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GOING NOWHERE: DOD WASTES MILLIONS OF DOLLARS ON UNUSED AIRLINE TICKETS

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

JUNE 9, 2004

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GOING NOWHERE: DOD WASTES MILLIONS OF DOLLARS ON UNUSED AIRLINE TICKETS

WEDNESDAY, JUNE 9, 2004

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:04 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Coleman, Lautenberg, and Pryor.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

Good morning. Today, the Governmental Affairs Committee will focus on ways to end mismanagement in the Department of Defense's travel card program. An important part of this Committee's mandate is to protect the Federal treasury from waste, fraud, and abuse.

At a time of war, when every dollar is needed to support our troops and to fight terrorism, this mandate is particularly critical. It is very troubling that the Defense Department has wasted millions of dollars in unused airline tickets due to sloppy and inadequate financial controls. Every dollar wasted by the Pentagon is a dollar that could be spent on the war against terrorism.

We will hear testimony that in fiscal years 2001 and 2002, the Pentagon paid for more than 41,000 airline tickets that it did not use. The Department did not seek and did not obtain refunds for these tickets. Those unused tickets cost taxpayers about $17 million.

During the same 2-year period, the Department also failed to obtain refunds for the unused portions of more than 82,000 additional tickets. All in all, the General Accounting Office conservatively estimates that the Defense Department has wasted more than $100 million in unused airline tickets since 1997.

This estimate, I would note, does not include millions of additional dollars in travel card waste uncovered by the GAO. For example, the GAO found that some Defense Department employees were improperly reimbursed for airline tickets that were originally paid for by the Federal Government, not by the individual traveler. Thus, the government ended up paying twice for the same ticket.

This is a clear case of waste and mismanagement, and possibly outright fraud. The GAO referred about 27,000 cases of improper reimbursement for further investigation.

We, in public service, have an obligation to treat the public's money in the same way that we would treat our own. I cannot imagine any responsible person buying an airline ticket out of his or her own pocket, then not using it, and then not turning it in for a refund. We must demand that Federal employees take that same care with the public purse.

I want to acknowledge the work done in this area by Senator Coleman and Senator Levin of this Committee. They have been vigorous in exposing waste, fraud, and abuse in the Federal Government's purchase and travel card programs.

I am also very pleased that we are joined this morning by Senator Chuck Grassley, the Chairman of the Senate Finance Committee, and Representative Janice Schakowsky of Illinois, who will be our first witnesses. They, too, have been vigorous in requesting GAO reports, so I want to thank all of the individuals—Senator Coleman, Senator Levin, Senator Grassley, and Representative Schakowsky—for their hard work in this area.

Our second panel of witnesses this morning includes representatives of the General Accounting Office, who will discuss their two reports which are being released today. These reports deal with the Department of Defense's use of what are known as centrally-billed accounts to purchase airline tickets for its employees. A centrally-billed account is essentially a credit card number that employees use to buy airline tickets for official travel. The bill for these charges is paid directly by the government.

In the years audited by the GAO, the Defense Department spent approximately $2.4 billion through centrally-billed accounts. The GAO made three key findings that we will hear more about this morning. First, it found a lack of Department-wide controls over these accounts that allowed the buying of millions of dollars of airlines tickets that were not used and yet were not processed for refunds. It is disturbing to me that the Pentagon was apparently not even aware of this problem before the GAO's investigation.

The GAO's second finding was that some airline tickets purchased by the Department through these accounts were improperly submitted by the traveler for reimbursement. Again, due to weaknesses in the Department's financial controls, the Department could not consistently detect that the government had already paid for these tickets. The GAO found dozens of such cases.

For example, one traveler, a GS–15 employee, was improperly reimbursed for 13 separate airline tickets purchased during a 10-month period. The Department paid this employee close to $10,000 for tickets that the government, not the traveler, had paid for in the first place.

Finally, the GAO found that weaknesses in DOD's financial systems made its accounts vulnerable to fraud. People with knowledge of the system, whether or not they worked for DOD, could exploit those weaknesses to obtain fraudulently an airline ticket purchased by the Federal Government. The GAO investigators were able to demonstrate this weakness by creating a fraudulent travel order and, by using this travel order, GAO was able to obtain a very real airline ticket and boarding pass. It was alarmingly simple for the GAO investigators to secure a boarding pass in a false name at the airport. They will explain this morning how they were able to do

so. But this raises concerns about airport security, as well as about the financial fraud issues that the GAO set out to investigate.

Unfortunately, the problems identified by these GAO reports are but one aspect of longstanding deficiencies in the Department of Defense's financial management. That is why, since 1995, the Department's financial management has consistently appeared on the GAO's list of high-risk areas that are vulnerable to waste, fraud, and abuse.

We will also hear this morning from representatives of the Defense Department who will respond to the GAO's findings and recommendations. I am pleased that the Pentagon has concurred with the GAO's recommendations and has begun the process of seeking refunds for the unused tickets identified by the GAO. But even more important, I hope that the Department will tell us how it plans to fix the flaws not only in its travel card program, but also to improve its financial management generally. Nine years on the GAO's high-risk list is far too long for a department responsible for a critical mission and hundreds of billions of taxpayer dollars.

Again, I want to thank all of our witnesses who have come before us today, and I look forward to hearing their statements.

Senator Lautenberg.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thank you, Madam Chairman, for holding this hearing today to highlight the waste, fraud, and abuse concerns in the Department of Defense travel system. I am heartened that DOD is already taking steps to rectify the problems that the General Accounting Office has identified in that system.

According to GAO investigators, as we have heard from our Chairman, DOD is sitting on $100 million in unused airline tickets that date back to 1997. It's an outrageous condition and it's completely unacceptable. It's a large sum.

But this condition, unfortunately, doesn't come as a surprise. We are aware of other situations that raise questions of even far larger magnitude, despite the fact that this is $100 million. For instance, the Halliburton Company has a no-bid contract and we haven't yet had a hearing in our Committee on that contract, which was permitted to grow from $50 million to $2.5 billion without competitive bidding or accountability.

One of the concerns raised is that it would duplicate investigations being conducted by the GAO, the Defense Criminal Investigation Service, and the Defense Contract Audit Agency. That wouldn't be unusual because much of what this Committee has already done under the chairmanship of Senator Collins duplicates work being done by Executive Branch agencies to be absolutely certain that nothing falls through the cracks. For instance, hearings on Enron held by our Committee in 2002 duplicated investigations being done by the Securities and Exchange Commission, the Department of Justice, the Internal Revenue Service, the Department of Labor, and the Federal Energy Regulatory Agency.

Hearings on tax shelters, held just last November, paralleled investigations being done by the SEC and the Department of Justice and the IRS. In our hearing on abuses, we have been persistent in this and the Chairman has shown great leadership on this.

In the mutual fund industry, we are simultaneous with investigations being done by the SEC, the Department of Justice, GAO, the National Association of Securities Dealers, as were hearings earlier this year on DOD contractors who don't pay their taxes by the IRS and General Accounting Office. And the hearing held just over a month ago on the misuse of government purchase cards, duplicative investigations being done by GAO, the Government Services Administration, etc. Obviously, the history of hearings held in this Committee by Chairman Collins confirms the need for accountability, even if other investigations are underway.

I think this principle should also apply to Halliburton just as it did to Enron. Recent revelations make the need for a hearing on no-bid contracts critical. According to a recently uncovered Army Corps of Engineers E-mail from March, 2003, approval of this no-bid contract was coordinated with the Vice President's office. No accusations here. We don't know all the details of this coordination. But that is why we need a hearing, and what concerns me is that this situation may be simply the tip of the iceberg.

An article in one of my State's major newspapers, the *Asbury Park Press,* reports that the Halliburton contract is a sign of something more troubling and widespread: The Federal Government's growing tendency to hire companies under a process that has increasingly emphasized speed and efficiency over competition and oversight.

We have seen this in Iraq, where not only food and shelter but also some of the security things that used to be handled by the military, where some very brave non-military people paid for those services with their lives. That was a decision that was made.

The bottom line is that we appropriated over $20 billion for the reconstruction of Iraq, and over $190 million for the overall war, and the ongoing expense estimate is about $5 billion per month. The reconstruction in Iraq ushered in enormous changes in the way that the Federal Government conducts its procurement, and we need to review those changes and the many problems they have precipitated.

Madam Chairman, I thank you for opening the door with this Committee hearing today.

PREPARED STATEMENT OF SENATOR LAUTENBERG

Madam Chair:

I'm glad we are holding this hearing today to highlight *waste, fraud,, and abuse* in the Department of Defense's (DOD) travel system. And I'm heartened that the DOD is already taking steps to rectify the problems the General Accounting Office (GAO) identified in that system.

According to GAO investigators, DOD is sitting on 100 million dollars in unused airline tickets that date back to 1997.

This is not an insignificant sum. But I would point out that it amounts to just *four percent* of the value of the no-bid contract awarded to Vice President Cheney's former firm, Halliburton. And yet, this Committee still hasn't held a single hearing to look into that contract, which was permitted to grow from *50 million dollars* to *2.5 billion dollars* without competitive bidding or accountability.

One reason given is that it would "duplicate" investigations being conducted by the GAO, the Defense Criminal Investigative Service (DCIS), and the Defense Contract Audit Agency (DCAA).

That would not be unusual. *Much* of what this Committee does *duplicates* work being done by executive branch agencies, to be absolutely certain that nothing falls through the cracks.

For instance, hearings on *Enron* held by our committee in 2002 *"duplicated"* investigations being done by the Securities and Exchange Commission (SEC), the Department of Justice (DOJ), the Internal Revenue Service (IRS), the Department of Labor, and the Federal Energy Regulatory Commission.

Hearings on *tax shelters* held last November paralleled investigations being done by the SEC, the DOJ, and the IRS.

Our hearing on abuses in the *mutual fund industry* were simultaneous with investigations being done by the SEC, the DOJ, the GAO, and the National Association of Securities Dealers.

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And the hearing held just over a month ago on the misuse of *"government purchase cards" "duplicated"* investigations being done by the GAO, Government Services Administration (GSA), DCIS, and four other DOD agencies.

Obviously, the history of hearings in this committee by Chairman Collins confirms that the need for accountability even if other investigations are underway. That principle applies to Halliburton just as it does to Enron.

Recent revelations make the need for a hearing on Halliburton's no-bid contract critical. According to a recently uncovered Army Corps of Engineers email from March 2003, approval of this no-bid contract was coordinated with Vice-President's office. We don't know all of the details of this "coordination" but that is exactly why we need a hearing.

What concerns me is that Halliburton may just be the *"tip of the iceberg."*

An article in one of my state's major newspapers, the *Asbury Park Press* reports that the Halliburton contract "is a sign of something more troubling and widespread: The Federal Government's growing tendency to hire companies under a process that has increasingly emphasized *speed and efficiency* over *competition and oversight"*

The bottom line is that we have appropriated over *20 billion dollars* for the reconstruction of Iraq and over *190 billion dollars* for the overall war.

The war and reconstruction in Iraq have ushered in *enormous changes* in the way the Federal Government conducts its procurement. We need to review those changes and the many problems they have precipitated.

Thank you, Madam Chairman.

Chairman COLLINS. Senator Coleman.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you, Madam Chairman.

I will bring our focus back to the very important matter that we have before us, the issue of wasting millions of dollars of unused airline tickets.

I do want to thank the Chairman for holding this hearing. As one of the requesters of the GAO review, about which you shall hear today, I share your concerns that the DOD exercise responsible stewardship over the taxpayer dollars that are allocated for their use.

I also want to applaud Chairman Grassley and Representative Schakowsky for their dogged determination in rooting out fraud and abuse. Representative Schakowsky couldn't be at the last hearing we held that was initiated at her request, along with Chairman Grassley, of abuse regarding first class travel, but their determination and focus here really serves the taxpayers of this country well and I want to thank them.

I also want to thank the GAO, which has done extraordinary work in focusing on this issue, and the beneficiaries are all the taxpayers. We all suffer and we all hurt when there is waste, fraud, and abuse. So for all involved, and certainly the leadership of the Chairman, I simply want to say thank you.

As a previous hearing before the Permanent Subcommittee on Investigations has shown, in addition to having adequate systematic

controls, DOD must hold its employees responsible and accountable for individual lapses that have cost the taxpayers hundreds of millions of dollars. The Permanent Subcommittee on Investigations is continuing to monitor DOD's response to the unauthorized use of premium travel. Today's hearing on unused airline travel tickets and travel fraud are additional matters that DOD must address.

Over the past 6 years, the Department of Defense has failed to reclaim over $100 million in unused or partially used airline tickets. Of this amount, at least $80 million has been lost for all time because the Department of Defense has not implemented simple checks and kept records that are required to obtain refunds from the airlines. Further, some Department of Defense travelers have defrauded the government by obtaining and reselling airline tickets for personal gain, or by claiming reimbursement for airline tickets for which they did not pay. As a result, the Department of Defense has paid for travel that was not taken by its employees, or has in some instances paid twice for the same travel.

This mismanagement of taxpayer funds is a direct result of the Department of Defense's failure to implement simple checks to ensure that travelers follow prescribed rules and regulations. For example, the Department of Defense requires its travelers to return any unused or partially used airline tickets to the issuing contract travel agent. But the Department of Defense does not check to see if travelers are complying with this requirement.

The Chairman has identified some specific instances.

I would close by noting that, in a February hearing before the Permanent Subcommittee on Investigations, we learned that DOD wasted millions of dollars on unauthorized or unjustified premium airline tickets. The continuing waste of Department of Defense travel dollars clearly points to the need to reform the travel system now, rather than waiting years for an automated system that may or may not reform the abusive practices. I look forward to learning what the Department of Defense plans to do to avoid these unnecessary losses.

With that, Madam Chairman, I ask that my full statement be entered into the record.

Chairman COLLINS. Without objection. And thank you for your leadership in this area.

[The prepared statement of Senator Coleman follows:]

PREPARED STATEMENT OF SENATOR COLEMAN

I want to thank the chairman for holding this valuable hearing on the Department of Defense's mismanagement of its travel funds. As one of the requesters of the General Accounting Office review about which we shall hear today, I share your concerns that DOD exercise responsible stewardship over the taxpayer dollars that are allocated for their use. As a previous hearing before the Permanent Subcommittee on Investigations has shown, in addition to having adequate systemic controls, DOD must hold its employees responsible and accountable for individual lapses that have cost the taxpayer hundreds of millions of dollars. The Permanent Subcommittee on Investigations is continuing to monitor DOD's response to the unauthorized use of premium travel. Today's hearing on unused airline tickets fraud are additional matters that DOD must address.

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government by obtaining and reselling airline tickets for personal gain, or by claiming reimbursement for airline tickets for which they did not pay. As a result, the Department of Defense has paid for travel that was not taken by its employees or has in some instances paid twice for the same travel.

This mismanagement of taxpayer funds is the direct result of the Department of Defense's failure to implement simple checks to ensure that travelers follow prescribed rules and regulations. For example, the Department of Defense requires its travelers to return any unused or partially used airline tickets to the issuing contract travel agent. But the Department of Defense does not check to see if travelers are complying with this requirement.

One simple check would be to compare the names of travelers who were issued tickets against the names of travelers who have submitted claims for reimbursement. This would identify all individuals who were issued tickets and had not filed a reimbursement claim. It is possible that they may not have undertaken the planned travel, and thus may have an unused ticket or they could be late in filing their claim. This could be determined by contacting the individual.

A partially used ticket could potentially be identified by comparing a traveler's itinerary against their reimbursement claim. If, for example, the itinerary indicated that the travel was going to two cities and the reimbursement claim requested reimbursement for lodging in only one city it would be possible that one leg of the travel was not used. This also could be resolved by contacting the individual. However, the Department of Defense does not require its contract travel agents to make these comparisons. As a result, unused and partially used tickets are not identified for reimbursement by the airlines.

Ninety-three Department of Defense employees submitted 125 reimbursement claims for airline tickets that had already been paid for by the Department. Let me outline some of the more egregious abuses that have occurred:

- A GS–15 claimed and was reimbursed $9,700 for 13 airline tickets that were paid by the Department of Defense's contract travel agent and not by the traveler. The traveler stated that he did not notice the additional $9,700 in his checking account.
- A GS–13 was denied reimbursement for airline tickets on 6 travel vouchers and was advised that the claim was denied because he had not paid for the ticket. In spite of the warning, the traveler submitted 6 additional claims for reimbursement of airline tickets and was reimbursed $3,600 for 6 airline tickets that were paid by the Department of Defense's contract travel agent and not by the traveler. This particular traveler also rented luxury automobiles while on official travel without the authorization to do so. The traveler claimed these were honest mistakes.
- An O–5 claimed and was reimbursed $1,600 for 5 airline tickets that were paid by the Department of Defense's contract travel agent and not by the traveler. The traveler said that she did not notice the improper payment and made full restitution.

A simple check of a traveler's reimbursement claim that contains the cost of an airline ticket against the list of tickets purchased with a centrally billed account can disallow these improper and potentially fraudulent claims altogether.

Given the simplicity of the checks that should be performed against the potential loss of $20 million taxpayer dollars per year, there is no justification for not fully implementing these checks.

In a February hearing before the Permanent Subcommittee on Investigations, we learned that DOD wasted millions of dollars on unauthorized unjustified premium airline tickets. The continuing waste of DOD's travel dollars clearly points to the need to reform the travel system now rather than waiting years for an automated system that may or may not reform these abusive practices. I look forward to learning what the Department of Defense plans to do to avoid these unnecessary losses.

Chairman COLLINS. Senator Pryor.

Senator PRYOR. Madam Chairman, thank you. I don't have any opening statement and I would like to hear from these two very distinguished witnesses.

