible, and enforce travel services contract insurance coverage requirements; and

- o require major commands to restrict incentive provisions for travel services contracts and establish appropriate criteria and measurement procedures for future travel services contracts.

ENCLOSURE 2
(Page 2 of 3)

Prior Audits and Other Reviews

Logistics Management Institute Study. The Logistics Management Institute issued Report No. AR306R1, "Management of Official Travel: A Time For Renewed Emphasis and Integration by the Army," August 1994. The report concluded that:

- o Army travel policy is ineffective,
- o quality control over travel services is inadequate,
- o travel authorization and payment procedures are duplicative and inefficient,
- o management information systems need to be improved, and
- o overall travel management is fragmented.

The authors of the report recommended that the Army:

- o develop and promulgate a travel policy that sets expectations and fixes responsibilities for all aspects of the Army's travel system,
- o develop an education program to inform all managers and travelers about the travel program and their responsibilities,
- o integrate all lodging operations under the charter of the Project Office for Army Commercial Travel Services,
- o work with the Assistant Secretary of the Army for Financial Management to ensure that the Army charge card program supports the travel management process through a policy of maximum use, and
- o develop a data collection and analysis plan to provide departmental review of the travel program and report periodically to Army leadership on the findings.

ENCLOSURE 2
(Page 3 of 3)

Methods Used To Provide Travel Management Services

DoD CTO Contracts. Those contracts were developed, solicited, awarded, and administered by various DoD organizations. They were no-fee contracts whereby the CTO contractors provide full CTO services without direct cost outlays by DoD to cover overhead costs, such as equipment and personnel. The CTOs pay the overhead costs from income earned from sales commissions received from the travel service vendors, such as airline, lodging, and rental car companies. DoD CTO contracts generally provide for the return of a contractual share of the commission received by the CTO through discounts or rebates to the DoD purchasing organization on official travel and to designated morale, welfare, and recreation organizations on leisure travel.

Discounts generally were given by reducing the price of the airline, bus, or rail ticket, thus requiring the DoD purchasing organization to pay the net amount. For example, a contract between a DoD purchasing organization and a CTO provides for a 3-percent discount on all airline ticket purchases, and a separate agreement between the CTO and the airline vendor provides for a 10-percent sales commission (net of discounts to the purchaser) on all airline tickets processed. If the ticket price to travel from Point A to Point B and return was \$100, the DoD purchasing organization would pay the airline only \$97 (\$100 minus \$3). The airline would then rebate the remaining portion (\$7) of the sales commission to the CTO.

Rebates on third-party sales such as lodging and rental car services were periodically refunded by the CTO to the appropriate DoD purchasing organizations. Those third-party rebates were based on a percentage (as specified in a particular CTO contract) of the third-party sales commissions received by the CTO from the vendors. The amount of commissions received by the CTO are independently negotiated on lodging and car rental between the CTO and the vendor. The DoD purchasing organization does not know the applicable rebate percentage.

General Services Administration CTO Contracts. Those contracts were similar to DoD CTO contracts in that they were competitively awarded no-fee type contracts. The contracts provide for some discounts or rebates. However, the General Services Administration contracts generally did not provide for rebates on third-party sales.

In-House Travel Offices. This a noncompetitive type of service provided by DoD employees. DoD incurred direct costs for overhead such as equipment,

ENCLOSURE 3
(Page 1 of 2)

Methods Used To Provide Travel Management Services

facilities, and personnel. In-house travel offices achieve the same ticket costs as provided for under the General Services Administration negotiated airfare prices, but no discounts or rebates were received by the DoD purchasing organizations.

SATO MOU. Travel management services provided under this arrangement were non-competitive under a 1981 agreement between DoD and SATO (now SatoTravel, Incorporated). SatoTravel is a not-for-profit corporation owned and operated by 11 major U.S. airlines. Under the MOU, SATO provided only ticketing services for airline, bus, and rail services. Generally, discounts or rebates, normally received under CTO contracts, were not received by the DoD purchasing organizations under the MOU.

