

The Price of Addressing Payment Delinquency and Misuse

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Subject Area General

Government Travel Cards:
The Price of Addressing
Payment Delinquency and Misuse
EWS Contemporary Issues Paper
Submitted by
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To
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Between October 1998 and May 2002, Bank of America wrote off over \$62 million in bad debt from Department of Defense (DoD) government travel cardholders.¹ The travel card payment delinquency rate within the DoD for 2001 exceeded twelve percent of all dollars charged, costing the government over \$3 million in lost rebates.² By early 2002, Congress and the Secretary of Defense demanded changes to improve performance and accountability of the DoD Travel Card Program. Subsequent travel card reforms and policy changes have significantly reduced payment delinquency and misuse, but have done so at a cost to both military units and travelers. Travel card reforms and policy changes within the DoD and Marine Corps since May 2002 prevent units and travelers from realizing the envisioned benefits of the DOD Travel Card Program.

Envisioned Travel Card Benefits

The travel card is intended to benefit the government, military units, and travelers alike. According to the 2003 DoD Financial Management Regulation:

... the travel card program is intended to facilitate and standardize the use by DoD travelers of a safe, effective, convenient, commercially available method to pay for expenses incidental to official travel. The travel card is used to improve DoD cash management, reduce DoD and traveler administrative workloads, and facilitate better service to DoD travelers. In addition, because of the refund nature of the travel card program, the program results in cost savings for the Department. . .³

The DoD Travel Card Program Management Office (PMO) considers the following benefits to the traveler: No interest charges, extended repayment terms, delayed late fees, and no need to use personal funds or credit card(s).⁴ According to Mr. Steve Johnson of the DoD Travel Card PMO, it is impossible to determine the exact amount of money saved in reduced administrative expenses by utilizing the travel card, but the DoD did receive approximately \$8 million in rebates from Bank of America in 2004 alone. Finally, the travel card provides a no-cost means to advance travel funds.⁵

Background

The use of travel cards is not new within the DoD. The DoD initially issued Diners Club cards in 1983 and later switched to American Express.⁶ NationsBank won the travel card contract in 1998, and subsequently merged with Bank of America in 1999.⁷ Bank of America maintains the current travel card contract. The Travel and Transportation Reform Act of 1998 requires, "All DoD personnel shall be required to use the government-sponsored, contractor-issued travel charge card for all expenses arising from official government travel. . . ."⁸

The language justifying the travel card has somewhat shifted focus since 2000. According to Marine Administrative Message (MARADMIN) 094/00, the travel card "was initiated to limit the amount of public funds held outside the U.S. Treasury

and reduce the amount of money the government has to borrow.” However, today’s attention and justification for the travel card focus more on rebates and reduced administrative costs. At least six MARADMINs have been released since February 2000 addressing payment delinquency, misuse, and lost rebates.⁹

In 2002, Gregory D. Kutz, Director, Financial Management and Assurance, Government Accounting Office (GAO), testified before a House of Representatives subcommittee that service branch audits identified “significant breakdowns in key internal controls over individually billed travel cards.”¹⁰ Mr. Kutz further noted, “The breakdowns stemmed from a weak overall control environment, a lack of focus on oversight and management of the travel card program, and a lack of adherence to valid policies and procedures.”¹¹ Such discrepancies in administration and oversight of the DoD Travel Card Program in 2001 resulted in hundreds of misuse instances, a delinquency rate of over twelve percent of all dollars charged on the travel card, and approximately four percent of cardholders throughout the DoD with delinquent accounts.¹² As previously stated, payment delinquency and charge-offs cost the government over \$3 million in 2001 from lost rebates.

Response

The Marine Corps released significant reforms and policy changes concerning the administration and supervision of travel

cards via MARADMIN 264/02 on 13 May 2002.¹³ In summary, the changes stated:

1. Agency Program Coordinators (APC) will deactivate cards on all personnel not scheduled for official travel. Cards will not be reactivated until 10 days before official travel begins, and deactivated immediately upon conclusion of official travel.
2. Commanders will conduct spot checks of at least 25 percent of all accounts that had activity during a given month. Any noted pattern of misuse requires an expanded check population to 50 percent.
3. Permanent Change of Station (PCS) travel exempt from travel card requirement.
4. APCs will deactivate travel cards of departing personnel.¹⁴

Former Under Secretary of Defense (Comptroller), Dov S. Zakeim, further required in September 2002 that any travel card account not active in the previous twelve months be closed "to reduce the unnecessary administrative burden, and reduce the potential abuse and misuse by individuals that are not required to use the card."¹⁵ Finally, the Bob Stump National Defense Authorization Act for fiscal year 2003 contained provisions for mandatory split disbursement and salary offset against DoD employees' pay.¹⁶ The government (Congress, DoD, and USMC) response to payment delinquency and misuse is clear and specific.