I must say that I have been waiting for a long time to get Senator Grassley under oath. [Laughter.]

Chairman COLLINS. I'm not going to allow you to question him then. I'm going to protect the Chairman.

We are very pleased and honored to have both Senator Grassley and Representative Schakowsky with us. As I noted in my opening statement, and as Senator Coleman noted as well, they have been true leaders on this issue.

Senator Grassley.

TESTIMONY OF HON. CHARLES E. GRASSLEY,[1] A U.S. SENATOR FROM THE STATE OF IOWA

Senator GRASSLEY. Thank you very much. And I'm going to tell Senator Pryor's dad on him. [Laughter.]

I have crossed out a lot because I have listened to these three statements and you have covered a lot of ground that I was going to cover, so I would like to have my entire statement put in the record and hopefully make it much shorter.

Chairman COLLINS. Without objection.

Senator GRASSLEY. Obviously, thank you for holding this hearing. Just as a reminder of my participation, I started investigating the breakdown in financial controls in the Department of Defense credit card program several years ago. I started out that work with the General Accounting Office and then Chairman Horn, who was then in the House and chairman of a House subcommittee.

Centrally-billed accounts are another way of paying for travel costs, where tickets are purchased using a centrally accountable paying system and paid directly by our government. This is done instead of using an individually billed card for which the traveler would be reimbursed. This method of paying for travel is intended to be more convenient and cost effective. However, not surprisingly, the way it is being administered, or maybe you could say non-administered, has opened the door to waste, fraud, and abuse.

The first General Accounting Office report released today revealed an appalling level of waste in the form of unused airline tickets to the tune of $100 million since 1997. Imagine if you would purchase a fully refundable airline ticket for $600 or $700 and didn't use it, would you just put it in your dresser drawer and forget about it? Of course, you would not.

Well, that is exactly what the Defense Department had done, except that they have done it many times over with millions of dollars of taxpayers' money.

Federal agencies are authorized to recover payments from these airlines, as you said, Madam Chairman, for 6 years, and under some conditions, up to 10 years. Given the large amount of travel throughout the Department of Defense, it is inevitable that plans will change at the last minute and people reschedule their trips or cancel, for whatever reason. That leaves an unused ticket that can be fully refundable.

When government employees pay for anything on their individually billed travel cards, the employees then either submit a voucher to be reimbursed or apply for a refund for an unused ticket. However, a great many tickets are paid for using the centrally-billed account system where the agency is responsible. This leaves no personal incentive for a traveler to seek a refund. Yet, this is precisely who the Department of Defense has relied upon to see

[1] The prepared statement of Senator Grassley appears in the Appendix on page 27.

that tickets are refunded. As a result, the Department of Defense sometimes gets a refund for those unused tickets, and sometimes not.

The problem is there are really no controls in place to see that the Department of Defense systematically gets its money back for tickets that are not used. This has resulted in at least $100 million of taxpayer money that is essentially just sitting in a dresser drawer. The American taxpayers deserve better than to have their hard earned income squandered, particularly when we ought to be putting every last dime we can into winning the war on terrorism. I can't believe that the Department of Defense can't find a better use of the $100 million than just, in a sense, to let it sit there unclaimed. The time value of money is a common sense rationale for putting good controls in place.

Now, the good news is that the Department of Defense, as we have said, can reclaim this money. The bad news is that before the General Accounting Office brought this issue to light, the Department of Defense had no idea that these millions of dollars in unused airline tickets were just sitting out there. Since the Department of Defense kept no records of unused airline tickets, the General Accounting Office made this discovery by combing through data that was provided not by the Department of Defense but by the airlines. In many cases, the airlines' data was incomplete and it becomes more difficult to acquire, of course, the further back in time you go. Clearly, the Department of Defense will never collect all the money that could potentially be recouped from these unused tickets, but it would have recovered no money at all if the General Accounting Office hadn't been there helping us in Congress. This is yet another example where, if the Department of Defense simply had a system of effective controls, a considerable amount of money would be saved.

The first of the General Accounting Office reports on problems with the DOD centrally-billed accounts dealt with waste. The second is about fraud and abuse. I have several examples, and some of them you have already given, that I am going to skip over.

There is one person, like a Mr. Johnson, who referred to these attempts of his billing for things that were centrally paid for, which obviously is fraudulent, as somehow "honest mistakes." These honest mistakes apparently also include improperly approving his own travel voucher, improperly renting luxury vehicles while on travel, improperly purchasing airline tickets for family members with a government rate, and using his individual travel card for personal items, like monthly rental fees for musical instruments. The General Accounting Office has referred these cases, of course, to the DOD Inspector General.

Still, before we celebrate another congressional oversight success story, we should remind ourselves that this should never have been allowed to happen in the first place, and will happen again unless the Department of Defense gets serious about establishing these internal controls. Even when the presence of some controls highlights potentially fraudulent activity, as is sometimes the case with stolen centrally-billed account numbers mentioned later in the report, the Department of Defense does not always follow through to investigate and avoid paying fraudulent charges.

The Department of Defense must set to work immediately to establish a positive control environment throughout the agency which will involve a change in culture. It is becoming almost routine for Congress, working with the GAO, to uncover a breakdown of controls in one aspect of the Department of Defense leading to waste, fraud, and abuse. We hold hearings at which officials from the Department of Defense come with their tails between their legs admitting that they could do better and will fix the specific problem. What I would like to start hearing is how the Department of Defense is going to fix its culture of indifference to internal controls and lack of respect for the American taxpayers. Thank you.

Chairman COLLINS. Thank you, Mr. Chairman. Representative Schakowsky.

TESTIMONY OF HON. JAN SCHAKOWSKY,[1] A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you, Madam Chairman, and Senators Coleman, Lautenberg, and Pryor. I really appreciate your holding this important hearing today and for the opportunity to testify before you, and for your leadership on this important issue.

I especially want to thank Senator Grassley, who has been such a strong leader on government accountability issues. It has been a real pleasure to work with him toward accomplishing our mutual goal of rooting out waste, fraud, and abuse in the Federal Government.

As we will hear today, the GAO's latest investigation into the epidemic of waste, fraud, and abuse at the Pentagon has uncovered more of the same. Because of a culture, as Senator Grassley said, at the Department of Defense that seems to persistently tolerate abuse of public dollars and public trust, precious taxpayer funds continue to be wasted. Meanwhile, the Congress is providing DOD with increased budgets at record levels. With all of the new homeland security needs our Nation is facing, we cannot afford to waste a single penny that might otherwise be making America safer.

The GAO estimates potential losses valuing at least $100 million as a result of unused and unclaimed airline travel tickets by DOD employees. And after reviewing just a few years of data, GAO found that DOD employees wasted over $21 million by failing to use or claim 58,000 airline tickets. Some of those tickets were for first and business class travel and cost DOD and taxpayers as much as $9,800 a piece. Eighty-one-thousand tickets were partially unused by DOD employees, and the price of those tickets equaled $62 million.

Madam Chairman, while we should, as you indicated, expect individual employees to take responsibility, it is also indicative of what the GAO in its typically understated way calls weak controls on the part of DOD. It is the responsibility of the Department of Defense to detect unused tickets and the GAO has made important systemic recommendations.

In addition to wasted taxpayer dollars, GAO uncovered fraud and abuse of the DOD travel system. DOD employees were improperly reimbursed for air travel tickets that they did not purchase. Exam-

[1] The prepared statement of Ms. Schakowsky appears in the Appendix on page 30.

ples include employees receiving improper and unjustified reimbursements of as much as $1,000, $3,600, and $10,000 each. In violation of the rules, some DOD employees even approved their own travel and reimbursement forms and billed the government for rental of luxury cars. One employee had the nerve to sell tickets that DOD had paid for to third parties, making a personal profit.

These are just a few examples of the mismanagement and abuse that is ongoing at the Pentagon. To my knowledge, none of the perpetrators have been disciplined and DOD has yet to put in place the system-wide changes necessary to prevent future abuse.

The GAO also discovered a potentially major security flaw in DOD's travel system. Working undercover, GAO personnel were able to obtain tickets based on a fictitious travel order, fake identification, and an unnamed DOD office. GAO's undercover agents would have been able to travel on major U.S. airlines for free, under fake identification. This could have been any criminal, even a terrorist, utilizing fake identification. This raises serious concerns for our air travel industry and our national security. Not only can individuals travel under fake ID, but the DOD, which is supposed to protect us, may actually be unknowingly facilitating criminal activity that could endanger the American public.

Enough is enough. Whenever Congress shines the light on any aspect of the Department of Defense's financial management, we uncover more waste, fraud, and abuse that are costing taxpayers billions of dollars. The abuses continue to exist and thrive and come on top of the fact that the Department of Defense already, according to its own Inspector General, cannot account for $1.2 trillion—that's $1.2 trillion—in financial transactions.

At a time when our soldiers are patrolling the streets of Iraq in unarmored Humvees, when critical domestic programs are being cut, and when the administration is asking for record defense spending, hundreds of millions of dollars that could be used to protect our troops and our country are going to waste.

We have known for some time that DOD's financial management is atrocious. These latest GAO reports show that it is not only irresponsible but dangerous for our country to have the Defense Department continue business as usual. I share Senator Grassley's concern over the inexcusable behavior of individual employees, and I think they should be appropriately disciplined. But again, we need to also change the culture at the Pentagon. Our Pentagon leaders need to fix the problems that persist. If they cannot, or will not, President Bush should replace them.

At a time when Americans are being asked to sacrifice so much in terms of lives, resources, and our economy, the administration has a particular duty to protect taxpayer dollars from any further waste, fraud, and abuse and the security threats that we are facing as a result.

I want to thank our GAO witnesses and all of those at the General Accounting Office who worked so hard on these reports. They have done yet another great service to the Congress and to the American public. I just hope those of us here in Washington will now exercise our oversight responsibilities and demand changes from the Pentagon.

Again, Madam Chairman, and Members of the Committee, I thank you for the opportunity to testify.

Chairman COLLINS. Thank you. Senator Grassley.

Senator GRASSLEY. Could I make a clarification, please?

Chairman COLLINS. Certainly.

Senator GRASSLEY. Although it would be correct in my written testimony that I submitted in full, I did attribute about the honest mistakes to the wrong person. The two examples I used was a Mr. Joseph Johnson and a Mr. Robert Carter. The honest mistake thing was attributed to Mr. Johnson and it should have been attributed to Mr. Carter.

Chairman COLLINS. Thank you for that clarification.

I know both of you have very busy schedules today, so I am going to allow you to depart without being subjected to Senator Pryor's questions. [Laughter.]

Senator GRASSLEY. Thank you. I will owe you a lot.

Chairman COLLINS. And I'll collect on that. Thank you both for your testimony.

I would now like to call our next panel forward. We will hear testimony from Greg Kutz, the Director of Financial Management and Assurance Group at the U.S. General Accounting Office. He is responsible for financial management issues related to the Defense Department, NASA, the State Department, and USAID. Accompanying Mr. Kutz is Special Agent John Ryan from the GAO's Office of Special Investigations.

These two gentlemen have teamed up numerous times to conduct excellent investigations and audits. They have particularly worked on travel and purchase card waste, fraud, and abuse, and have testified previously before this Committee. We are very pleased to welcome you back and look forward to your statements.

We will then hear from JoAnn Boutelle, the Deputy Chief Financial Officer for the Department of Defense. She is responsible for developing, implementing, and overseeing Department-wide finance accounting and general financial management policies. Ms. Boutelle is accompanied by Jerry Hinton, the Director of Finance for the Defense Finance and Accounting Service, known as DFAS. I am very familiar with DFAS because there is a great DFAS center in northern Maine.

Mr. Hinton is responsible for the Department's policy and oversight for vendor and travel pay, as well as for cash and debt management, and we appreciate your joining us, also.

Mr. Kutz, we will begin with you.

TESTIMONY OF GREGORY D. KUTZ,[1] DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY SPECIAL AGENT JOHN J. RYAN, ASSISTANT DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, U.S. GENERAL ACCOUNTING OFFICE

Mr. KUTZ. Chairman Collins and Members of the Committee, thank you for the opportunity to discuss DOD's centrally-billed travel accounts.

[1] The prepared statement of Mr. Kutz appears in the Appendix on page 32.

This is a continuation of our series of audits of DOD's $10 billion credit card program. We previously testified that DOD used these accounts to improperly purchase first and business class airline tickets. Today, we will discuss additional issues of fraud and waste related to these accounts.

My statement has three parts: First, unused airline tickets; second, improper and potentially fraudulent payments to DOD employees; and third, as mentioned earlier, security issues.

First, we found that DOD paid for airline tickets that were not used and not processed for refund. Unlike non-refundable airline tickets purchased by most taxpayers, government tickets are generally refundable. Unused tickets occur when a traveler cancels their trip or uses only one leg of an airline ticket. The airlines provided us with limited data for 2001 and 2002, showing that DOD spent $21 million on 58,000 unused airline tickets. Our most conservative analysis shows that, for 1997 to 2003, DOD spent over $115 million for unused airline tickets. In effect, taxpayers have been providing the airline industry with an unintentional subsidy costing tens of millions of dollars annually.

Although the vast majority of unused tickets were coach class, we found several egregious examples of waste related to first and business class tickets. As you can see on the poster board,[1] DOD paid as much as $9,800 for airline tickets without receiving any benefits. This waste occurred because of the lack of integrated travel systems and ineffective compensating processes and controls.

Second, we found that DOD sometimes paid twice for the same airline ticket, first to the Bank of America as part of the monthly credit card bill, and second, to the traveler, who was reimbursed for the same ticket. Based on our receipt of limited data, the potential magnitude of these improper payments was 27,000 tickets costing over $8 million. For example, the Navy paid a GS–15 $10,000 for 13 tickets he did not purchase. In another case, despite five improper claims that were caught by the Defense Finance and Accounting Service, an Army GS–13 continued to file improper claims and was paid $3,600. This individual also falsified approval of their own travel voucher, abused their government travel card, and rented luxury vehicles such as a Mercedes and Lincoln Navigator while on official government travel. We have referred both of these cases, as mentioned earlier, to DOD for criminal investigation.

Over the last several years, we have referred thousands of cases to DOD of fraud and misuse related to government credit cards. Cases include potential bank fraud, improper first and business class travel, and today, thousands of cases of potential false claims and theft of government property.

Very few at DOD have been prosecuted, and few, if any, face significant administrative actions. If DOD is serious about addressing its significant problems with fraud and waste, then swift, decisive action must be taken against employees that misuse government funds.

Third, inadequate security over the centrally-billed accounts increase the risk of fraud and abuse. For example, DOD issued and paid for airline tickets without checking the validity of the travel

[1] The chart referred to appears in the Appendix on page 60.

order. To test the system, we used an undercover operation to show that an unauthorized individual could obtain an airline ticket from DOD using a fictitious travel order.

The poster board shows the results of our undercover operation—the boarding pass from Reagan National to Atlanta that was paid for by DOD.[1] Specifically, DOD issued us a round trip ticket to Atlanta based on a fictitious travel order that we created. We simply picked up this boarding pass at National, using a credit card under a bogus name. DOD obtained a refund for this ticket 2 months later, after we informed them of our operation.

We also found that live credit card numbers were printed on traveler's itineraries. This led to several military servicemembers fraudulently using the centrally-billed accounts for personal gain. For example, one individual used DOD accounts for a 6-month period to purchase 70 tickets, costing $60,000, that he resold to friends and family.

These fraudulent transactions were later identified, disputed, and were not paid for by the government. However, many DOD locations did not file disputes for unauthorized tickets. As a result, DOD is vulnerable to the fraudulent usage of compromised accounts.

To its credit, DOD has concurred with all 31 of our recommendations to improve management of the centrally-billed accounts and has taken action. DOD also has issued claim letters to the five airlines requesting repayment of the $21 million of unused tickets previously discussed.

We are not aware of any collections to date. However, based on our experience with these airlines, and their serious financial problems, it is unlikely they will willingly refund DOD what could be over $115 million for unused tickets.

In conclusion, our testimony provides a small example of the billions of dollars of waste and inefficiency at the Department of Defense. It also shows, as you mentioned, why DOD is on our list of high-risk areas, highly vulnerable to fraud, waste and abuse. With the significant fiscal challenges facing our Nation, it is important that DOD successfully address the issues discussed today. We look forward to continuing to work with this Committee to improve the economy and efficiency of the government's operations.

This ends my statement. Special Agent Ryan and I will be happy to answer your questions.

Chairman COLLINS. Thank you very much.

Mr. Ryan, it is my understanding that you don't have a formal statement but will be here to answer questions, is that correct?

Mr. RYAN. That's correct.

Chairman COLLINS. Ms. Boutelle. Thank you for being here.

[1] The chart referred to appears in the Appendix on page 57.

TESTIMONY OF JOANN R. BOUTELLE,[1] DEPUTY CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE, ACCOMPANIED BY JERRY HINTON, DIRECTOR OF FINANCE, DEFENSE FINANCE AND ACCOUNTING SERVICE, U.S. DEPARTMENT OF DEFENSE

Ms. BOUTELLE. Madam Chairman, I have submitted a longer statement that I would like submitted for the record, but I will be brief in my oral testimony so that it allows more time for your questions.

Chairman COLLINS. Without objection, all statements will be submitted in full.

Ms. BOUTELLE. OK. Thank you.

Again, Madam Chairman, and Members of the Committee, I am here to discuss with you the actions the Department of Defense has taken and will take to correct weaknesses identified by the General Accounting Office in the DOD's centrally-billed travel card program.

At the outset, I want to underscore the resolve of the Department's leadership to continue progress towards improving DOD financial management. We are determined to complete our overhaul of our financial processes and systems, which will dramatically improve our ability to ensure strong internal controls and prevent the kinds of problems identified by the General Accounting Office.