Summary of the Range of CTO Contract Discount and Rebate Percentages by DoD Component

Component ²	Discounts and Rebates (percentage range) ¹					
	CONUS ²			OCONUS ²		
	Official	Leisure	Third Party ³	Official	Leisure	Third Party ³
DoD CTO Contract						
Army	3.1 -- 4.1	3.8 -- 5.2	25 -- 100	0 -- 10.0	0 -- 10.0	0 -- 50
Navy (Official)	3.5 -- 4.3	3.5 -- 4.0	25	3.5 -- 3.8	3.5 -- 4.0	25
Navy (Leisure)		1.0 -- 5.0	0 -- 35		3.0 -- 4.0	0 -- 50
MC	2.5 -- 4.8	0.3 -- 4.5	0	3.9 -- 4.9	3.0 -- 4.3	0
Air Force ⁴	0 -- 7.1	0 -- 7.1	0	0 -- 4.5	0 -- 4.4	0 -- 50
DISA ⁵	2.0 -- 3.1	2.0 -- 3.1	2 -- 3			
DLA	0 -- 10.0	0 -- 15.1	0	*	*	*
IG, DoD	2.7	5.2	27			

* These are small, isolated DLA offices. Discount/rebate data were not considered material.

¹ The percentage or percentage range of CTO discounts and rebates presented in this table are based on actual contracts in force and contracts awarded and awaiting implementation.

Some organizations under the Armed Forces Information Service, Defense Contract Audit Agency, Defense Commissary Agency, Defense Finance and Accounting Service and Defense Logistics Agency are being serviced by General Services Administration CTO contracts. Rebates on official travel ranged from 0 to 3.94 percent.

² Acronyms used: CONUS = Continental United States, DISA = Defense Information Systems Agency, DLA = Defense Logistics Agency, IG, DoD = DoD Inspector General, MC = Marine Corps, OCONUS = Outside Continental United States.

³ Third-party rebates are based on a percentage of the CTOs commission received from lodging and rental car sales booked through the CTO.

⁴ The Air Force has one contract for Alaska that provides third-party rebates. All other Air Force travel arrangements do not provide third party rebates.

⁵ Rebates are based on a percentage of the CTOs commission and not sales volume.

ENCLOSURE 4

Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Deputy Under Secretary of Defense for Logistics, Washington, DC
Office of the Director of Defense Procurement, Washington, DC
DoD Task Force to Reengineer Travel, Washington, DC

Department of the Army

U.S. Army Europe, Frankfurt, Germany
Eighth U.S. Army, Seoul, South Korea
Military Traffic Management Command, Falls Church, VA

Department of the Navy

Bureau of Naval Personnel, Arlington, VA
U.S. Pacific Fleet, Naval Submarine Base Pearl Harbor, HI
U.S. Marine Corps, Arlington, VA
Marine Forces Pacific, Camp Smith, HI

Department of the Air Force

Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force for Acquisition, Washington, DC
U.S. Air Force, Director of Services, Washington, DC
U.S. Air Force, Directorate of Transportation, Washington, DC
Air Force Space Command, Director of Transportation, Peterson Air Force Base (AFB), CO
Air Combat Command, Director of Transportation, Langley AFB, VA
Air Education and Training Command, Director of Transportation, Randolph AFB, TX
Air Materiel Command, Director of Transportation, Wright-Patterson AFB, OH
Air Force Special Operations Command, Director of Transportation, Hurlburt AFB, FL
Air Mobility Command, Director of Transportation, Scott AFB, IL
Pacific Air Forces, Director of Transportation, Hickam AFB, HI
United States Air Force in Europe, Director of Transportation, Ramstein Air Base, Germany
Headquarters, Air Force Reserve, Director of Transportation, Robins AFB, GA

ENCLOSURE 5
(Page 1 of 5)

Organizations Visited or Contacted

Department of the Air Force (cont'd)

Air National Guard, Director of Transportation, Washington, DC
Air Force District of Washington, Bolling AFB, Washington, DC