Improvement

Reforms and policy changes within the DoD and services have significantly reduced payment delinquency and misuse. According

to Mr. Johnson, DoD delinquent payments have decreased from over twelve percent in 2001 to approximately 5.3 percent in 2004 of all dollars charged to travel cards within the DoD. The percentage of cardholders with delinquent accounts in the DoD has decreased from approximately four percent in 2001 to less than two percent of the 1.1 million DoD cardholders in 2004. Consequently, government rebates from DoD Travel Cards increased from \$4 million in 2001 to \$8 million in 2004.¹⁷ Additionally, three East Coast units cite between 25-40 percent reductions in travel card misuse since initiating expanded spot checks of member account activity.¹⁸ Clearly, improvements have been made in the way of payment delinquency and misuse through reforms, policy changes, oversight, and adherence to policy and procedures.

Unit Impact

Such significant improvements in travel card payment delinquency and misuse have not been made without impacts on military units. One of the envisioned benefits of the travel card is reduced administrative expenses.¹⁹ The amount of money saved in reduced administrative infrastructure by participating in the travel card program is impossible to determine. However, the functional impact on unit administrative (S-1) shops is considerable. Marine Corps reforms and policy changes have substantially increased administrative workloads in the units.

One squadron S-1 officer, a pilot, estimated that his shop spends forty to fifty percent of its time addressing the requirements of the travel card program.²⁰ Not only must units activate and deactivate travel cards between periods of known temporary additional duty (TAD), but units must also be prepared to make travel cards available for unexpected periods of TAD. For example, if an aircraft breaks down at an airfield away from its home base, S-1 personnel must be prepared to activate not only the aircrews' travel cards, but also the "rescue" personnel travel cards. Such operating procedures demand substantial time requirements that could be avoided if the travel cards simply remained activated.

Other units require S-1 personnel to spot check at least fifty percent of account activity for patterns of misuse.²¹ While few units demand expanded spot checks to identify and curb travel card misuse, such requirements are indicative of the inefficient climate surrounding the DoD travel card program. One East Coast ground unit requires its APC to keep all the travel cards belonging to noncommissioned officers (NCO) and below in a unit safe until required for use.²² Such practices significantly detract from the convenience and reduced administrative burden envisioned for the travel card program. Units feel pressured to take these unreasonable measures to prevent misuse or abuse.

Traveler Impact

Given the extensive benefits of the travel card program for the government, the program is here to stay. DoD members using travel cards do benefit from no interest charges and extended payment terms when the reimbursement process works as designed. The DoD Financial Management Regulation of August 2003 stipulated that travelers must submit travel claims within five days of returning from TAD. Furthermore, agencies are required to reimburse travelers within thirty days of the submission of a complete and accurate travel claim. Finally, travel claims containing errors or omissions must be returned to the traveler for resubmission within seven days.²³ According to Mr. Johnson, reimbursement issues continue to prove challenging and increase the DoD's payment delinquency rate.

The DoD Travel Card PMO emphasizes that travel card payments "are the obligation of the cardholder. . . there is no condition on payment after reimbursement."²⁴ Numerous variables impact the timeliness of reimbursement. Travel claims submitted after TAD of thirty days or more inherently run the risk of delinquency before reimbursement.²⁵ Additionally, orders requiring modification significantly slow the reimbursement process. In 2004, over half of the Marines and officers in one East Coast squadron said they would prefer to use personal methods of payment than use the travel card.²⁶ Thus, in cases of

untimely reimbursement, interviewed travelers felt more comfortable making minimum payments on personal credit cards until reimbursement than suffering the negative attention of not being able to make full payments on the travel card.²⁷

Even though APCs spend significant amounts of time activating and deactivating travel cards, nearly ten percent of questioned travelers claim to have executed official travel with an inactive card. One S-1 officer maintained that the activation of some travel cards takes multiple calls to Bank of America even after official travel commences.²⁸ Such dilemmas certainly provide obstacles to the envisioned benefits of the travel card for the traveler. More importantly, time and energy is wasted by travelers and the unit S-1 shops.