The General Accounting Office reports on unused tickets and improper payments demonstrate the value of having automated data to analyze and review for anomalies. It also demonstrates the weaknesses inherent in manual systems and the many legacy systems still being used by the Department.

As the Department transforms its financial management systems, we will do a better job of detecting and addressing the kinds of problems identified in these reports. In the meantime, we will work hard to correct the policies and procedures that contributed to the problems identified by the GAO while we work on the automated solutions.

I want to emphasize that the Department has made significant progress in improving the performance of the individually-billed travel cards through implementation of policy changes, such as split disbursement and salary offset, through actions to reduce risk, such as closing unused accounts and reviews to identify where individuals have separated without properly clearing out and having their account closed.

The types of problems highlighted in these GAO reports underscore the importance of transforming how DOD does business. Over the past 2 years, the Department has undertaken a massive overhaul of its management and support activities. Ultimately, we want to implement a cohesive, comprehensive management information system that will enable the DOD to track transactions, strengthen our controls, and prevent abuses.

I assure this Committee that we will continue our close working relationship with the GAO as we correct the problems identified and monitor the corrective actions to ensure their effectiveness.

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[1] The prepared statement of Ms. Boutelle appears in the Appendix on page 61.

I have with me, as you noted, Jerry Hinton, who is the program manager for the travel card program, and also Earl Boyanton, who is the Assistant Deputy Under Secretary for Transportation Policy, so that if you get into questions more related to the transportation side and how the central transportation offices and the airlines work, Mr. Boyanton is the expert on that policy.

That concludes my oral testimony and we will be happy to answer any questions.

Chairman COLLINS. Thank you.

Mr. Hinton, it is my understanding that your situation is similar to Mr. Ryan, that you're available for questions. But do you have any comments you would like to make first?

Mr. HINTON. No, ma'am. I'm here to answer questions.

Chairman COLLINS. Thank you.

Mr. Kutz, you have indicated in your testimony that the potential unused tickets could total more than $100 million since 1997, and you described that as a conservative estimate. I understand that you chose a statistical sample from five of the largest DOD installations and that you also did not survey all of the airlines.

Could you give us some idea, if you took the percentage of unused tickets found in your sample, what you believe the actual level of unused tickets may be?

Mr. KUTZ. Yes. We did—a random attribute sample is what it's called—using a 95 percent confidence level, the interval of the unused tickets of the population that we identified for five of the largest CBO locations was .65 percent to 8.9 percent. Our point estimate was 3.1 percent. So if you applied the 3.1 percent to the entire $8 billion that was spent on centrally-billed accounts from 1997 to 2003, that would indicate almost a quarter of a billion dollars.

Our estimate, again, the $115 million, we thought was a conservative estimate, which was based on the data that the airlines gave us, which was different than our independent, randomly done sample of the populations of the five locations.

Chairman COLLINS. Arguably, the airlines are not eager to refund millions of dollars to the Department of Defense, particularly airline tickets that may go back a considerable amount of time. So do you believe the information that you received from the airlines was complete?

Mr. KUTZ. We don't know if it was complete. We relied pretty much on what they gave us. What we did, though, to identify the unused tickets was we matched exactly the information that they gave us to the Bank of America information, including the ticket number, and if anything didn't match what they gave us, we kicked out. So the $21 million that we did identify related directly to what we could match to Bank of America's information.

But as you said, their incentive was not to give us the data. In fact, some of them, when we first contacted them, said we would need a subpoena before you'll even get that data from us. American Airlines was the one who gave us the data after 2 weeks. The rest of them, it took 6 to 8 months after letters from Members of Congress to get the information.

Chairman COLLINS. I think that's an important point, because while the $100 million estimate is an alarming one, it is also a very conservative one. If you apply the statistic that you explained from

your sample, the actual number may be as much as $240 million. Is that correct?

Mr. KUTZ. It's possible. Again, our sample was not designed to project numbers, but once the airlines responded back, we decided we would at least talk about that today, because we did do a random sample for those five locations. You would have to assume that those five locations are representative of all the locations across DOD and other things.

Again, I think it indicates that this is statistically significant. That's what that sample would indicate.

Chairman COLLINS. Mr. Ryan, it concerns me that we have these cases that appear to be outright fraud—and we talked about this during the purchase card hearing—and yet, very little action seems to be taken against the individual employee.

Was that the case with the individual case studies that you undertook in this analysis?

Mr. RYAN. In this particular situation, we conducted the investigations based on the data provided to us by Greg's group. We conducted the investigations, we determined that certain cases needed to be referred for criminal investigations to the Executive agencies.

In the cases that we looked at here, the two that Senator Grassley specifically mentioned, we did send those to the appropriate investigative agencies to conduct. We know that on one of the gentlemen the investigation has been completed by the Army CID and the case has been presented to the U.S. Attorney's office. In the other case, we're not aware of any action that has been taken against him in regards to the $10,000.

But the cases we have referred, we have asked DOD to get back to us in 60 days. We have sent the referrals and we're getting close to the 60 days.

I think it's important for the Committee to realize that since June 2002, we have sent well over 130 individual referrals. Now, those referrals could be one person or, as Senator Coleman mentioned, we sent 44,000 names over to DOD to do investigations.

They're seeming to be finding like a black hole, because of the 130 individual referrals we sent over, over 124 of those, no action has been taken. We have not received any notification of what action has been taken, neither criminally or administratively. So I guess, after a while, you get hit in the head with a brick and you realize you have to change the way you do business.

I think what we're going to try to do now is to get this information to the investigative units as expeditiously as possible so that we can start these investigations and get some type of action against these employees. If you realize between the unused business and first class tickets and the potential of the 27,000 transactions associated with this case, we're talking well over 50,000 people within DOD that some action needs to be taken. We just don't seem to be able to get a response.

I guess that's a long answer to your question, but I can't really give you an answer because I don't know what DOD has done with these employees. Maybe Ms. Boutelle can give us an update on the two individuals that Senator Grassley spoke to, but I don't have the latest information.

Chairman COLLINS. I will be asking for that, but I am going to honor the time restrictions and call on my colleagues.

I would note to my colleagues that I am going to enforce the time restrictions on questions, and we will do a second round, so don't feel that you won't have another opportunity.

Senator Lautenberg.

Senator LAUTENBERG. Thank you, Madam Chairman. Even if we occasionally differ, I never accuse you of being unfair. I am delighted to hear the testimony of our witnesses.

I have a personal question to put first to Mr. Hinton. Do you have family in Patterson, New Jersey by any chance?

Mr. HINTON. No, sir, I do not, Senator.

Senator LAUTENBERG. Well, I went to high school with several good friends, and someone I see even occasionally now. I was just curious about that. Now I don't have to be nice to you.

Mr. HINTON. I hope that was the right answer. [Laughter.]

Chairman COLLINS. I would have answered that "yes" had I been you, regardless. [Laughter.]

Mr. HINTON. I wanted to be honest.

Senator LAUTENBERG. Thanks anyway. They were a very distinguished family.

I would like to ask this question, Ms. Boutelle. I commend you for the search you're on for better systems and trying to get hold of this. You have an enormous responsibility. I don't know what the size of the search is for flaws in the process, but the volume of transactions is enormous, when I hear that 50,000 individuals were referred for review.

I come out of the computer business. I am considered a pioneer in the field. As a matter of fact, I'm such a pioneer that I don't know what's happening any more.

As you look at things and the process of audit, would you also be looking beyond raw numbers for the systems that got us to where we are? Are they under review as well, rather than drawing your conclusions from numbers that don't quite stand up to scrutiny?

Have I made it clear? It's not simply an audit function, the traditional function of auditing, but rather an examination of internal procedures.

Ms. BOUTELLE. We are actually doing a few things. The overarching process that we have in place is called the Business Management Modernization Program, where we are trying to build an architecture of our end to end processes, to truly look at the processes and build them in a way to where they're integrated with controls. What we have done in the past has been—and why we have all these stand-alone systems—if I can use a simple example of buying something, we have an acquisition system that stands alone. We have then——

Senator LAUTENBERG. A purchasing system?

Ms. BOUTELLE. A purchasing system, yes. So it's a system that issues contracts that doesn't go over and check with the accounting system first to make sure funds are available. They have a piece of paper that someone has signed saying funds are available, but they don't do that check the way the systems are designed.

Then you move on to receiving whatever it was that you bought. Again, we do not have an integration of systems that says, "gee, let me call up that purchase order and make sure that I'm receiving in what I bought." So we are looking at developing the processes from end to end, from the start of a transaction through finalizing it, after paying for it or issuing whatever it is, building that type of an overarching process.

Senator LAUTENBERG. Not to cut you off, because what I'm looking for is to understand whether or not a no-bid contract, a commitment made—I don't know how that's verified. Are there letters that say, OK, here's what we want you to do? Do you look at no-bid contracts? Are you aware of contracts given without a bidding process that might run, say, over $100 million? Does that catch your eye?

Ms. BOUTELLE. Under my area of responsibility, I would have to say that how the acquisition folks went about awarding a contract I am not privy to. Once a contract has been awarded, then, of course, I want to make sure the obligation is recorded in the accounting system.

Senator LAUTENBERG. How, then, can you check and see whether a commitment by the Defense Department has not gone awry if you have no guide as to what the magnitude of the expense might be? How do you check that?

Ms. BOUTELLE. I'm going to attempt to answer what I think you're asking me.

If someone was getting ready to do some type of a contract, they would have to go to the resource manager and obtain approval that funds were available, thus a commitment of funds, to go to the contracting officer so that there is a reservation of those funds prior to doing an award of a contract.

Now, whatever part of the Department would be awarding that contract, there should be a record of that reservation of funds.

Senator LAUTENBERG. I don't see the clock, Madam Chairman, but I'm trying to behave here, honestly.

Chairman COLLINS. You have 14 seconds. [Laughter.]

Senator LAUTENBERG. Very quickly, then—thank you. I will stop here, with the promise I will get another turn. Thank you very much.

Chairman COLLINS. Thank you. Senator Pryor.

Senator PRYOR. Thank you, Madam Chairman.

Mr. Kutz, I'm curious about how the Department of Defense compares to other agencies when it comes to reimbursable travel. Could you comment on that?

Mr. KUTZ. Are you talking from a volume perspective?

Senator PRYOR. Well, from volume, and a quality control perspective.

Mr. KUTZ. We haven't audited particular travel at other agencies that I'm aware of, but I think from a volume standpoint, DOD is enormous. For centrally-billed accounts in the government, DOD is over half of the several billion dollars a year that is spent on that.

From a financial management perspective, from a broader perspective that's been discussed here, DOD financial management is one of four agencies that are on our high-risk list, so they are one of the ones that face the most significant challenges.

I would say that the degree of difficulty that they face compared to any other agency in the government, and possibly any other organization in the world, is much more significant. But they have probably the most challenging environment and potentially the biggest problem with fraud, waste and abuse.

Senator PRYOR. Is it your view that the problems at DOD are related to lack of proper controls within the agency, or is it because DOD is such a large agency that it's next to impossible to manage? I would like to hear your thoughts on what the cause of this is.

Mr. KUTZ. I would say today indicates clearly, and all the other testimonies that Special Agent Ryan and I do on this, that there is a combination of human capital problems, breakdowns in the processes and controls, and the lack of effective automated systems. They all contribute.

The questions from Senator Lautenberg to Ms. Boutelle talked about the automated systems not being integrated, making manual workarounds necessary and compensating controls necessary, to identify things like unused tickets and duplicate payments to employees. Effectively, both break down here. You have the systems that can't identify it, and then when you have the controls in place, the people aren't effectively following them, so the tickets don't get identified.

Senator PRYOR. In listening to all of this, I'm trying to think of a private sector example where a large company out there has the same type of problems. I'm not aware of one, and I don't think the stockholders would stand for it, and I don't think the taxpayers in our country should stand for this.

I would like to ask Mr. Ryan something, a comment you made a few moments ago—if I can put it in my own words—it sounded like the DOD had been unresponsive to a number of complaints or files or cases that you had sent over. Could you comment on that further? I'm curious about DOD's attitude toward this.

Mr. RYAN. Senator, I think you're correct. I don't believe that much time is given to thinking about how they're going to handle punishment in DOD, either administratively or criminally. I know from my previous life as an agent in the Federal Government, when we identified employees that were committing these types of crimes in the private industry we were asked to investigate, the first thing that was done was the employee was fired. The money was withheld or some type of administrative action was done.

In the case that Senator Coleman spoke about in his statement, of the 44,000 employees—I believe it was some 9 months ago when we had that hearing—no one has told me what has happened. I know that Colonel Kelly, who has testified before this Committee, has called me on several occasions trying to get data, but it didn't seem that the information was being passed down to managers in units and commands to do anything about these employees. There just didn't seem to be an urgency in trying to get to the root of the problem.

In the case of one of the individuals that Senator Grassley spoke about, his supervisor didn't even know the employee was turning the vouchers in. He was not aware of when the employee was traveling, which allowed—I think oversight being the problem—it just allowed it to continue. It just continues.

Senator PRYOR. Ms. Boutelle, let me ask you a question—and I don't want this to be impertinent at all. It's just a matter of curiosity.

I see you have a very thick three-ring binder in front of you, about four inches thick it looks like. What is that? Is that the DOD way?

Ms. BOUTELLE. Actually, I have been on travel for the last 2 weeks, so I came back in on Friday and, in preparation for this hearing, all of the good folks that are the subject matter experts, attempted to give me something to study, so that I would have the latest information to try to answer your questions. That's what this book is.

Senator PRYOR. I'm almost out of time here, but let me ask one last question just for general consideration.

If you have an Army colonel, let's say, at Fort Knox, and he needs to fly to the West Coast on official business, what does he have to go through to get that ticket, to get there and back and make all those arrangements? What does he have to go through? What does he do?

Ms. BOUTELLE. He has to go to his supervisor and request to travel. His supervisor has to approve the travel and identify the funding. Then the orders are used to obtain—Jerry, you correct me if I'm wrong on any of this—then his orders are used with the commercial travel office to obtain transportation for him. He has to make hotel reservations and whatever else he needs to do, and then a copy of his travel orders, of course, are sent to the transportation office.

Most of the travel today is done on electronic ticketing. He gets an itinerary back from the transportation office. He shows up at the airport to get his ticket. He travels, he returns, and he files a settlement voucher to be reimbursed. It then has to go to his supervisor to be approved. It goes to whatever office is paying. If it is the Army, it would be DFAS, which computes the payment. If it's the Navy or Air Force, they have their own.

Somebody at those locations would then do the review, compute the payment and disburse it, either completely to his account or a split disbursement, with part to the travel card account and part to the individual.

That's kind of a quick summary. I don't know if I'm getting to whatever part of the process you're concerned about.

Senator PRYOR. That's great.

Madam Chairman, that's all I have right now.

Chairman COLLINS. Thank you, Senator.

Ms. Boutelle, when we see the size of that notebook now, I feel like we have a lot of unanswered questions that you have the answers for. [Laughter.]

Ms. BOUTELLE. I thought you were going to feel sorry for me reading this all weekend.

Chairman COLLINS. I do.

I do want to follow up on Mr. Ryan's comments about the lack of disciplinary action that appears to be a pattern in cases where DOD employees are suspected of committing fraud against the Department.

Do you know what happened in the two cases that we have specifically discussed this morning?

Ms. BOUTELLE. I can share with you the updates that I was given.

I am told in the Mr. Johnson case that they have finished the investigation and that it has gone to the Navy, the Navy management folks, and they will be making a decision on what to do.

I am told that in the Mr. Carter situation that he is being charged with five counts of embezzlement of public money, three counts of attempt to embezzle, eight counts of making false demands against the government, and that this is being sent to the U.S. Attorney for action. That is what I am told.

Chairman COLLINS. Thank you. I would ask that you keep the Committee informed of subsequent actions in those two cases.

It is my understanding, Ms. Boutelle, that the vast majority of the Department's airline tickets are electronic; they are what are known as e-tickets. Shouldn't e-tickets provide an opportunity to receive automatic credits for unused tickets, and isn't there also a possibility that the Department could institute some sort of policy that automatically cancels unused e-tickets after a certain period of time? It seems to me that would allow for recovery of refunds in a very pragmatic, straightforward way.

Ms. BOUTELLE. You're absolutely correct. The fact that the vast majority are electronic tickets, there is the capability, I am told, by most of the commercial travel offices, to pull a report of unused electronic tickets, which we were not requiring through the contracts with those contractors in the past.

Since GAO identified this, and we've been looking at it, we have issued a letter out of Mr. Boyanton's area, that Mr. Wynne has signed, requesting that the components modify those contracts to, in fact, have those reports pulled.

We also had the Comptroller issue a letter that requires the components and the Defense agencies to cancel any ticket that is unused after 30 days from the last leg of the travel, so after that date has passed 30 days and they haven't traveled, to cancel that ticket also. So we are doing those things now.

Chairman COLLINS. I think those are excellent reforms that really would make a difference.

Mr. Ryan, I want to return to you and ask you more about GAO's undercover operation in which you were able to get an airline ticket based on a fake travel order. I recognize that there are certain details of this operation that you don't want to reveal, so if you believe any of my questions would compromise your ability to conduct future undercover operations, please feel free to just state that for the record.

Could we start by your explaining who did you contact to get the ticket?

Mr. RYAN. We contacted the commercial travel office, informed them we were a new employee in DOD with special project, and that we didn't have anything set up yet, but could they arrange for us to get an airline ticket. They were very accommodating.

Again, as you have said in the past, you make business decisions over security decisions. We believe that this is where you can get the best bang for your buck when you're doing an undercover deal.

