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TRAVEL CARDS

Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel

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Highlights

Highlights of GAO-04-229T, a testimony before the Permanent Subcommittee on Investigations, Committee on Governmental Affairs, United States Senate

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Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel

Why GAO Did This Study

Long-standing financial management problems, coupled with ineffective oversight and management of the Department of Defense's (DOD) travel card program, which GAO has previously reported on, have led to concerns about DOD's use of first and business class airfares. At the request of this Subcommittee, Senator Grassley, and Representative Schakowsky, GAO performed work to identify problems in DOD's controls over premium class travel. This testimony focuses on (1) the extent of DOD premium class travel, (2) the effectiveness of key internal control activities and examples of improper premium class travel resulting from internal control breakdowns, and (3) DOD 's control environment over premium class travel.

In a companion report being issued today, GAO made numerous recommendations—that DOD concurred with—to strengthen key internal control activities and improve the overall control environment.

www.gao.gov/cgi-bin/getrpt?GAO-04-229T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9095 or kutzg@gao.gov.

What GAO Found

Breakdowns in internal controls and a weak control environment resulted in a significant level of improper premium class travel and millions of dollars of unnecessary costs being incurred annually. Based on extensive analysis of records obtained from DOD's credit card issuer—Bank of America, GAO found that for fiscal years 2001 and 2002, DOD spent almost $124 million on about 68,000 premium class tickets that included at least one leg of premium class service, primarily business class. To put the $124 million into perspective it exceeded the total travel expenses—including airfare, lodging, and meals—spent by each of 12 major CFO agencies. The price difference between a premium class ticket and a coach class ticket ranged from a few dollars to thousands of dollars.

Based on statistical sample testing, GAO estimated that 72 percent of DOD's fiscal year 2001 and 2002 premium class travel was not properly authorized, and that 73 percent was not properly justified. GAO estimated that senior civilian and military employees accounted for almost 50 percent of premium class travel. Further, our data mining showed that 27 of the 28 most frequent premium class travelers were senior DOD officials. The table below provides examples of unauthorized and/or unjustified premium class travel compared to what the travel would have cost using coach class tickets.

Examples of Improper Premium Class Travel

Rank/grade of traveler	Cost of premium class trips	Estimated cost of coach class trips	Reason travel was improper
GS-15	$35,000	$7,000	Traveler approved own first class travel based on medical condition that was later determined to not meet stringent first class criteria.
Presidential appointee	68,000	17,000	First and business class travel was authorized by a subordinate using a blanket order.
GS-14 and family	21,000	2,500	The travel order authorizing relocation costs for the traveler and his family did not authorize premium class travel.
GS-15	3,300	250	First class ticket not authorized by the Secretary of Defense or designee as required.
GS-15	4,500	600	18 months after the trip, traveler's supervisor (not a medical authority) provided a note regarding a medical need as the justification for business class.

Source: GAO.

Lack of oversight and a weak overall control environment characterized DOD's management of premium class travel. DOD and the military services (1) did not have accurate and complete data on the extent of premium class travel, (2) issued inadequate policies on premium class travel that were inconsistent with government travel regulations and with each other, (3) did not issue guidance on how to document the authorization and justification of premium class travel, and (4) performed little or no monitoring of this travel. During the course of our audit, DOD began updating its travel regulations to more clearly articulate and to make more stringent the circumstances under which premium class travel can be authorized.

Mr. Chairman, Members of the Subcommittee, Senator Grassley, and Representative Schakowsky:

Thank you for the opportunity to discuss the Department of Defense's (DOD) management of premium class travel acquired using centrally billed accounts. Our related report,[1] released today and developed at the request of this Subcommittee, Senator Grassley, and Representative Schakowsky, describes the problems we identified in DOD's controls over premium class travel. These problems are illustrative of DOD's long-standing financial management problems, which are pervasive, complex, and deeply rooted in virtually all business operations throughout the department. 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.[2] Due to these vulnerabilities, and our identification of fraud, waste, and abuse in a series of testimonies[3] and reports[4] we issued in fiscal years 2002 and 2003 on DOD's individually billed travel cards, you asked us to audit controls over the other major form of payment used by DOD for travel expenses—centrally billed accounts.

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] while the individually billed accounts are used by individual travelers for lodging,

[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).

[2]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).

[3]U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, GAO-02-863T (Washington, D.C.: July 17, 2002), and *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, GAO-03-148T (Washington, D.C.: Oct. 8, 2002).

[4]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 Navy Vulnerable to Fraud and Abuse*, GAO-03-147 (Washington, D.C.: Dec. 23, 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).