Rebuttal

Advocates of the travel card program in its current state maintain that the envisioned benefits of the travel card are, in fact, being realized by those units and travelers that adhere strictly to the established policies. However, the reforms and policies are not focused on benefiting the units or travelers, but rather on addressing symptoms of misuse and missed rebates. Commanders are under such pressure to prevent delinquency and misuse that unit administrative requirements concerning travel cards are often inefficient and counterproductive. Additionally, untimely traveler reimbursement, for a variety of

reasons, necessitates individuals making travel card payments from personal funds. The answer to travel card misuse and payment delinquency is training, not inefficient policy. Units must guarantee Marines understand the travel card regulations, ramifications for misuse, and methods to ensure timely reimbursement. Proper training addresses the problem, not simply the symptoms.

Conclusion

Mr. Johnson states, "The challenge is recognizing that we don't have a perfect system."²⁹ Significant progress has been made in the way decreasing payment delinquency and misuse within the DoD, increasing rebates, and strengthening the relationship between the DoD and Bank of America. Reforms and policy changes within the DoD and Marine Corps since May 2002, while decreasing travel card misuse and payment delinquency, prevent units and travelers from realizing the envisioned benefits of the DoD travel card program.

Notes

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- ¹ Commandant of the Marine Corps, *Marine Administrative Message (MARADMIN)* 264-02: *Government Travel Charge Card Program (GTCCP)*, 13 May 2002.
- ² Steve Johnson, interview by Charles Dudik, telephone, 13 December 2004.
- ³ U.S. Department of Defense, *DoD Financial Management Regulation (FMR)*, Volume 9, Chapter 3, August 2003, 3-5.
- ⁴ U.S. Department of Defense Travel Card Program Management Office, "GSA SmartPay Conference: DoD Travel Card Program," <www.dfas.mil>, (11 December 2004), 6.
- ⁵ Johnson Interview.
- ⁶ Linda D Kozaryn, "DoD Travelers Can Soon Access Charge Accounts," *American Forces Press Service*, 2 September 1999.
- ⁷ Commandant of the Marine Corps, *Marine Administrative Message (MARADMIN)* 302-99: *Government Travel Charge Card Program (GTCCP) Update*, 8 July 1999.
- ⁸ U.S. Department of Defense, *Policies to Implement the "Travel and Transportation Reform Act (TTRA) of 1998*, <www.dfas.mil/money/travel/refpolicy.htm> (11 Dec 2004), 1.
- ⁹ MARADMINs listed in Bibliography to support statement.
- ¹⁰ Kutz, Gregory D, Testimony Before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives, "Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse," 8 October 2002, <www.gao.gov> (11 December 2004), 11.
- ¹¹ Kutz 11.
- ¹² Johnson Interview.
- ¹³ Commandant of the Marine Corps, *Marine Administrative Message (MARADMIN)*, 264-02.
- ¹⁴ Commandant of the Marine Corps, *Marine Administrative Message (MARADMIN)*, 264-02.
- ¹⁵ Commandant of the Marine Corps, *Marine Administrative Message (MARADMIN)* 514-02: *Government Travel Charge Card Program (GTCCP) Closure of Infrequent Traveler Accounts*, 24 September 2002.
- ¹⁶ Dov S. Zakheim, Under Secretary Of Defense (Comptroller) Memorandum: *Implementation of Legislative Changes to the Department of Defense (DoD) Travel Card Program*, 23 April 2003.
- ¹⁷ Johnson Interview.
- ¹⁸ Interviews of three unnamed current or former Administrative Officers/Agency Program Coordinators.
- ¹⁹ U.S. Department of Defense Travel Card Program Management Office, "GSA SmartPay Conference: DoD Travel Card Program," <www.dfas.mil> (11 December 2004), 5.
- ²⁰ Interview of one unnamed Administrative Officer/Agency Program Coordinator.
- ²¹ Interviews of three unnamed current or former Administrative Officers/Agency Program Coordinators.
- ²² Interview of one unnamed former Agency Program Coordinator.
- ²³ U.S. Department of Defense, *DoD Financial Management Regulation (FMR)*, Volume 9, Chapter 3, August 2003, <www.dtic.mil/comptroller/fmr/> (11 Dec 2004), 3-18.
- ²⁴ U.S. Department of Defense Travel Card Program Management Office, 16.
- ²⁵ Members that are TAD over 30 days must submit partial claims beginning at the 22-day mark, then every 30 days thereafter.
- ²⁶ Interview of one unnamed, former Administrative Officer/Agency Program Coordinator.
- ²⁷ Interview of one unnamed Administrative Officer/Agency Program Coordinator.
- ²⁸ Interview of one unnamed Administrative Officer/Agency Program Coordinator.
- ²⁹ Johnson interview.

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