So we made the phone call and they went ahead and made the airline arrangements and told us that we needed to fill out the proper travel authorization.

Chairman COLLINS. Where did you find the form that you needed?

Mr. RYAN. Everything that we needed is on DOD's web-site.

Chairman COLLINS. So it's right on line, accessible to everyone?

Mr. RYAN. Yes, and they actually give you instructions on how to create your own appropriation number. So that's what we did. By using everything that you can get off the website, we were able to do exactly what you guys all asked us to do.

Chairman COLLINS. Did they ask you where your unit was located?

Mr. RYAN. Ours was a special unit. We really couldn't tell them, so we told them it was black project.

Chairman COLLINS. So you told them it was a classified unit, much too secret for you to reveal that information?

Mr. RYAN. Yes, and we were new employees, so there was no real data on us yet.

Chairman COLLINS. Did you just make up the names of the traveler and the approving official, or were they the names of actual DOD employees?

Mr. RYAN. There's a lot of DOD employees, but I can assure you that——

Chairman COLLINS. As far as you know, did you make up the names?

Mr. RYAN. We have a series of names that we use for operations, and we just happened to use one of the names that was part of a package that we were using on another job. So that's what we did.

Chairman COLLINS. You have done a lot of undercover work. We have worked with you before on a lot of different projects. It sounds to me like this was pretty easy to pull off. Is that a fair assessment?

Mr. RYAN. It is a fair assessment. It is. Quite honestly, of all the stuff that the Committee has asked us to do, this was one of the easiest that we were able to do.

Chairman COLLINS. What does that tell us then about the vulnerability of the DOD travel system?

Mr. RYAN. I think that in working with Greg and his group, and John Kelly, who really was very instrumental in helping pull this together, too, it shows that DOD's travel system is vulnerable, not only vulnerable to a person who is creating a fictitious travel order, but as Mr. Kutz mentioned earlier, the fact that when there are discrepancies, no one is following up on those discrepancies.

In this particular case, it was done for three reasons: One, to see if we could create the travel authorization, which we did; two, to see if we could travel—actually, there was a fourth reason—the third, to see if DOD would pay for it, because really, there was no obligation set aside to pay for this, so as it went through the cycle, they even paid for the ticket. They didn't know, until we told them. And the fourth element of this was to actually look to see if they would try to collect on the unused ticket because we had already told them in December about unused tickets. They actually didn't

collect on the unused ticket. So it completed the circle of what we were trying to do.

Mr. KUTZ. I would add to that, Senator, that even when they did identify things in DOD—for example, I mentioned in my opening statement traveler No. 2 that Ms. Boutelle discussed, five times they were caught basically trying to put their airline ticket on their voucher and it got rejected. So there was clearly a pattern there of someone trying to get paid for something that they shouldn't have been paid for. The next seven that they filed, DOD paid them. So again, there was the situation where DOD identified five cases in a row and they sent it back and rejected the claim, and the next seven were paid.

Chairman COLLINS. Did DOD explain why the next seven were paid?

Mr. KUTZ. I can't explain it. I don't know if Ms. Boutelle can, but I think some of them got caught as part of the voucher review process at Defense, and some didn't. But again, you had a pattern there that certainly should have raised—and maybe there are so many different people working these vouchers that they don't necessarily identify these suspicious activities for purposes of looking for fraud.

Chairman COLLINS. Senator Lautenberg.

Senator LAUTENBERG. Thank you, Madam Chairman.

First I would like to ask you if we can keep the file open for a couple of days so that we can submit questions for the record.

Chairman COLLINS. The record will be open for 15 days.

Senator LAUTENBERG. Fine. Thank you.

Couldn't there be a more positive identification for someone using a ticket? I mean, we now have identification developing even more skills for identifying terrorists. We ought to be able to identify who it is that is coming up with a ticket, as to whether or not they were the person for whom the ticket was really issued. I'm not talking about fingerprinting, but there are relatively simple systems. I'm surprised that we are not able to implement something like that. I don't know if there is so much movement of people around that it's impossible.

Suppose there was a system—and the Chairman identified that, the fact that we should be able to have in place a routine examination of unused tickets. With the technology we have available now, it could be run once a week, identifying how many weeks behind since the ticket was issued where it has not been used. It's possible there's a legitimate reason, where someone may be doing some world travel on behalf of the Defense Department and they haven't gotten to the last leg of the journey for 3 months. But it would seem to me a very easy thing to highlight this and say here's a ticket that was supposed to be used on June 10, and here we are at June 17 and the ticket hasn't been used, and the next week, June 24, etc. It's such a simple system.

I would suggest this. What would happen if we had a system of chargebacks, if a receipt was not turned in for that trip? That employee would then have to pay it back if they didn't have a receipt, as we all get when we take an airline trip in particular. You get a receipt. Either you turn that back or you turn in the cash. I think that's fairly simple. Would that sound like a decent idea?

Mr. KUTZ. From the standpoint of automatically identifying e-tickets that are unused—and I think Ms. Boutelle addressed that—there is the technology now to do that on a routine basis and not have to go through this refund process 6 months or a year after the fact. So hopefully the Department, working with the travel offices, will do that.

With respect to the chargebacks, that's more of a Department policy. What we have seen, though, in the past, when employees have wasted government resources, we have never seen the Department ever require someone to pay a dime back. That's been our experience.

Senator LAUTENBERG. But this is property that was obtained under a pledge that the employee automatically makes when they go to work for the Federal Government.

By the way, Ms. Boutelle, is this auditing strictly related to employees of the Defense Department? How about employees of contractors? Do those bills, those requests, come under your jurisdiction?

Ms. BOUTELLE. No, sir. Again, if a contractor employee was traveling, I believe the process is that it would be bought through the contractor, would be billed to us on the contract. So no, I would not be looking at that.

Senator LAUTENBERG. So we have employees, and if an employee steals a chair or a computer from the government, that's a felony. I'm not saying there should be felonious processing if someone didn't turn in their voucher, but if they paid for it, I think that would sure get their attention. It's turn in the receipt or turn in the cash. It's pretty basic.

I would ask another question, if I may. If there is a no-bid contract, or cost-plus contract, how do you monitor that? If it's a no-bid contract, assuming it's a contract, but there is no bid, no formal arrangement, how do you know whether it's fair or unfair, appropriate or not?

Ms. BOUTELLE. I wish I could answer that question. I'm not an expert in that area. We could certainly go back to our acquisition folks and take that question to them on how they oversee those types of contracts.

Senator LAUTENBERG. Mr. Kutz.

Mr. KUTZ. No, I'm not that familiar with it. I believe that, again, without being an expert, there are certain procedures you have to go through for a no-bid that would have to be documented a certain way, so there should be a trail of documentation supporting a no-bid scenario, but it would not necessarily be a routine situation.

Senator LAUTENBERG. I think Chairman Collins is absolutely correct, identifying this as a telltale about something going on, as I mentioned in this significant New Jersey newspaper. Can we assume it's a tip of the iceberg kind of thing? Is that a fair assumption, Mr. Ryan?

Mr. RYAN. Senator, without looking at the details, and without getting involved in the case, it's hard to comment in generalities. I haven't done any work in that particular area, but until you actually pull back the layers, you ask the questions, look at the documents, that's when you find your answer. In all honesty, sir, I wouldn't want to make a comment because I don't have the facts.

Senator LAUTENBERG. Fair enough. That doesn't prevent us in the Senate from answering those questions. [Laughter.]

Chairman COLLINS. Senator Lautenberg, excuse me for interrupting, but the Majority Leader has just sent a note requesting that we be in our seats for the 11:30 vote. I just wanted to alert you both to that in case you want to comply with that request.

Senator LAUTENBERG. I will do that, and I thank you, Madam Chairman.

Chairman COLLINS. Senator Pryor.

Senator PRYOR. Madam Chairman, under those circumstances, maybe I should just submit my questions for the record and allow us to wrap up and get over there.

Chairman COLLINS. Thank you.

I do apologize to our witnesses. I did not realize that the vote was going to be a vote where we were supposed to be in our seats. That is an unusual situation, but certainly appropriate given the resolution that we're voting on.

Ms. Boutelle, I'm going to ask you for the record to outline what steps DOD is taking to ensure that travel orders are valid, given the success of the GAO's undercover effort, and I will ask you to submit that for the record.

Just one very quick question for Agent Ryan. Did DOD get a refund for the unused ticket that you bought?

Mr. RYAN. Yes, after we told them.

Chairman COLLINS. So you did bring it to their attention?

Mr. RYAN. Yes, we did.

Chairman COLLINS. Good.

I want to thank our witnesses for being with us. I apologize that we weren't able to get to all of the questions because of the vote. That probably disappoints some of you and makes others of you happy. [Laughter.]

Again, I want to commend GAO for its excellent work in this area. I think it is really important that we have an obligation to the taxpayers—and I know the DOD employees and officials agree with that—to make sure we're not wasting dollars. The work that you do is just critical to highlighting vulnerabilities in the system so that we can act to correct them. So thank you for your good work. We look forward to working with DOD to correct these problems and to strengthen the Department's financial management.

The hearing record will be held open for 15 days. I want to thank my staff for their excellent work, also. This hearing is now adjourned.

[Whereupon, at 11:27 a.m., the Committee adjourned.]

APPENDIX

Testimony for Senator Charles E. Grassley
Senator Government Reform Committee Hearing on the DoD Travel Card Program
Wednesday, June 9, 10:00 AM

Madam Chairman, I'm pleased to be here today to testify on the latest chapter in the Department of Defense credit card abuse saga. I started investigating the breakdown in controls leading to waste, fraud, and abuse of DoD credit cards several years ago now. I started out working with GAO and then Chairman Horn's House Government Reform subcommittee. I'm glad to continue pursuing this matter with Representative Schakowsky and I'm very pleased to be able now to work with Senator Coleman and his subcommittee and now you, Madam Chairman, to continue to shed light on this troubling issue.

Following on our previous work with GAO on DoD purchase cards and travel cards, the subject of today's hearing is centrally billed accounts. Centrally billed accounts are part of the government-wide travel card program. They are another way of paying for travel costs whereby tickets are purchased using a central account paid directly by the government. This is done instead of using an individually billed card for which the traveler would be reimbursed. This method of paying for travel is intended to be more convenient and cost effective than having individual employees pay for tickets on their travel card. However, not surprisingly, the way it is being administered has opened the door to waste, fraud, and abuse.

GAO wrote two reports for us taking a look at two different problems with centrally billed accounts resulting from a breakdown of controls. The first revealed an appalling level of waste in the form of unused airline tickets to the tune of an estimated 100 million dollars or more since 1997. Imagine if you purchased a fully refundable airline ticket for 600 or 700 dollars and didn't use it. Would you just put it in your dresser drawer and forget about it? Of course not. That would be like dumping money down the drain. Well, that's just what the Department of Defense has done, except they have done it many times over with millions of dollars of the taxpayers' money.

Federal agencies are authorized to recover payments made to airlines for unused tickets for 6 years and can offset future payments for up to 10 years. Given the large amount of travel throughout DoD, it's inevitable that plans will change at the last minute, meetings will be rescheduled, officials will cancel their travel plans for whatever reason, and so forth. That leaves an unused ticket that can be fully refunded. When government employees pay for anything on their individually billed travel cards, the employees must take care of the bill personally. They either submit a voucher to be reimbursed or apply for a refund for an unused ticket. However, a great many tickets are paid for using centrally billed accounts which the agency is responsible for paying. This leaves no personal incentive for the traveler to seek a refund. Yet, this is precisely who DoD relies on to see that tickets are refunded. As a result, DoD sometimes gets a refund for these unused tickets and sometimes does not.

There are really no controls in place to see that DoD systematically gets its money back for tickets that are not used. As mentioned before, GAO estimates that this has resulted in at least 100 million dollars of taxpayer money that is essentially sitting in a dresser drawer. The

American taxpayers deserve better than to have their hard earned income squandered. Moreover, in the midst of the War on Terrorism, when we are working to provide our troops overseas with everything they could possibly need, I can't believe that DoD can't find a better use for 100 million dollars than to let it sit unclaimed.

The good news is that DoD can claim many of these refunds. The bad news is that before GAO brought this issue to light, DoD had *no idea* these millions of dollars in unused airline tickets were sitting out there. Since DoD kept no records of unused airline tickets, GAO made this discovery by combing through data provided by the airlines. In many cases the airlines' data was incomplete and it becomes more difficult to acquire the further back in time you go. Clearly, DoD will never collect all the money that could potentially be recouped from these unused tickets, but it would have recovered no money at all if GAO hadn't led them to it. This is yet another area where, if DoD simply had a system of effective controls, a considerable amount of taxpayer money could have been saved.

The first of GAO's reports on problems with DoD centrally billed accounts dealt with waste. The second adds fraud and abuse to the mix. The GAO discovered that DoD has been improperly reimbursing travelers for airline tickets they did not purchase. Because centrally billed accounts are paid directly by the agency, individual travelers should not be reimbursed for the cost of tickets purchased with centrally billed accounts. Nevertheless, through data mining using limited fiscal year 2001 and 2002 data from the Army, Navy and Marine Corps, GAO identified more than 8 million dollars worth of potentially improper reimbursements. For its part, the Air Force Audit Agency estimated that unless this problem is fixed, it will cost the Air Force more than 6 million dollars over the next six years. While GAO was not able to estimate the extent of this problem given the data, we are again talking about millions of taxpayer dollars being wasted on an annual basis.

The GAO report contains some disturbing examples of improper, and potentially fraudulent travel claims that were reimbursed by DoD. According to GAO, one high ranking DoD employee, Mr. _____, who is referred to as Traveler #1 on pages 12 and 13 of the report, claimed reimbursements for 13 tickets for a total of 9,700 dollars over a 9 month period for tickets that he did not pay for, but instead were paid for out of a centrally billed account. He claimed that he didn't realize that he was reimbursed for expenses that he did not incur. I suppose it's possible to forget your airline ticket was already paid for when submitting a travel voucher, especially if you usually purchase the tickets with an individual card. Still, I'll bet that Barbara and I would notice if we had almost 10,000 dollars deposited in our bank account over nine months for no apparent reason.

GAO also discovered a GS-13 employee, Mr. ____, who submitted 12 travel vouchers over a 27 month period claiming 6,800 dollars in airline tickets he did not purchase himself. He is listed as Traveler # 2 on pages 12 through 15 of the GAO report. The Defense Finance Accounting Service refused payment on five of his first six claims. They explained in writing that his claims were denied because he did not personally incur the expense as the tickets were purchased with a centrally billed account. In total, Mr. ___ received 6 improper payments, half of the12 improper claims he submitted, for a total of 3,600 dollars. Like Mr. ___, Mr. ___ claimed these were

honest mistakes. These "honest mistakes" apparently also include improperly approving his own travel voucher, improperly renting luxury vehicles while on travel, improperly purchasing airline tickets for family members with a government rate, and using his individual travel card for personal items like a monthly rental fee for a musical instrument. GAO has referred these cases to the DoD Inspector General.

Still, before we celebrate another congressional oversight success story, we should remind ourselves that this should never have been allowed to happen and will happen again unless DoD gets serious about establishing some internal controls. Even when the presence of some controls highlights potentially fraudulent activity, as is sometimes the case with stolen centrally billed account numbers mentioned later in the report, DoD does not always follow through to investigate and avoid paying fraudulent charges. DoD must set to work immediately to establish a positive control environment throughout the agency, which will involve a change in culture. It's becoming almost routine for Congress working with GAO to uncover a breakdown of controls in one aspect of DoD leading to waste, fraud and abuse. We hold hearings at which officials from DoD come with their tail between their legs admitting they could do better and will fix the specific problem. What I want to start hearing is how DoD is going to fix its culture of indifference to internal controls and lack of respect for the American taxpayers.

Thank you Madam Chairman.

Statement of the Honorable Jan Schakowsky
Senate Committee on Governmental Affairs
June 9, 2004

Thank you Madame Chairman, Senator Lieberman, members of the Committee, I want to thank you for holding this important hearing and for the opportunity to testify before you today. I also want to thank Senator Grassley who has been such a strong leader on government accountability issues. It has been a pleasure to work with him toward accomplishing our mutual goal of rooting out waste, fraud and abuse in the federal government.

As you will hear today, the GAO's latest investigation into the epidemic of waste, fraud and abuse at the Pentagon has uncovered more of the same. Because of a culture at the Defense Department that seems to persistently tolerate abuse of public dollars and public trust, precious taxpayer funds continue to be wasted. Meanwhile, the Congress is providing DOD with increased budgets at record levels. With all of the new homeland security needs our nation is facing, we cannot afford to waste a single penny that might otherwise be making American safer.

The GAO estimates potential losses valuing at least $100 million as a result of unused and unclaimed airline travel tickets by DOD employees.

After reviewing just a few years of data, GAO found that DOD employees wasted over $21 million by failing to use or to claim 58,000 (57, 946) airlines tickets. Some of those tickets were for first and business class travel and cost DOD and taxpayers as much as $9,800 a piece.

81,000 tickets were partially unused by DOD employees. The price of those tickets equaled $62 million.

In addition to wasted taxpayer dollars, GAO uncovered fraud and abuse of the DOD travel system. DOD employees were improperly reimbursed for air travel tickets they did not purchase. Examples include employees receiving improper and unjustified reimbursements of as much as $1,000, $3,600, and $10,000 each. In violation of the rules, some DOD employees even approved their own travel and reimbursement forms and billed the government for rental of luxury cars. One employee had the nerve to sell tickets that DOD had paid for to third parties, making a personal profit.

These are just a few examples of the mismanagement and abuse that is ongoing at the Pentagon. And to my knowledge, none of the perpetrators have been disciplined and DOD has yet to put in place the system-wide changes necessary to prevent future abuse.