Other Defense Organizations

U.S. European Command, Stuttgart, Germany
U.S. Pacific Command, Camp Smith, HI
U.S. Transportation Command, Scott AFB, IL
Defense Logistics Agency, Alexandria, VA
Defense Contract Management Center, Dayton, OH
Defense Contract Management Area Operations Alverca, Portugal
Defense Contract Management Area Operations Ankara, Turkey
Defense Contract Management Area Operations Brindisi, Italy
Defense Contract Management Area Operations Bristol, United Kingdom
Defense Contract Management Area Operations Brussels, Belgium
Defense Contract Management Area Operations Frankfurt, Germany
Defense Contract Management Area Operations London, Canada
Defense Contract Management Area Operations Madrid, Spain
Defense Contract Management Area Operations Mayaguez, Puerto Rico
Defense Contract Management Area Operations Ontario, Canada
Defense Contract Management Area Operations San Juan, Puerto Rico
Defense Contract Management Area Operations Vicenza, Italy
Defense Contract Management District Northeast, Boston, MA
Defense Contract Management Area Operations Fort Benjamin, IN
Defense Contract Management Area Operations Grand Rapids, MT
Defense Contract Management Area Operations Kansas City, MO
Defense Contract Management Area Operations Salt Lake City, UT
Defense Contract Management Office Milwaukee, WI
Defense Contract Management Office Rockford, IL
Defense Plant Representative Office Fort Wayne, IN
Defense Plant Representative Office Magna, UT
Defense Plant Representative Office Wichita, KS
Defense Contract Management District South, Marietta, GA
Defense Contract Management Area Operations Birmingham, AL
Defense Contract Management Area Operations Clearwater, FL
Defense Contract Management Area Operations Dallas, TX
Defense Contract Management Area Operations Orlando, FL
Defense Contract Management Area Operations San Antonio, TX
Defense Plant Representative Office Birmingham, AL
Defense Plant Representative Office Dallas, TX
Defense Plant Representative Office Fort Worth, TX
Defense Plant Representative Office Greensboro, NC

Other Defense Organizations (cont'd)

Defense Plant Representative Office Greenville, TX
Defense Plant Representative Office Melbourne, FL
Defense Plant Representative Office New Orleans, LA
Defense Plant Representative Office Orlando, FL
Defense Plant Representative Office Palm Bay, FL
Defense Plant Representative Office Richardson, TX
Defense Plant Representative Office Sealy, TX
Defense Plant Representative Office Titusville, FL
Defense Plant Representative Office West Palm Beach, FL
Defense Contract Management District West, El Segundo, CA
Defense Contract Management Area Operations Anaheim, CA
Defense Contract Management Area Operations Bellevue, WA
Defense Contract Management Area Operations Bloomington, MN
Defense Contract Management Area Operations Chicago, IL
Defense Contract Management Area Operations Colorado Springs, CO
Defense Contract Management Area Operations Englewood, CO
Defense Contract Management Area Operations Newport Beach, CA
Defense Contract Management Area Operations Phoenix, AZ
Defense Contract Management Area Operations St. Louis, MO
Defense Contract Management Area Operations San Diego, CA
Defense Contract Management Area Operations Santa Ana, CA
Defense Contract Management Area Operations Van Nuys, CA
Defense Contract Management Area Operations Wichita, KS
Defense Plant Representative Office, Brigham City, UT
Defense Plant Representative Office, Conoga Park, CA
Defense Plant Representative Office, Denver, CO
Defense Plant Representative Office, El Segundo, CA
Defense Plant Representative Office, Fullerton, CA
Defense Plant Representative Office, Hazelwood, MO
Defense Plant Representative Office, Minneapolis, MN
Defense Plant Representative Office, Pico Rivera, CA
Defense Plant Representative Office, San Jose, CA
Defense Plant Representative Office, Seattle, WA
Defense Depot, Germersheim, Germany
Defense Fuel Supply Center, Richmond, VA
Defense Fuels Region, Wiesbaden, Germany
Defense Logistics Agency, Wiesbaden, Germany
Defense Personnel Support Center, Philadelphia, PA
Defense Personnel Support Center, Mainz-Kastel, Germany
Defense Personnel Support Center, Bremerhaven, Germany
Defense Personnel Support Center, Copenhagen, Denmark
Defense Personnel Support Center, Felixstowe, United Kingdom
Defense Personnel Support Center, Frankfurt, Germany
Defense Personnel Support Center, Kaiserslautern, Germany

Organizations Visited or Contacted

Defense Organizations (cont'd)