The GAO also discovered a potentially major security flaw in DOD's travel system. Working undercover, GAO personnel were able to obtain tickets based on a fictitious travel order, fake identification, and an unnamed DOD office. GAO's undercover agents would have been able to travel on a major U.S. airline, for free, under fake identification.

This could have been any criminal, including a terrorist, utilizing fake identification. This raises serious concerns for our air travel industry and our national security. Not only can individuals travel under fake ID, but the DOD, which is supposed to protect us, may actually be unknowingly facilitating criminal activity that could endanger the American public.

Enough is enough. Whenever Congress shines the light on any aspect of the Department of Defense's financial management, we uncover more waste, fraud and abuse that are costing taxpayers billions of dollars. The abuses continue to exist and thrive and come on top of the fact that the Department of Defense already cannot account for $1.2 trillion in financial transactions.

At a time when our soldiers are patrolling the streets of Iraq in unarmored Humvees, when critical domestic programs are being cut and the when the Administration is asking for record Defense spending, hundreds of millions of dollars that could be used to protect our troops and our country are going to waste. We've known for some time that DOD's financial management is atrocious. These latest GAO reports show that it is not only irresponsible but dangerous for our country to have the Defense Department continue business as usual. I share Senator Grassley's concern over the inexcusable behavior of individual employees, and I think they should all be appropriately disciplined. But we also need to change the culture at the Pentagon. Our Pentagon leaders need to fix the problems that persist. If they cannot or will not, President Bush should replace them.

At a time when Americans are being asked to sacrifice so much, in terms of lives, resources, and our economy, the Administration has a particular duty to protect taxpayer dollars from any further waste, fraud and abuse and the security threats that we are facing as a result.

I want to thank our GAO witnesses and all of those at the GAO who worked so hard on these reports. They have done yet another great service to the Congress and to the American public. I just hope those of us here in Washington will now exercise our oversight responsibilities and demand changes from the Pentagon.

Again, Madame Chairman and members of the Committee, I thank you.

United States General Accounting Office

GAO

Testimony

Before the Committee on Governmental Affairs,
U.S. Senate

For Release on Delivery
Expected at 10 a.m. EDT
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DOD TRAVEL CARDS

Control Weaknesses Led to Millions in Fraud, Waste, and Improper Payments

Statement of Gregory D. Kutz
Director, Financial Management and Assurance

John J. Ryan
Assistant Director, Office of Special Investigations

GAO-04-825T

June 9, 2004

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-04-825T, a testimony before the Committee on Governmental Affairs, United States Senate

DOD TRAVEL CARDS

Control Weaknesses Led to Millions of Dollars in Fraud, Waste, and Improper Payments

Why GAO Did This Study

In November 2003, GAO testified on the significant level of improper premium class travel purchased with centrally billed accounts. These findings led to concerns over the Department of Defense's (DOD) overall management of the centrally billed account program. At the request of this Committee, Senator Grassley, and Representative Schakowsky, GAO performed work to determine whether DOD controls were adequate to protect the centrally billed accounts from fraud, waste, and abuse. This testimony focuses on whether DOD (1) paid for airline tickets that it did not use and did not process for refund, (2) improperly reimbursed travelers for the cost of airline tickets paid for with centrally billed accounts, and (3) adequately secured access to centrally billed accounts against improper and fraudulent use. This testimony also addresses the internal control breakdowns that led to instances of fraud, waste, and abuse and DOD's corrective actions.

In two companion reports issued today, DOD concurred with the 31 recommendations GAO made—including moving to a well-managed individually billed account program—to improve the management of unused tickets, recover the value of outstanding unused tickets, prevent and detect improper payments, reduce the risk that airline tickets are issued on invalid travel orders, and improve security over the centrally billed accounts.

www.gao.gov/cgi-bin/getrpt?GAO-04-825T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9505 or kutzg@gao.gov.

What GAO Found

A weak control environment and breakdowns of key controls over the centrally billed accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper and potentially fraudulent airline ticket claims, and issuance of airline tickets based on invalid travel orders.

Problem identified	Illustrative example(s)
Unused airline tickets	
• 58,000 airline tickets—primarily fiscal years 2001 and 2002 tickets—with a residual value of more than $21.1 million were unused and not refunded as of October 2003 • Many more tickets are partially unused with unknown residual value • $100 million in potential unused tickets from fiscal years 1997 to 2003	Some unused tickets are first or business class tickets that cost thousands of dollars: • $9,800 round trip from Washington, D.C. to Canberra, Australia • $3,400 round trip from Washington, D.C. to San Diego, Calif.
Reimbursements to travelers for improper and potentially fraudulent airline ticket claims	
• About 27,000 potential improper reimbursements totaling more than $8 million identified at the Army, Marine Corps, and Navy during fiscal year 2001 and 2002 • 123 of 204 transactions selected for testing were improper and potentially fraudulent • Air Force Audit Agency estimated that losses for the Air Force due to improper payments to be $6.5 million over 6 years	Some travelers submitted multiple claims for tickets they did not purchase, which could be indicative of intent to defraud the government: • A GS-15 received 13 improper payments totaling almost $10,000 but claimed he did not notice the overpayments • A GS-13 repeatedly submitted false claims for airline ticket reimbursements after being told they were improper
Centrally billed accounts not adequately secured against improper and fraudulent use	
• No verification that travel order is valid before airline tickets are charged to the centrally billed accounts and obligations recorded to pay for the airline tickets • Centrally billed account numbers were compromised and used for personal gain	• Using a basic scheme to defraud, GAO obtained a round-trip airline ticket from Washington, D.C. to Atlanta, Ga. that was paid for by DOD • A DOD traveler used a centrally billed account number to purchase over 70 airline tickets costing over $60,000, which he resold at a discount

Source: GAO analysis of DOD data.

In some instances where the centrally billed accounts were compromised, DOD did not pay for the airline tickets because DOD disputed those charges. However, not all DOD units disputed unauthorized charges. As a result, DOD is vulnerable to paying for fraudulent charges. A major contributing factor to these problems is that DOD's travel order, ticket issuance, and travel voucher systems are not integrated, and DOD had not designed compensating procedures to reconcile data in these systems. Thus, DOD was unable to detect instances where (1) the absence of a travel voucher might indicate that an airline ticket was unused, (2) travelers improperly claimed reimbursement for tickets they did not purchase, and (3) an authorized individual did not approve the travel order submitted to obtain an airline ticket. Other causes are excessive reliance on DOD travelers to report unused tickets, inadequate voucher review, and weak centrally billed account safeguards.

Madame Chairman and Members of the Committee:

Thank you for the opportunity to discuss the Department of Defense's (DOD) management of its centrally billed accounts. This testimony is a continuation of previous work we performed on weaknesses in controls over DOD's premium class travel acquired using the centrally billed travel accounts.[1] Our two related reports,[2] released today and developed at the request of this Committee, Senator Grassley, and Representative Schakowsky, describe additional problems we identified in DOD's controls over the centrally billed accounts. These weaknesses, and other weaknesses we had previously reported upon related to DOD's management of the individually billed accounts,[3] are illustrative of DOD's long-standing financial management problems, which are pervasive, complex, and deeply rooted in virtually all business operations. Such problems led us in 1995 to put DOD financial management on our list of high-risk areas—those that are highly vulnerable to fraud, waste, and abuse—a designation that continues today.[4]

The centrally billed accounts are used by most DOD services and units to purchase transportation services such as airline and train tickets, facilitate group travel, and procure other travel-related expenses.[5] In contrast, the individually billed travel accounts are used by individual travelers primarily for lodging, rental cars, and other travel expenses. Further, unlike the

[1]U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at the DOD Led to Improper Use of First and Business Class Travel*, GAO-04-88 (Washington, D.C., Oct. 24, 2003), and *Travel Cards: Internal Control Weaknesses at the DOD Led to Improper Use of First and Business Class Travel*, GAO-04-229T (Washington, D.C.: Nov. 6, 2003).

[2]U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars Wasted on Unused Airline Tickets*, GAO-04-398 (Washington, D.C.: Mar. 31, 2004), and *DOD Travel Cards: Control Weaknesses Resulted in Millions of Dollars of Improper Payments*, GAO-04-576 (Washington, D.C.: June 9, 2004).

[3]U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, GAO-03-169 (Washington, D.C.: Oct. 11, 2002), *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, GAO-02-863T (Washington, D.C.: July 17, 2002), *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, GAO-03-147 (Washington, D.C.: Dec. 23, 2002), *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*. GAO-03-148T (Washington, D.C.: Oct. 8, 2002), and *Travel Cards: Air Force Management Focus Has Reduced Delinquencies, but Improvements in Controls Are Needed*, GAO-03-298 (Washington, D.C.: Dec. 20, 2002).

[4]U.S. General Accounting Office, *High-Risk Series: An Overview*, GAO/HR-95-1 (Washington, D.C.: February 1995), and *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

individually billed travel accounts, where travelers are responsible for all charges and for remitting payments for the monthly bill, charges for centrally billed accounts are billed directly to the government for payment. For fiscal years 2001 and 2002, DOD travelers incurred $7.1 billion in expenses on the centrally billed and individually billed travel card accounts, with about $2.8 billion related to the use of centrally billed accounts.

Today, we will share our perspective on whether DOD (1) paid for airline tickets that it did not use and did not process for refund, (2) improperly reimbursed travelers for the cost of airline tickets paid for using centrally billed accounts, and (3) adequately secured access to the centrally billed accounts against improper and fraudulent use. We will also address the internal control breakdowns that led to these instances of fraud, waste, and abuse and DOD's corrective actions.

Summary

Weaknesses in the design and implementation of key internal controls over the centrally billed accounts led to millions of dollars wasted on airline tickets that were unused and not refunded, and millions more where DOD made payments to travelers for improper and potentially fraudulent claims the travelers filed for airline tickets that DOD—and not the traveler—purchased. The weaknesses were also highlighted when DOD issued us an airline ticket and recorded an obligation to pay for that ticket based on a fictitious travel order we prepared. We also found that some DOD centrally billed accounts had been compromised and used for personal gain.

Limited data provided by DOD's five most frequently used airlines indicated that DOD had purchased—primarily in fiscal years 2001 and 2002—about 58,000 tickets with a residual (unused) value of $21.1 million that were unused and not refunded as of October 2003. In addition, three airlines reported that DOD had purchased more than 81,000 airline tickets costing more than $62 million that it used only partially, that is, at least one leg had not been used. We also found that DOD was not aware of the magnitude of these unused tickets, and therefore did not know their number or dollar value. Based on further assessment of the limited airline data, we determined that it is possible that DOD had purchased, since 1997, more than $100 million in airline tickets with its centrally billed accounts that it

[5]The Air Force is an exception to this general rule. The Air Force equally uses both centrally billed and individually billed accounts for purchasing airline tickets.

did not use and did not process for refunds. The millions of dollars in airline tickets were wasted because DOD did not have a systematic process to identify and process unused airline tickets.

We also found that DOD made millions of dollars of improper reimbursements to travelers who filed potentially fraudulent claims for airline tickets that DOD, and not the travelers, paid for using the centrally billed accounts. Some DOD travelers submitted multiple claims for airline tickets they did not purchase, which could indicate an intent to defraud the government. During fiscal years 2001 and 2002, these improper reimbursements were made on about 27,000 transactions totaling more than $8 million. We identified the $8 million through data mining of limited fiscal year 2001 and 2002 travel voucher data provided by the Army, Navy, and Marine Corps. Further testing of a nonrepresentative selection of 204 potentially improper claims for airline tickets confirmed that 123 payments totaling about $97,000 were improper. For example, one traveler received 13 improper payments totaling almost $10,000 for airline tickets he did not purchase, yet claimed that he did not realize he was overpaid. In another case, one traveler continued to file false claims and eventually received improper payments of $3,600 despite repeated notification that his claims were improper.

The lack of adequate security over the centrally billed accounts also exposed these accounts to improper and fraudulent use. We found that DOD allowed the centrally billed accounts to be used for payment of airline tickets without verifying the validity of the travel order. Our investigation demonstrated the ease with which an unauthorized individual could obtain an airline ticket using a fictitious travel order. Specifically, we found that DOD readily issued an airline ticket—for which we were able to obtain a boarding pass—on the receipt of a fictitious travel order, and automatically recorded an obligation to pay for the airline ticket issued on the basis of the fictitious travel order. The lack of adequate security also resulted in some DOD centrally billed accounts being compromised and used for personal gain. For instance, a military service member used the centrally billed accounts to buy airline tickets costing more than $60,000 and sold them at a discounted rate to coworkers and family members. Because DOD disputed these unauthorized transactions once they were identified as unauthorized, DOD received credits from Bank of America and did not incur losses. However, some DOD locations did not file disputes for unauthorized items or track their resolution. As a result, DOD could have paid for fraudulent transactions from compromised accounts.

Weaknesses in the design of internal controls, specifically the lack of interface between DOD's travel order, ticket issuance, and travel voucher systems, and the lack of compensating procedures to reconcile data from these systems, were major contributing factors to the fraud, waste, and improper payments we identified. For example, without reconciling data from the ticket issuance to the travel voucher system, DOD could not identify instances where the absence of a travel voucher indicates that travel was canceled and the airline ticket was unused, or that an airline ticket claimed on a travel reimbursement was improper. Without an interface between the travel order and ticket issuance systems, DOD could not determine that a travel order was valid before ticket issuance. Again, DOD did not implement compensating procedures to verify that the travel order was valid before it paid Bank of America for the airline tickets. Other internal control weaknesses included excessive reliance on DOD travelers to report unused tickets, inadequate supervisory review of vouchers, and lack of physical safeguards over centrally billed accounts.

As discussed in the two reports released today, DOD agreed with all 31 of our recommendations to improve internal controls over the centrally billed accounts. In particular, DOD agreed that using a well-controlled individually billed account program to pay for airline tickets would transfer responsibility for all charges to the individual cardholder and reduce the financial exposure resulting from the weaknesses in the controls over DOD's centrally billed accounts. DOD has also begun to take corrective actions in a number of areas. DOD has convened task forces and working groups to address the deficiencies we have identified, taken actions to attempt to recover the $21.1 million in tickets identified as unused and not refunded, and recovered more than $50,000 of the $100,000 in improper payments we identified.

Millions of Dollars Wasted on Airline Tickets that Were Unused and Not Refunded

Our analysis of limited airline data found that DOD had purchased millions of dollars in airline tickets that it did not use and did not process for refund. Because DOD did not maintain data on unused tickets, DOD was not aware of this problem prior to our audit. Further assessment of the data indicated that it is possible that since 1997, DOD purchased more than $100 million in airline tickets with its centrally billed accounts that it did not use and did not process for refunds.

As shown in table 1, data provided by five of DOD's most frequently used airlines[6] showed that about 58,000 tickets with a value of $21.1 million were purchased with DOD's centrally billed accounts but were unused and not

refunded. DOD was not aware of these unused tickets and did not know their number or dollar value. The $21.1 million we identified included more than 48,000 tickets valued at $19.2 million that were fully unused, and $1.9 million in the unused (residual) value of about 10,000 partially used tickets,[7] that is, at least one leg had not been used. These tickets were primarily acquired during fiscal years 2001 and 2002, although some were also purchased during fiscal years 1999, 2000, and 2003.

Table 1: Known Value of Unused and Unclaimed Airline Tickets, November 1998 through December 2002

Airline	Number of tickets	Known unused value of fully and partially unused airline tickets (dollars in millions)
American	15,877[a]	$4.1[a]
Delta	15,588	6.4
Northwest	3,479	2.3[b]
United	16,283	6.0
US Airways	6,719	2.3
Total	**57,946**	**$21.1**

Source: GAO analysis of Bank of America and airline data.

[a]In total, American Airlines reported 24,013 tickets with residual value of more than $6.2 million that were fully or partially unused. We excluded 8,136 American Airlines unused tickets totaling more than $2.1 million from our analysis because either (1) less than 6 months had passed since the tickets were purchased and when American Airlines provided the file or (2) Bank of America data did not confirm whether the tickets were fully or partially unused.

[b]Values represent the amount Bank of America reported for tickets Northwest identified as being unused.

In addition to the known, unused value of $21.1 million, DOD also failed to claim refunds on an additional 81,000 partially unused tickets purchased at more than $62 million, of which the residual value is unknown. This is because Delta, Northwest, and United airlines, which provided us with these data, informed us that their ticket data are not maintained in a format that would allow them to easily quantify the remaining unused value.

[6] The five most frequently used airlines accounted for more than 80 percent of airline tickets DOD purchased in fiscal years 2001 and 2002.

[7]These 10,000 tickets were from American Airlines, the only airline that provided us the residual value of partially unused tickets.

The data the five airlines provided in response to our request for fiscal years 2001 and 2002 unused ticket data were not uniform, complete, or consistent. For example, while American, Delta, Northwest, and United provided some data on partially unused tickets, US Airways did not provide any. Further, while Delta, Northwest, and United provided data on the total purchase price of tickets that were partially unused, American Airlines was the only airline that provided data on the purchase price and unused value of its partially unused tickets. The airlines cited difficulties with accessing their historical files as the reason for not being able to fully respond to our request. The airlines pointed out that to provide additional information, they would have had to access information that had been stored in archived computer files, and in some instances, the computer files had been eliminated and the only documentation that remained were paper records of the flights.

Also as we reported previously, DOD's failure to monitor premium class travel had resulted in more than 70 percent of premium class travel being unauthorized and unjustified, and thus increased cost to taxpayers.[8] Although we found that the vast majority of the wasted airline tickets were for coach class travel, the most egregious examples of waste related to premium class tickets costing thousands of dollars that DOD—and thus the taxpayers—paid for that were not used and therefore provided no benefit to the government or the taxpayers. For example, United Airlines reported that a Navy traveler used the centrally billed account to purchase a round-trip business-class ticket costing $9,800 from Washington D.C., to Canberra, Australia. Table 2 shows examples of first and business class tickets purchased for travel through December 2002 that were identified as unused—and were not refunded—as of October 2003.

Table 2: Examples of Unused and Unclaimed Premium Class Tickets

Ticket	itinerary	Ticket price
1	Round trip – Washington, D.C. to Canberra, Australia	$9,800
2	Round trip – Atlanta, Georgia to Muscat, Oman	8,100
3	Round trip – Washington, D.C. to Canberra and Honolulu	8,000
4	Round trip – Washington, D.C. to Tokyo, Japan	7,300

[8]GAO-04-88.

(Continued From Previous Page)

Ticket itinerary		Ticket price
5	One way – Stuttgart, Germany to Honolulu	4,800
6	One way – Washington, D.C. to Brussels, The Netherlands	2,800
7	One way – Washington, D.C. to Chicago, Illinois	900

Source: GAO.

Based on further assessment of the limited airline data, we determined that it is possible that DOD purchased at least $100 million in airline tickets that were unused and not refunded since 1997, the oldest year for which centrally billed account data were available. This amount is derived by using data provided by the airlines for fiscal year 2002 to calculate the total value of unused tickets as a percentage of total tickets purchased using the centrally billed accounts, and applying the resulting percentage to the almost $8 billion in total value of tickets purchased with a centrally billed account since 1997. Federal agencies are authorized to recover payments made to airlines for tickets that agencies acquired but did not use.[9] Consequently, DOD might be entitled to recover the value of the unused and unrefunded tickets from the airlines.

Because DOD did not maintain data on unused tickets, DOD would have to rely on the airlines to provide the relevant data needed to claim refunds. While the airlines provided us with at least 1 year of the data we requested, some airline representatives expressed concerns about the feasibility and costs of providing additional unused ticket data. However, unused tickets from these 5 airlines and the more than 85 other airlines that DOD uses represent a potentially substantial government claim. To assist DOD in claiming refunds or converting the unused tickets to future use, we provided DOD with a list of the unused ticket information we received from the airlines in December 2003. As will be discussed in further detail below, DOD has taken actions to request repayment of the over $21 million in known unused tickets from the airlines.

[9]31 U.S.C. § 3726(h).

Reimbursements for Improper and Potentially Fraudulent Airline Ticket Claims Could Total Millions of Dollars

We found that breakdown in internal controls resulted in numerous instances during fiscal years 2001 and 2002 where DOD travelers submitted improper claims and subsequently received improper reimbursements for airline tickets they did not purchase. Requesting reimbursement for items that the traveler did not pay for may violate the False Claims Act and be punishable by imprisonment or a monetary fine, or both. Although limitations in DOD data prevented us from accurately estimating the magnitude of these improper reimbursements, our data mining of limited DOD data indicated that the potential improper claims could total more than $8 million dollars.

Magnitude of Potentially Improper Payments

During fiscal years 2001 and 2002, DOD spent over $10.8 billion on travel and transportation expenses for DOD military and civilian personnel, of which about $2.8 billion were charged to the centrally billed accounts, and the remaining $8 billion through voucher settlement.[10] However, significant limitations related to DOD travel and transportation data prevented us from accurately estimating the magnitude of improper payments DOD made to travelers for improper and potentially fraudulent claims travelers filed for airline tickets that DOD—and not the traveler—purchased. Specifically, travel voucher data received from the Army, Navy, and Marine Corps covered only about $4.5 billion of the $8 billion in total travel voucher expenses.[11] Despite these limitations, our data mining of about 50 percent of voucher data identified about 27,000 travel claims totaling over $8 million for which DOD made potentially improper reimbursements to travelers for airline tickets that had actually been paid for using DOD centrally billed accounts. Although we were unable to obtain Air Force data in a format that would help us identify instances of improper payments, the Air Force Audit Agency[12] reported that the Air Force also improperly paid travelers for the cost of airline tickets purchased with centrally billed accounts and estimated that the improper payments cost the Air Force $6.5 million over 6 years.

[10]Voucher settlements are made in payments of travel expenses travelers incur through the individually billed accounts or other means.

[11]Even though the Army, Navy, and Marine Corps provided us with travel voucher data, we were unable to obtain assurance concerning the completeness and reliability of these data. In addition, the Air Force did not provide data in the format we requested to enable analysis.

[12]Air Force Audit Agency, *Centrally Billed Accounts for Travel*, F2003-003-FB1000 (Washington, D.C., Apr. 24, 2003).

Results of Improper Payment Testing

To determine whether DOD improperly paid travelers for the airline tickets purchased with centrally billed accounts, we tested 204 travel claims selected from the 27,000 potentially improper travel claims we identified through data mining. We selected the 204 travel claims containing about $154,000 in potentially improper payments using a nonrepresentative methodology. Our tests—which consisted of reviewing what the travelers claimed as reimbursable expenses, what DOD paid, and what was purchased using the centrally billed accounts—confirmed that DOD made 123 improper payments totaling more than $97,000 to 91 travelers.[13] Fifteen of the 123 improper payments had been identified prior to our audit because the travelers voluntarily notified DOD of the improper payments, or because DOD found that the payments were improper through its own voucher audits. Further, in response to our audit, DOD collected more than $42,500 from 46 travelers for 63 improper airfare payments, and is in the process of recovering the remaining improper payments

We found that improper payments fell into two categories. The first category, which is linked to DOD's unused ticket problem, comprises 15 instances totaling almost $16,000. In these instances, DOD and the traveler each purchased one airline ticket for the same travel,[14] and DOD properly reimbursed the traveler for the airline ticket used and charged to the traveler's individually billed account. However, lack of reconciliation procedures, which I will discuss in further detail below, resulted in DOD not being able to detect that a payment for an airline ticket purchased and paid for by the traveler corresponded to an unused airline ticket purchased with a centrally billed account.

The second, and more typical, category of improper payments were made to 76 travelers for airline tickets they simply did not purchase. Only 4 travelers notified the Defense Finance and Accounting Service—and made restitution—on the improper payments prior to our audit. The remaining improper payments would also be fraudulent if the travelers intentionally filed false claims.

[13]The remaining 32 travelers did not submit improper or fraudulent claims.

[14]For example, if the airline has no record that a ticket was purchased using the centrally billed account, the traveler would have to purchase another ticket. In other instances, emergency circumstances such as weather problems might require that the traveler purchase another ticket at the airport.

Examples of Improper Payments

Travelers who had not purchased airline tickets should not have requested reimbursements, nor should DOD have paid the travelers for the cost of the airline tickets. Knowingly requesting reimbursement for items that the traveler did not pay for may violate the False Claims Act and be punishable by imprisonment or a monetary fine, or both. Although most of the 76 travelers we identified submitted improper claims once, several travelers we identified repeatedly submitted claims for airline tickets they did not purchase, which could indicate an intent to defraud the government. For example:[15]

- A GS-15 submitted claims—and received payments—for 13 airline tickets totaling almost $10,000 that he did not purchase. One of these claims was for an international ticket costing more than $3,500. Despite receiving almost $10,000 over a 9-month period, the traveler informed us that he did not notice that he had received payments for expenses he did not incur.

- Despite six notifications by DFAS from March 2001 to July 2002 that his vouchers contained improper airfare claims, a GS-13 acquisition specialist continued to submit false airfare claims from August 2002 to June 2003. This employee ultimately received $3,600 in payments for six improper claims. To circumvent proper review of his vouchers, the traveler scribbled his own name as the approving official and approved his own voucher. The traveler also took other questionable actions related to travel. For example, the traveler used the individually billed travel card to obtain two unrestricted coach class tickets for family members to fly to Germany. These unrestricted coach class tickets were normally priced at $2,800 each compared to the reduced government rate of $546 per person, which the traveler was able to obtain by using the individually billed card. The traveler also rented luxury vehicles—Mercedes Benz and Lincoln Navigator—while on government travel, typically at a rental rate of more than $100 a day.

- Another traveler, an E-9, represented to us that he knew that he received $1,400 in payments for two airline tickets he did not purchase. The traveler did not take actions to notify DFAS of the overpayment. The traveler kept the payment until our audit.

[15]See our related report, GAO-04-576, for further examples of improper payments.

Because of potential fraud, we have referred these cases to the DOD Office of Inspector General for further inquiry, and potential referral to the appropriate U.S. Attorney for further consideration.

Inadequate Security over the Centrally Billed Accounts Increased Risk of Fraud and Abuse

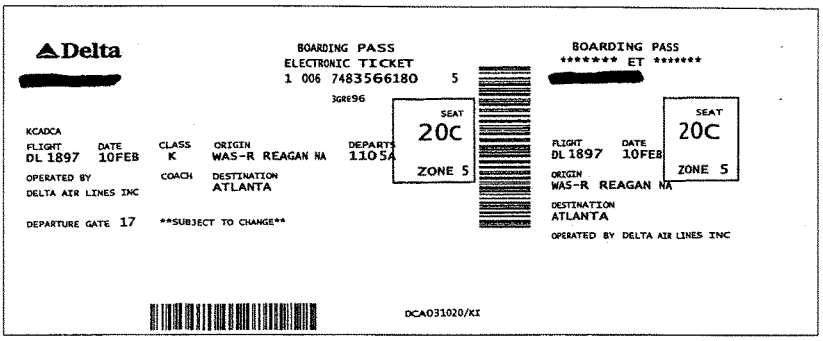
We also found that inadequate security resulted in improper and fraudulent use of the centrally billed accounts. Specifically, DOD did not adequately protect the centrally billed accounts from being used to purchase airline tickets based on fictitious travel orders and from being compromised and used for personal gain. These weaknesses exposed the centrally billed accounts to increased risk of fraud and abuse.

Airline Ticket Purchased Based on Fictitious Travel Order

We found that DOD allowed the centrally billed accounts to be used for payment of airline tickets without verifying the validity of the travel order. Consequently, we performed additional work during fiscal year 2004 to determine whether our concerns were warranted, or whether DOD could detect instances where invalid travel orders are used to obtain airline tickets. Our tests were also designed to determine whether current DOD controls could detect a ticket that is partially unused, and process that ticket for refund.

Our work involved creating, in February 2004, a fictitious travel order using fictitious names for the traveler and approving official. We had a GAO employee sign the travel order as the approving official using the fictitious name. We called a commercial travel office (CTO) assigned to one of the locations where we performed our testing and requested that they purchase a round trip airline ticket from Washington, D.C., to Atlanta, Ga. Upon receiving a faxed copy of our fictitious order, the CTO issued the airline ticket and charged it to a centrally billed account. The CTO then notified us that the ticket was issued and on the day of the scheduled flight, we went to the airline's ticket counter at the airport and picked up a boarding pass for the outbound flight from Washington, D.C., to Atlanta (see fig. 1).

Figure 1: Boarding Pass for Airline Ticket Charged to a Centrally Billed Account for Fictitious Traveler



Source: Delta Airlines.

Two months later, we obtained and reviewed the Bank of America invoice for the centrally billed account the CTO used to purchase the unauthorized ticket. The documentation indicated that DOD made payment to Bank of America without being aware that the travel order was fictitious, or that it had issued an airline ticket based on a fictitious travel order. Because it did not verify that the travel order was valid, DOD allowed its system to create an obligation to pay for the ticket. Further, DOD had not by that time detected that the return portion of the airline ticket was unused. Consequently, DOD had not processed a refund for the unused portion. After we informed DOD about the airline ticket that we obtained using the fictitious travel order, DOD requested and received a refund from the airline for the ticket we obtained.

Centrally Billed Accounts Were Compromised and Used Fraudulently

During fiscal years 2001 and 2002, some DOD centrally billed accounts were compromised and fraudulently used for personal gain. We detected these fraudulent activities by reviewing Bank of America data and making inquiries of DOD officials. In many instances, DOD had detected the

fraudulent transactions, and did not incur losses, because it disputed these transactions with the Bank of America. For example:

- Between August 2001 and March 2002, a Navy seaman used the centrally billed accounts to purchase over 70 tickets totaling more than $60,000. The 70 unauthorized tickets were identified by the CTO as unauthorized, that is, tickets they did not issue while reconciling tickets they had issued to the Bank of America invoices. According to the Naval Criminal Investigative Service (NCIS), to which this case was referred, the seaman called the airlines and purchased the tickets by giving them the centrally billed account numbers, which he found printed on his travel itineraries. Some of the 70 airline tickets were obtained for the seaman's own travel, but in many instances the tickets were sold at a discounted rate to other Navy personnel and their family members.

- Similarly, a Marine Corps corporal used the centrally billed account number printed on his itinerary to fraudulently purchase, through the internet, 11 airline tickets and a hotel accommodation totaling $3,360 between July and October 2000. The charges were identified as unauthorized by the CTO during the reconciliation process, and disputed with Bank of America.

In the above cases, DOD identified and disciplined the military personnel and did not incur financial losses. This is because, in both cases, DOD officials filed disputes with Bank of America upon receiving notification from the CTO that they had no record of having issued the airline ticket or making the hotel accommodation, and thus the transactions appeared to be unauthorized. Monitoring of the disputes also helped DOD officials conclude that the transactions were fraudulent, and resulted in Bank of America reimbursing DOD for the fraudulent transactions.

The examples above indicated the importance of identifying unauthorized transactions and filing disputes. However, our audit also found that not all DOD offices filed disputes. During fiscal years 2001 and 2002, 5 of the 11 units we visited did not file disputes. Other DOD units that did file disputes did not do so consistently. Although some transactions that appeared to be unauthorized could ultimately be traced to tickets actually purchased by DOD, other unauthorized transactions occurred because the centrally billed accounts were compromised and used fraudulently. Without disputing or researching centrally billed account transactions that appear to be unauthorized, DOD is exposed to significant risks that centrally billed

accounts would be compromised, similar to the two cases discussed above, but without detection.

Weaknesses in Design and Implementation of Key Internal Controls Contributed to Fraud, Waste, and Abuse

We found that the lack of interface among DOD's primary travel systems—travel order, ticket issuance, and travel voucher—was the common underlying cause and major contributing factor that allowed the fraud, waste, and abuse we identified to occur without detection. DOD had intended that the Defense Travel System (DTS) would address this fundamental weakness; however, DTS had experienced cost and schedule delays. In the interim, DOD had either not designed adequate compensating procedures, such as reconciliation of data from these systems, or had not effectively implemented procedures it had in place, such as verifying the validity of all travel orders before paying Bank of America for airline ticket charges. Other weaknesses that contributed to the fraud, waste, and abuse we identified above included excessive reliance on travelers to report unused tickets, lack of adequate supervisory review of travel claims, and inadequate safeguards of centrally billed account numbers.

Lack of Integrated Travel Systems and Effective Compensating Procedures Contributed to Fraud, Waste, and Abuse

DOD's travel systems—specifically the travel order, obligations, ticket issuance, and travel voucher processing—are not integrated. DOD's current travel systems do not have the ability to route only valid travel orders to the CTO for ticket issuance, or routinely match travel vouchers to tickets issued through the centrally billed accounts before making voucher or centrally billed account payments. We also found that DOD had not designed controls, or implemented effective controls, to compensate for these system weaknesses.

We found that DOD had not designed other procedures to link or reconcile tickets issued using the centrally billed accounts to the voucher system. A link or reconciliation between these two types of data would assist DOD in preventing or detecting both unused tickets and improper payments. For example, if DOD compared ticket issuance and voucher data, DOD could detect instances where a lack of a travel voucher might indicate that the ticket was unused. Further follow-up would confirm that a number of these tickets are unused and therefore, could result in actions to claim a refund on those tickets. Without reconciling these two types of records, DOD cannot obtain reasonable assurance that centrally billed account charges represent airline tickets that are eventually used. Reconciliation

would also enable DOD to detect instances where a traveler submitted a claim for airfare for which a corresponding ticket was issued using the centrally billed accounts. In these instances, if the traveler submitted evidence that he bought another airline ticket, DOD would detect that the airline ticket purchased with the centrally billed account was unused, or, if such evidence was not submitted, that the airfare claim should be rejected.

We also found that, in instances where DOD designed compensating procedures to address lack of system integration, DOD did not effectively implement these procedures. As mentioned previously, DOD travel systems did not have the ability to route only valid travel orders to the CTO for ticket issuance.[16] Without this capacity, DOD was unable to detect from its systems instances where a travel order was not approved by an authorized individual and should not be used as the basis for airline ticket issuance and payment. One compensating procedure would involve DOD providing the CTOs with a list of approving officials, or these officials' signature cards, to aid in determining the validity of the travel orders the CTO received before tickets are issued. DOD had chosen not to implement this front-end procedure, electing instead to focus on back-end procedures. However, our work found flaws in DOD implementation of these back-end procedures.

The back-end procedure requires that DOD verify that an obligation exists for each airline ticket charged on the centrally billed accounts—a process called prevalidation—before payment is made to the Bank of America. This procedure is intended to provide DOD with assurance that, prior to payment of the Bank of America invoice, airline ticket charges on the centrally billed accounts are supported by valid travel orders. By verifying that an obligation exists for the travel order that authorizes each airline ticket charged on the Bank of America's invoice, the prevalidation process could identify instances where obligations have not been established, which could indicate that the travel order might not be valid, such as the fictitious order we faxed to DFAS to obtain the airline ticket we described previously.

[16]Requiring airline tickets purchased with centrally billed accounts to be issued based on valid travel orders is the first step in preventing DOD from purchasing airline tickets that are not for official government business.