Defense Personnel Support Center, Kastel, Germany
Defense Personnel Support Center, London, United Kingdom
Defense Personnel Support Center, Nuremberg, Germany
Defense Personnel Support Center, Saarbrucken, Germany
Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Region, Wiesbaden, Germany
Defense Reutilization and Marketing Office, Augsburg, Germany
Defense Reutilization and Marketing Office, Aviano, Italy
Defense Reutilization and Marketing Office, Bitburg, Germany
Defense Reutilization and Marketing Office, Chievres, Belgium
Defense Reutilization and Marketing Office, Germersheim, Germany
Defense Reutilization and Marketing Office, Giessen, Germany
Defense Reutilization and Marketing Office, Grafenwoehr, Germany
Defense Reutilization and Marketing Office, Hanau, Germany
Defense Reutilization and Marketing Office, Incirlik, Turkey
Defense Reutilization and Marketing Office, Kaiserslautern, Germany
Defense Reutilization and Marketing Office, Kastel, Germany
Defense Reutilization and Marketing Office, Lajes, Azores
Defense Reutilization and Marketing Office, Livorno, Italy
Defense Reutilization and Marketing Office, Ludwigsburg, Germany
Defense Reutilization and Marketing Office, Molesworth, United Kingdom
Defense Reutilization and Marketing Office, Nuremberg, Germany
Defense Reutilization and Marketing Office, Rota, Spain
Defense Reutilization and Marketing Office, Schweinfurt, Germany
Defense Reutilization and Marketing Office, Seckenheim, Germany
Defense Reutilization and Marketing Office, Sigonella, Italy
Defense Reutilization and Marketing Office, Vicenza, Italy

Defense Contract Audit Agency, Cameron Station, Alexandria, VA
Defense Commissary Agency, Fort Lee, VA
Defense Commissary Agency Central Region, Naval Amphibious Base, Little Creek, VA
Defense Commissary Agency Midwest Region, Kelly AFB, TX
Defense Commissary Agency Southern Region, Maxwell AFB, TX
Defense Commissary Agency Southwestern Region, Marine Corps Air Station, El Toro, CA
Defense Commissary Agency Northwestern Region, Fort Lewis, WA
Defense Commissary Agency European Region, Capon AFB, GE
Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service, Cleveland Center, Cleveland, OH
Defense Finance and Accounting Service, Columbus Center, Columbus, OH
Defense Finance and Accounting Service, Denver Center, Denver, CO
Defense Finance and Accounting Service, Indianapolis Center, Indianapolis, IN
Defense Finance and Accounting Service, Kansas City Center, Kansas City, KS
Defense Information Systems Agency, Arlington, VA

Organizations Visited or Contacted

Defense Field Activities

Office of the Assistant Inspector General for Administration and Information
Management, Department of Defense, Arlington, VA
Washington Headquarters Services, Washington, DC
Armed Forces Information Service, Alexandria, VA
Armed Forces Radio and Television Services, Broadcast Center, Sun Valley, CA

Non-Government Organizations

Scheduled Airlines Traffic Offices, Inc., SatoTravel, Arlington, VA

ENCLOSURE 5
(Page 5 of 5)

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense for Logistics
Director, Defense Procurement
Assistant to the Secretary of Defense (Public Affairs)
DoD Task Force to Reengineer Travel

Department of the Army

Assistant Secretary of the Army (Installations, Logistics, and Environment)
Commander, U.S. Army Europe
Commander, U.S. Forces Korea/Eighth U.S. Army
Auditor General, Department of the Army
Commander, Military Traffic Management Command

Department of the Navy

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander in Chief, U.S. Naval Forces Europe
Commander in Chief, U.S. Pacific Fleet
Auditor General, Department of the Navy
Commander, Naval Supply Systems Command

Department of the Air Force

Office of the Deputy Chief of Staff (Logistics)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, U.S. Air Forces Europe
Commander in Chief, U.S. Pacific Air Force
Auditor General, Department of the Air Force

ENCLOSURE 6
(Page 1 of 2)

Report Distribution

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Central Imagery Office
Director, Joint Staff
Commander in Chief, U.S. Transportation Command
Director, Armed Forces Information Service
Director, Washington Headquarters Services

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs Division, Technical Information Center
National Security and International Affairs Division, Defense and National
Aeronautics and Space Administration Management Issues
National Security and International Affairs Division, Military Operations and
Capabilities Issues
General Services Administration

Chairman and Ranking Minority Members of each of the following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

This report was produced by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD

Shelton R. Young
John S. Gebka
John A. Gannon
Albert L. Putnam
Jeffrey A. Lee
Edward L. Grimm, Jr.
Luis B. Marcano Roman
Donald C. Shaw
Kristene M. McMinn
Timothy J. Harris
Delores Brooks