However, the Financial Management Regulations (FMR) allows DFAS—DOD's disbursing organization—to record a new obligation, or increase an existing obligation, up to $2,500 for transactions that fail prevalidation if DFAS is in possession of a valid obligating document. The FMR also defines a valid obligating document to include a travel order.[17] Thus, if DFAS receives a travel order from the CTO, DFAS is not required to determine the validity of the travel order if the airline ticket charge is less than $2,500.[18] However, as discussed previously, the CTOs forwarded the travel orders to DFAS without verifying that these orders were valid. Therefore, DFAS does not have reasonable assurance that the obligations it creates based on the travel orders the CTO provided were approved by individuals who have the authority to authorize the travel. As our investigative work demonstrated, failure to determine the validity of all travel orders for which a corresponding obligation had not been created resulted in DOD creating an obligation to pay for the airline ticket we obtained based on the fictitious travel order.

DOD officials informed us that DTS, currently being developed to replace the more than 30 travel systems now operating within the department, will provide an integrated process of preparing travel orders and making travel arrangements, including airline reservations, and filing and paying travel vouchers. According to these officials, it will also include a capability to routinely match travel vouchers to tickets issued through the centrally billed accounts. DTS was originally scheduled to be fully operational in 2002, but has experienced cost and schedule delays. According to the program management office, DTS will be operational for about 80 percent of DOD personnel in 2006.

[17]Some DOD units, such as a number of Navy units, require that DFAS return all airline ticket transactions that failed the prevalidation test to the units that created the travel order so that the units can record the obligations. This is not a DOD-wide practice. Instead, DFAS records the obligation to pay for the airline ticket and then notifies the unit that an obligation was created. It is expected that each unit's resource manager would conduct timely review of the obligations DFAS created for validity, as DOD has only 60 days to dispute invalid charges. Based on previous work we performed on the Navy's review of unliquidated obligations, which found that Navy fund managers failed to review unliquidated obligations over $50,000, and the work we performed on unused tickets, which found Air Force's monitoring of open travel orders to be ineffective, we again raise questions as to whether each unit's resource manager would review obligations in a timely manner to detect inaccurate obligations created by DFAS.

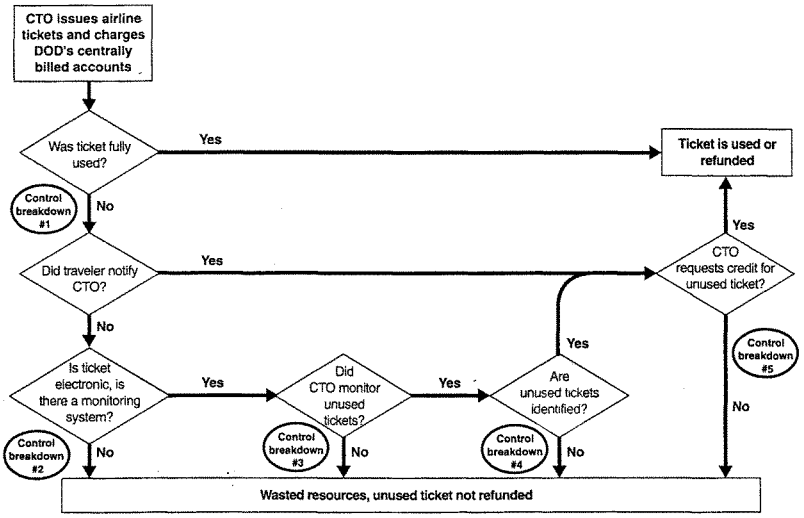
[18]If an obligation needs to be created or increased by more than $2,500, DFAS is to notify the unit that created the travel order, and give the unit 10 days to record that obligation before DFAS could record the obligation.

Excessive Reliance on Travelers to Report Unused Tickets

Another contributing factor to unused and unrefunded tickets is DOD's excessive reliance on travelers to report unused tickets to the CTOs. Appropriate reporting of unused tickets is needed to help DOD request refunds in a timely manner so that scarce resources are returned to the government. DOD travel and financial management regulations require that travelers notify the appropriate CTO when a ticket is unused and to return the unused ticket to the CTO for refund. According to bank data, DOD received credits amounting to about 9 percent of the airline tickets purchased through the CTOs during fiscal years 2001 and 2002, indicating that some DOD travelers followed the unused ticket requirements. However, DOD did not implement control procedures to systematically determine the extent to which DOD travelers adhered to the unused ticket requirements, and to identify instances in which they did not.

We identified a number of control breakdowns due to excessive reliance on travelers to notify DOD of unused tickets. Figure 2 illustrates the many ways in which a ticket can be unused and not refunded. Internal control breakdown 1 could occur if the traveler does not notify the CTO of an unused paper ticket. Control breakdown 2 occurs if the ticket is electronic, but the CTO had not implemented a system to monitor the ticket databases maintained by the airlines to determine whether the ticket is unused. Control breakdown 3 occurs if the CTO does not consistently monitor unused tickets, and therefore could not identify all unused tickets. Control breakdown 4 occurs if the CTO identifies or is notified of an unused ticket, but fails to process a refund. Finally, breakdown 5 occurs in the event that the CTO or the government travel office (GTO) does not track the status of refunds from the airlines, and therefore was not aware that a refund was not given.

Figure 2: Possible Control Breakdowns in the Unused Ticket Process



Source: GAO analysis of the process of issuing tickets charged to DOD's centrally billed accounts.

Inadequate Voucher Review Contributed to Improper Payments

We found that some improper and potentially fraudulent payments for airline tickets could be prevented if DOD approving officials conducted adequate review of the travel vouchers and the supporting documentation before authorizing the vouchers for payment. DOD's financial management regulations require that approving officials review travel vouchers for accuracy before authorizing them for payment. Many of the airline receipts submitted as supporting documentation for the improper claim clearly showed that the airline ticket was purchased using the centrally billed accounts. In these instances, if the approving officials had conducted

careful review of the travel vouchers and supporting documentation, the official would have noted that the traveler was not entitled to the travel reimbursement. Further, the reviewing officials should have been knowledgeable that local and component policy called for centrally billed accounts to be used to purchase the airline tickets that were claimed as a reimbursable expense on the vouchers.

Lack of Physical Safeguards Exposed Centrally Billed Accounts to Fraudulent Activities

DOD was exposed to fraudulent activities because DOD did not adequately safeguard the centrally billed account numbers. These accounts require safeguarding because stolen account numbers can be used fraudulently for personal gain. We determined that a major contributing factor to DOD's accounts being compromised was that many DOD units did not adequately protect centrally billed account numbers. Of the 11 CTOs we visited to observe control procedures and conduct statistical sampling, 8 printed the centrally billed account credit card number used to purchase the airline ticket on the trip itinerary that was given to each traveler along with the airline ticket. In these instances, the CTOs could have safeguarded these accounts by limiting the accounts' identity to the last four digits or simply not printing the account number on the traveler's copy of the itinerary. In fiscal year 2003, some CTOs improved their safeguards of the centrally billed account numbers by printing only the last four digits of the credit account number. However, not all CTOs have implemented this safeguard. We also found that copies of these itineraries were maintained at CTO offices that were accessible to any traveler who required assistance with travel reservations. Further, at the Pentagon, the GTO stored the reconciliation packages in boxes with the centrally billed account numbers prominently written on the outside of the boxes in an office that was not secured. Failure to safeguard centrally billed account numbers creates unnecessary risks that expose the government to fraudulent activities.

Corrective Actions Related to DOD's Management of the Travel Card Programs

During fiscal years 2002 and 2003, we issued a series of testimonies[19] and reports[20] that focused on problems that the Army, Navy, and Air Force had in managing the individually billed travel card accounts. These testimonies and reports showed high delinquency rates and significant potential fraud and abuse related to DOD's individually billed travel card program. However, in a recent report[21] concerning control weaknesses with DOD travel we recognized improvements that DOD has made in the management of the individually billed accounts. These improvements point to the possibility of using this program as the principal means of acquiring tickets, thereby reducing the government's risk of losses arising from the use of centrally billed accounts.

In response to our testimonies and reports on the individually billed accounts, the Congress took actions in the fiscal year 2003 appropriations and authorization acts[22] and the fiscal year 2004 authorization act[23] requiring (1) the establishment of guidelines and procedures for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of government travel cards; (2) the denial of government travel cards to individuals who are not creditworthy; (3) split disbursements[24] for paying a portion of the expenses claimed on a travel voucher directly to the credit card bank and the remainder to the cardholder; and (4) offset of delinquent travel card debt against the pay or retirement benefits of DOD civilian and military employees and retirees.

[19]GAO-02-863T and GAO-03-148T.

[20]GAO-03-169, GAO-03-147, and GAO-03-298.

[21]U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars Wasted on Unused Airline Tickets*, GAO-04-398 (Washington, D.C.: Mar. 31, 2004).

[22]Department of Defense Appropriations Act, 2003, Pub. L. No. 107-248, 116 Stat. 1519 (2002), and the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2458 (2002).

[23] National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, 117 Stat. 1392 (2003).

[24]Split disbursement is a process in which DOD pays the travel-card-issuing bank directly for charges incurred on the travel card and claimed on the travel voucher. Additional money owed to the traveler is deposited directly into the traveler's bank account. Split disbursements are mandatory for all military and DOD civilian personnel. See the National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 1009, 117 Stat. 1392, 1587 (2003), 10 U.S.C. § 2784a.

DOD has implemented many of the legislatively mandated improvements—most notably the implementation of split disbursements and salary offsets and the reduction in the numbers of individuals with access to the travel cards. According to Bank of America, the delinquency rates we noted in our prior reports at the Army, Navy, and Air Force have decreased. For example, the monthly delinquency rate at the Navy had decreased from an average of about 11 percent during fiscal year 2002 to an average of less than 7 percent in fiscal year 2003. Similarly, during that same period, the Army's average monthly delinquency rate decreased from about 14 percent to an average of about 9 percent. Although these rates are still substantially above the agency goal of 4.5 percent, the proper implementation of split disbursements should continue to reduce these delinquency rates.

The use of a well-controlled individually billed account travel program as the principal mechanism for acquiring airline tickets will help limit the government's financial exposure by reducing the magnitude of unused tickets and improper payments, and preventing improper and fraudulent use from inadequate security over centrally billed accounts. However, the use of the individually billed accounts to acquire airline tickets would only minimize, not eliminate, the necessity of implementing internal controls over the centrally billed account program. DOD would still need to maintain a centrally billed account structure to purchase airline tickets for travelers who have been denied individually billed accounts, infrequent travelers whose individually billed credit cards have been canceled, and new employees who have not yet acquired individually billed accounts.

In addition, DOD has taken actions to improve management of its centrally billed account travel program based on the results of our premium class travel and unused airline ticket reports. Specifically, DOD commissioned a task force to establish policies and procedures intended to help prevent unauthorized use of premium class travel. The March 16, 2004, report by the premium class task force contained corrective actions in the areas of policy and controls of travel authorization, ticket issuance, and internal control oversight to address our recommendations. Many of the task force's recommendations have been implemented.

In the area of unused tickets, DOD issued claim letters in late February to five airlines requesting repayment of the over $21 million in known unused tickets and programmed letters for claims against other airlines. The responses from the airlines have been varied. One airline indicated that they needed further information to process refunds, while another airline

informed DOD that it may not be able to accommodate DOD's refund claims due to its weak financial position. To date, DOD has not exerted its rights afforded by federal law[25] to offset payments due to the airlines for the amount of unused tickets. As a result, to date none of the potentially over $21 million of unused ticket money has been returned to DOD by the airlines.

Conclusion

The millions of dollars wasted on unused airline tickets, improper payments, and fraudulent activities provide another example of why DOD financial management is one of our "high-risk" areas, with DOD highly vulnerable to fraud, waste, and abuse. While DOD has acknowledged the control weaknesses we identified and has taken actions to address some of these weaknesses, DOD needs to take a more active role in identifying and resolving control weaknesses. In each case identified in our two most recently issued reports, DOD officials acknowledged that they were not aware of these significant and long-standing control breakdowns prior to our audit. DOD must proactively identify control weaknesses and implement a system of internal controls that provide reasonable assurance to both DOD senior management and the taxpayers that the billions of dollars in travel expenses paid for with centrally billed accounts are spent prudently. As our nation continues to be challenged with growing budget deficits and increasing pressure to reduce spending levels, it is important that DOD improve its management of the travel program, which will save millions of dollars annually.

Madam Chairman and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

[25] 31 U.S.C. § 3716(e).

For further information regarding this testimony, please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov, John J. Ryan at (202) 512-9587 or ryanj@gao.gov, John V. Kelly at (202) 512-6926 or kellyj@gao.gov, or Tuyet-Quan Thai at (206) 287-4889 or thait@gao.gov.

Individuals making key contributions to this testimony included Beverly Burke, Matthew Brown, Francine DelVecchio, Aaron Holling, Jeffrey Jacobson, Barbara Lewis, Julie Matta, Kristen Plungas, and Sidney H. Schwartz.

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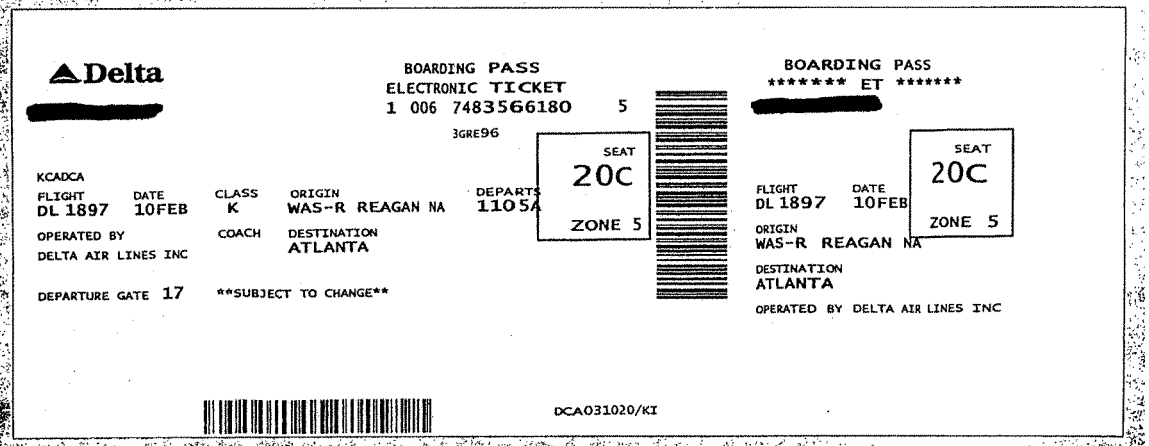
Boarding Pass Obtained Using Fictitious Travel Order


Delta
[redacted]

BOARDING PASS
ELECTRONIC TICKET
1 006 7483566180 5
3GRE96

KCADCA
FLIGHT DL 1897
DATE 10FEB
CLASS K
ORIGIN WAS-R REAGAN NA
DEPARTS 1105A
SEAT 20C
ZONE 5
OPERATED BY DELTA AIR LINES INC
COACH
DESTINATION ATLANTA
DEPARTURE GATE 17
SUBJECT TO CHANGE

BOARDING PASS
******* ET *******
[redacted]
FLIGHT DL 1897
DATE 10FEB
SEAT 20C
ZONE 5
ORIGIN WAS-R REAGAN NA
DESTINATION ATLANTA
OPERATED BY DELTA AIR LINES INC

DCA031020/KI

Source: Delta Airlines.

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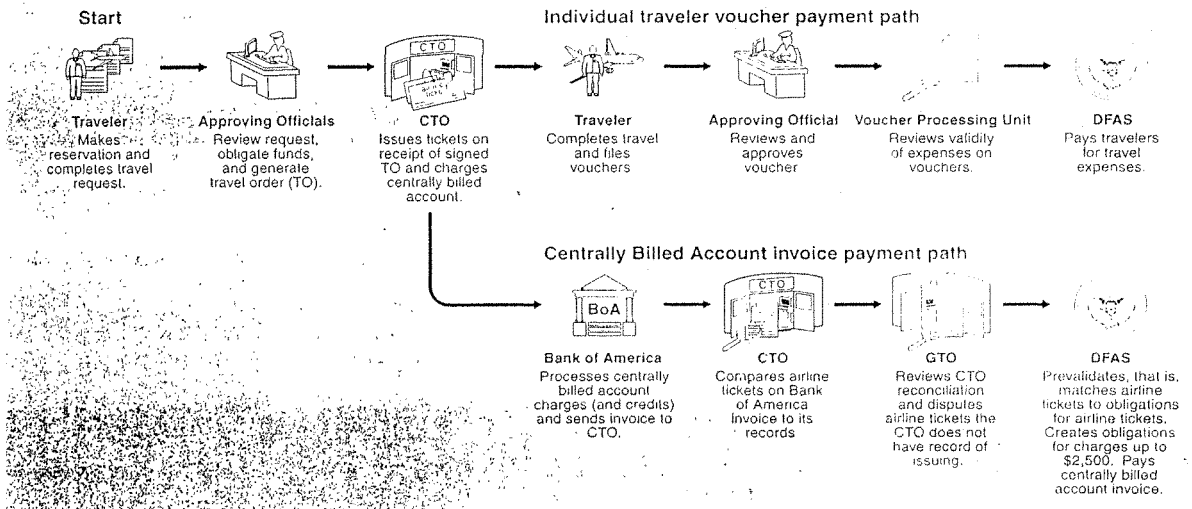
Flowchart of the Payment of Centrally Billed Accounts and Individual Travel Vouchers



Source: GAO analysis of DOD's processes to pay travel vouchers and centrally billed account invoices

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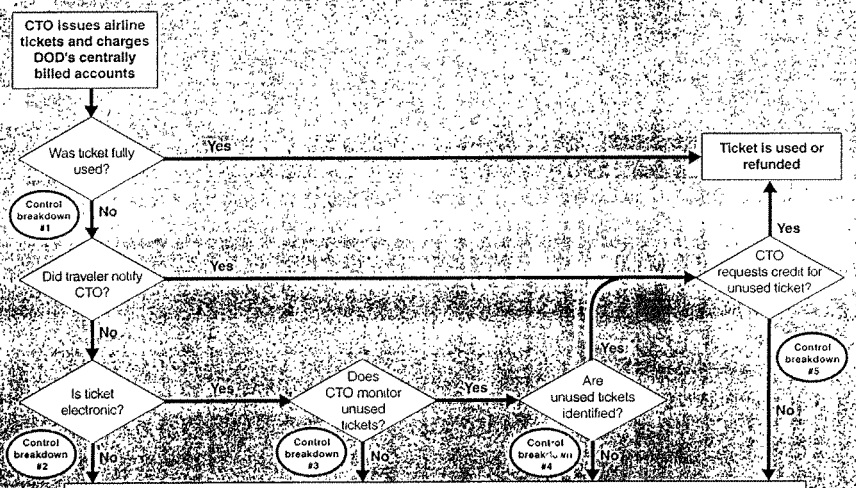
Possible Control Breakdowns in the Unused Ticket Process



Source: GAO analysis of the process of issuing tickets charged to DOD's centrally billed accounts.

Examples of Unused, Round Trip Premium Class Tickets

Price	Class	Itinerary
$9,800	Business	Washington, D.C., to Canberra, Australia
8,100	Business	Atlanta, Georgia, to Muscat, Oman
7,300	Business	Washington, D.C., to Tokyo, Japan
4,000	First	Los Angeles to Washington, D.C.
3,400	First	San Diego to Washington, D.C.

Source: GAO analysis Bank of America.

Statement of JoAnn R. Boutelle
Deputy Chief Financial Officer – Department of Defense
Senate Governmental Affairs Committee
June 9, 2004

Madam Chairwoman, members of the committee, I am here to discuss with you the actions the Department of Defense has taken and will take to correct weaknesses identified by the General Accounting Office (GAO) in the DoD centrally-billed travel card program.

At the outset, I want to underscore the resolve of the Department's leadership to continue progress toward improving DoD financial management. We are determined to complete our overhaul of our financial processes and systems – which will dramatically improve our ability to ensure strong internal controls and prevent the kinds of problems identified by the GAO.

The GAO reports on unused tickets and improper payments demonstrate the value of having automated data to analyze and review for anomalies. It also demonstrates the weaknesses inherent in manual systems and the many legacy systems still being used by the Department. As the Department transforms its financial management systems we will do a better job of detecting and addressing the kinds of problems identified in these reports. In the meantime we will work hard to correct the policies and procedures that contributed to the problems identified by GAO -- while we work on the automated solutions.

Centrally-Billed Travel Cards - Why DoD Uses Them

Before I address the actions that the Department has taken to address GAO's concerns, I would like to tell you why the Department uses centrally-billed account (CBA) travel cards.

Travel cards are cost-effective tools that enable the Department to save money while meeting our travel requirements. Consequently, travel card products are valued tools to the Department - tools we intend to ensure are properly and effectively administered. We appreciate the role the GAO has played in focusing on issues that warrant greater attention.

The CBA travel card is used to facilitate travel for DoD personnel who are not provided individually billed travel cards because they do not travel frequently. These travel cards also facilitate travel for personnel who can not obtain a credit card due to credit worthiness issues and support unique mission requirements that are no longer supported by local paying offices. Without the CBAs, the Department would have to provide costly travel advances to travelers. Those travelers without a personal credit card would then have difficulty making reservations.

Centrally billed travel cards have also facilitated the lowering of limits on individually billed travel cards by having the airline ticket, which may be the most costly single item for an individual's travel, charged to the CBA. Lastly, the CBAs, unlike the individual cards, are more flexible in responding to emergency conditions or contingency operations due to their government liability and higher credit limits.

Actions to Strengthen DoD's Travel Card Program

Madam Chairwoman, I would like to briefly address the Department's initiatives aimed at correcting control weaknesses identified in each of the GAO reports on centrally billed travel cards.

The Defense Travel System. The Department has long recognized the need to revamp its travel systems and to tighten controls over this program. We are currently fielding the Defense Travel System (DTS), which offers substantial improvements by consolidating outdated order writing systems and numerous computation systems into a consolidated fully electronic process which will offer online access, approvals, computation, quality assurance, accounting and record keepings. The deployment objective is to field DTS to approximately 268 high-volume sites, which account for 80 percent of the business travel for DoD. Of these 268 high-volume sites, DTS is operational at 79.

Data-mining. The GAO's findings are based on reviews of bank transaction data and comparisons to other databases within the Department. We will continue this methodology and will seek affordable interfaces to facilitate the synthesis needed to identify potentially unused tickets and improper payments. The DoD Inspector General has been reviewing FY 2003 and 2004 transaction data for the travel card program, both to identify weaknesses and to develop a method for reviewing transactions according to the risk they present. We have been in discussion with Bank of America, as well as other vendors, regarding data-mining capabilities that can be applied to identify transactions that may pose a risk of being improper or identify instances of potential misuse. While that important tool is yet not available, we are considering alternatives to provide at least a pilot for that capability.

New Policies to Reduce Losses Associated with Unused Tickets. The GAO findings on unused tickets are based on information provided by certain airlines that unused DoD ticket costs are reflected on their accounting records. The airlines are now refuting the completeness and accuracy of the data they provided to GAO. We are attempting to recover those funds but the probability of success is low: To prevent a future accumulation of unused airline tickets not being turned in for refunds, we are implementing policies and procedures to detect unused tickets and to recover the funds.

Recovering Erroneous Payments. We have taken action to recover payments disbursed erroneously and to establish preventive measures. One example of the latter, the Department has directed DoD components to instruct all military and civilian personnel to not claim airline tickets purchased with the CBA as reimbursable expenses and to turn in unused airline tickets. It also directs approving officials to closely review travel claims for unauthorized reimbursable expenses and performs follow-up to ensure unused tickets are returned.

Closing

In closing, I want to emphasize that the Department has made significant progress in improving the performance of the individually billed travel cards through implementation of policy changes such as split disbursement and salary offset; through actions to reduce risk such as closing unused accounts and reviews to identify where individuals have separated without properly clearing out and having their account closed.

The types of problems highlighted in these GAO reports underscore the importance of transforming how DoD does business. Over the past two years, the Department has undertaken a massive overhaul of its management and support activities. Ultimately we want to implement a cohesive, comprehensive management information system that will enable DoD to track transactions, strengthen internal controls, and prevent abuses.

I assure this committee that we will continue our close working relationship with the GAO as we correct the problems identified and monitor the corrective actions to ensure their effectiveness. I would be happy to answer any questions that you have. Thank you.

United States General Accounting Office
Washington, DC 20548

July 9, 2004

The Honorable Susan M. Collins
Chairman, Committee on Governmental Affairs
House of Representatives

Subject: Post Hearing Question For The Record

Dear Madam Chairman:

As requested in your letter dated June 24, 2004, the following are our responses to the post hearing questions asked by the Honorable Frank Lautenburg and the Honorable Mark Pryor.

Question from Senator Lautenberg:

How does the scope of the unused airline ticket problem compare to other reports and investigations you have done regarding accounting and the use of taxpayer dollars at the DOD? Are there other significant issues where taxpayers' money might be misspent and if so what specific issues would you recommend for Congressional investigations?

Answer

DOD's unused airline ticket problem is a reflection of DOD's overall financial management problems. GAO has repeatedly reported and testified on DOD's long-standing financial management problems, which are pervasive, complex, and deeply rooted in virtually all business operations throughout the department. These problems have been compounded by internal control weaknesses and ineffective management oversight that have made DOD vulnerable to fraud, waste, and abuse. As a result, in 1995, GAO designated DOD financial management as one of the federal government's 25 "high-risk" areas. Other DOD high-risk areas include contract management, human capital management, information security, support infrastructure management, inventory management, real property, systems modernization, and weapon systems acquisition

At the request of Congress, GAO performed a series of audits of the $13 billion that DOD spends annually using government credit cards, including our recently released report on DOD's unused airline tickets. GAO is currently engaged in numerous audits and evaluations of DOD programs, including DOD's business systems modernization efforts, contractor and vendor payment systems, military pay, depot maintenance, contingency funding, Army, Navy, and Air Force weapon system acquisition

programs, and the cost of the global war on terrorism. As part of our work in each of these areas we will be looking at the extent to which DOD may be wasting taxpayer dollars and will we will seek to identify opportunities to reduce if not eliminate these areas of waste.

Question from Senator Pryor:

In your written testimony, you mentioned that because of limitations in the information collected on individual transactions, you were unable to determine the amount of premium class by military service or the amount of premium class travel used for domestic versus overseas flights. Can you provide information on what the limitations were?

Answer

As we reported in GAO-04-88, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, due to lack of management oversight over premium class travel, DOD did not collect data on the extent of business class travel—the bulk of DOD's premium class travel. Because DOD was not aware of the improper use of premium class travel and did not have data available to identify trends and determine whether alternate, less expensive means of transportation were available, we relied on data provided by the Bank of America for our assignment.

The Bank of America provided us with data in the format that allowed us to identify premium and coach class tickets, and to quantify the amount DOD spent on premium class tickets during fiscal years 2001 and 2002. However, we were unable to determine from this data which military service purchased the premium class travel because:

- Bank of America data tracks ticket purchases by centrally billed account numbers.
- The centrally billed account numbers are assigned to commercial travel offices so that they could purchase airline tickets for all DOD travelers.

Bank of America data also did not allow for macro analysis of whether premium class travel was for domestic or international travel because:

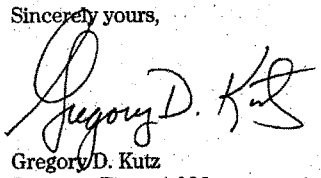
- Bank of America data provides information on the departure and arrival city of each leg of travel using the three-letter airport codes.
- The database contains thousands of individual airport codes, reflective of the numerous places that DOD travelers are sent to.

- Most airline tickets contain numerous destinations, but the number of destination flown on each ticket is not representative of whether the ticket is domestic or international.

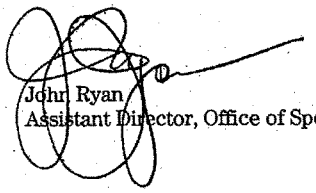
- Bank of America data does not contain country information indicating whether the airport was a domestic or foreign airport.

If you or your staffs have any questions, please contact me at (202) 512-9505 or by e-mail at kutzg@gao.gov, or John Ryan at (202) 512-9587 or by e-mail at ryanj@gao.gov.

Sincerely yours,



Gregory D. Kutz
Director, Financial Management and Assurance



John Ryan
Assistant Director, Office of Special Investigations

(192142)

CHARRTS No.: SG-02-001
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Collins
Question: #1

Question. I understand that the Defense Travel System (DTS), which will not be fully deployed before 2006, will provide for automated, electronic certification of travel orders to DoD taking to ensure that a travel order is valid before an airline ticket is issued?

Answer. The Department is looking at the issue of validating travel orders; however, in today's manual processing environment, we have not arrived at a cost effective alternative. The Defense Travel System will provide electronic signatures and profiles, as well as user identification and password protection for system access. The Under Secretary of Defense (Acquisition, Technology, and Logistics) is currently investigating with the Components the feasibility of validating travel orders at the CTO office While we don't have the solutions at this time, we are looking at alternate strategies, as the GAO recommended, for solutions that will reduce the Department's vulnerability to the fraud identified in the GAO report. In the meantime, we have provided direction that travel orders should no longer be accepted from email addresses that are not a military or government address.

CHARRTS No.: SG-02-002
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Collins
Question: #2

Question. Given the ease with which GAO was able to create and submit a fraudulent travel order resulting in the issuance of a valid airline ticket, is DoD considering interim security measures beyond merely requiring that orders be submitted from a military email address or fax number, such as digital signature technology?

Answer. The Defense Travel System (DTS) does utilize digital signatures, as well as user identification for access. We do not believe it is a cost effective alternative to try to implement digital signatures in the current multiple systems used to produce travel orders while at the same time deploying and transitioning to DTS. By memo the Components are being directed to develop plans that are tailored for their unique operating environments and that will strengthen their policies, procedures, and internal control procedures. The memo suggests a menu of mitigation candidates that would reduce the possibility that a CTO could inadvertently issue a ticket based on fraudulent orders.

As an example we asked the Components to explore the possibility of modifying CTO contracts to require the servicing CTO to maintain travelers' profiles in their reservations system that would include the travelers' order approving officials' and supervisors' names, telephone/fax numbers, and email addresses. Orders received electronically (e.g., fax) would be compared to the profile data for legitimacy. Other options suggested for consideration included automatic ticket issuance confirmation emails to supervisors, random sampling, and digital signature technology.

As with question 1, the Components' strategies are not yet defined. Over the next 90 days we will continue to seek alternatives that can be implemented quickly, successfully and cost effectively, as recommended by the GAO.

CHARRTS No.: SG-02-003
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Lautenberg
Question: #3

Question. You are familiar with the Pentagon's policies of procurement and specifically the awarding of contracts. Why did the Halliburton no-bid contract reach the office of the Secretary of Defense in the first place, when typical procurement contracts are normally supervised by Defense procurement officials?

Answer. While generally familiar with the procurement process, I am not familiar with the specific circumstances regarding Haliburton's contract with the Department. Therefore, I have referred your question to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics for a separate reply.

CHARRTS No.: SG-02-004
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Lautenberg
Question: #4

Question. Last week, Time Magazine reported on an internal Pentagon e-mail dated March 5, 2003 showing that "action" on the no-bid Halliburton Contract first involved Deputy Secretary Wolfowitz and Under Secretary Feith and that it was "coordinated" with Vice President Cheney's office. Do you know of any legal procurement process that would result in such a chain of coordination - from the Army Corps to the Under Secretary level to the White House?

Answer. As stated above, I am not familiar with the specific circumstances regarding Haliburton's contract with the Department. Therefore, I have referred your question to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics for a separate reply.

CHARRTS No.: SG-02-005
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Lautenberg
Question: #5

Question. Other than Halliburton, do you know of any private company that has obtained a no-bid contract that reached a sum of over $2 billion? How common is this occurence?

Answer. I am not familiar with any contracts for over $2 billion that were awarded on a no-bid basis, nor do I know the frequency of any such awards if they exist. Therefore, I have referred your question to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics for a separate reply.

CHARRTS No.: SG-02-006
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Lautenberg
Question: #6

Question. Certainly, as indicated by the GAO report, there is a significant problem of unused airline tickets. Would you agree, however, that there are larger problems at the Department of Defense in terms of financial mismanagement and the possible waste of taxpayer dollars that exceed today's topic in size and scope of the problem? What are those problems?

Answer. I agree that there are significant financial management issues for the Department of Defense. We have acknowledged those problems before this Committee and other committees in Congress. That is why we have begun to develop a business enterprise architecture for all our financial and business systems that will provide better, faster, and more accurate integration of all the financial management data within the Department. We are also working to establish a datamining effort that will identify problem areas in our charge card practices and allow us to be more proactive in identifying misuse and waste.

CHARRTS No.: SG-02-007
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Pryor
Question: #7

Question. Why was DoD not aware of the improper use of premium class travel and did it not have data available to identify trends and determine whether alternate, less expensive means of transportation were available?

Answer. We did not have a tool to identify the potential magnitude of the problem. We have since obtained transaction data for Fiscal Years 2003 and 2004 to date, which the DoD Inspector General is now reviewing to determine appropriate actions. We have also pursued obtaining a datamining tool which will allow us to analyze aggregate data from the charge card programs such as the instances and locations of premium class travel. The Defense Travel System provides greater visibility to instances where premium class travel is being utilized.

Premium travel approval is not based solely on the non-availability of a less expensive flight. There are several factors that must be associated with approval for premium travel. As identified in the Task Force Report issued on March 16, 2004, a reporting procedure has been developed and implemented for both first class and business class travel. We will be able to match the reported approval data with data on actual tickets issued to better identify problem areas and policy compliance. The first reports are due to DoD at the end of July.

CHARRTS No.: SG-02-008
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Pryor
Question: #8

Question. As you have indicated in your testimony, DoD has initiated actions to address this issue of improper fraud and abuse of travel privileges. Has DoD analyzed if these offenses occurred in specific DoD agencies/offices?

Answer. To date, we have not seen any indication that instances of improper use of the travel card, associated with premium travel, unused tickets, or erroneous payments have been concentrated in any particular Service, Defense Agency, or Command. As we continue to investigate the instances of unused tickets and erroneous payments, we will be looking for such patterns. The DoD Inspector General is currently reviewing premium travel data for Fiscal Years 2003 and 2004 and will also be looking for patterns occurring in specific agencies.

CHARRTS No.: SG-02-009
Senate Committee on Governmental Affairs
Hearing Date: June 09, 2004
Subject: DoD Wastes Millions of Dollars on Unused Airline Tickets
Witness: Ms Boutelle
Senator: Senator Collins
Question: #9

Question. At the time of the hearing, the information was that Mr. Carter was being referred to the U.S. Attorney for prosecution. It was unclear whether charges had been filed. In the Johnson case, the information at the time of the hearing was that the case was being referred to the Navy for potential administrative action.

Answer. The Department has collected $2,100 from Mr. Carter for improper claims. Charges were filed for embezzlement and false claims. The case remains with the U.S. Attorney. We have confirmed with the Department of the Navy that collection action was initiated in Mr. Johnson's case. The Navy has collected $9,669.55 from Mr. Johnson. A final ticket valued at $685 is still under review.

○