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

rental cars, and other travel expenses. 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, I will summarize our work on DOD's use of premium class travel charged to its centrally billed accounts. Federal travel regulations define premium class travel as any class of accommodation above coach class, that is, first or business class. General Services Administration (GSA) and DOD regulations state that travelers must use coach class accommodations for official business air travel—both domestic and international—except when a traveler is specifically authorized to use premium class. These regulations restrict premium class travel to limited circumstances. The regulations state that travelers on official government business must exercise the same standard of care in incurring expenses that a prudent person would exercise if traveling on personal business. Premium class flights are not something travelers are entitled to simply because certain conditions exist. Rather, when possible, travelers are to plan their travel in advance to avoid the necessity for premium class travel.

My testimony will focus on (1) the extent of premium class travel during fiscal years 2001 and 2002—the most recently available data at the time of our work, (2) the effectiveness of key internal control activities and examples of improper premium class travel resulting from internal control breakdowns, and (3) DOD's control environment over premium class travel.

Summary

During fiscal years 2001 and 2002, DOD spent almost $124 million on over 68,000 premium class tickets that included at least one leg in premium class—primarily business class. The price difference between a premium class ticket and a coach class ticket ranged from a few dollars to thousands of dollars. Based on our statistical sample, we estimated that senior civilian and military employees—including senior-level executives and presidential appointees with Senate confirmation—accounted for almost 50 percent of premium class travel.

During those fiscal years, breakdowns in key internal controls activities at DOD resulted in a significant level of improper premium class travel. The two basic internal control activities we tested—proper authorization and proper justification—were ineffective. Based on our statistical sample, we estimated that 72 percent of all premium class tickets were not authorized

and 73 percent were not justified—and therefore improper. Because of the weaknesses we identified in the control environment and the breakdown in specific internal control activities, DOD did not detect these improper transactions. As each premium class ticket cost the government up to thousands of dollars more than a coach class ticket, unauthorized premium class travel resulted in millions of dollars of unnecessary costs being incurred annually.

A contributing factor to those excess costs was that DOD did not track premium class travel usage, design a strong control environment, or adhere to important internal control activities that provide reasonable assurance that DOD premium class travel regulations are consistent with federal travel regulations and are for authorized purposes only. DOD did not maintain adequate and accurate premium class travel data. For example, DOD's first class travel data, which DOD is required to report to GSA annually, were incomplete, and DOD did not obtain or maintain data on business class travel. Thus, DOD was not aware of the extent of premium class travel and did not have data available to identify trends and determine whether alternate, less expensive means of transportation could have been used. Other weaknesses in the area of policies and procedures exacerbated weak internal control procedures and contributed to ineffective oversight of premium class travel. In particular, DOD and the services did not issue (1) adequate and consistent policies on premium class travel, and (2) guidance on how to document the authorization and justification of premium class travel. Further, DOD had not performed audits or evaluations of premium class travel, and did not monitor training provided to travelers, authorizing officials, and commercial travel offices employees on governmentwide and DOD premium class travel regulations.

During our audit, DOD officials began to address some of the deficiencies we identified by updating the *Joint Travel Regulations* and *the Joint Federal Travel Regulations*–DOD's internal travel regulations—in April 2003 to articulate more clearly and to make more stringent the circumstances under which premium class travel can be authorized. As discussed in the report released today, DOD concurred with our recommendations to improve the overall control environment and strengthen key internal control activities.

Extent of Premium Class Travel Is Significant

As shown in table 1, DOD spent nearly $124 million on airline tickets that included at least one leg of premium class service during fiscal years 2001 and 2002. However, because DOD did not maintain centralized data on premium class travel, we had to extract these data from Bank of America's databases of DOD centrally billed account travel, which included over 5.3 million transactions for airline tickets valued at over $2.4 billion. Due to limitations in the information collected on individual transactions, we were unable to determine the amount of premium class travel by military service or the amount of premium class travel used for domestic versus overseas flights.

Table 1: DOD Premium Class Travel for Fiscal Years 2001 and 2002

	Number of transactions	Dollar amounts (in thousands)
First class	1,240	$2,898
Business class	66,850	$120,947
Total premium travel	**68,090**	**$123,845**

Source: GAO analysis of Bank of America data.

Note: Transactions include at least one leg of premium class travel.

DOD's premium class air travel accounted for a very small percentage of DOD travel overall[6]—about 1 percent of total DOD airline transactions and 5 percent of total DOD dollars spent on airline travel. However, to put the $124 million that DOD spent on premium class travel in perspective, the amount DOD spent on premium class-related travel during these 2 fiscal years exceeded the total travel and transportation expenses—including airfare, lodging, and meals—spent by each of 12 major agencies covered by the Chief Financial Officers Act of 1990, including the Social Security Administration; the Departments of Energy, Education, Housing and Urban Development, and Labor; and the National Aeronautics and Space Administration.

The difference between the price of a premium class ticket and a comparable coach class ticket can range from negligible—particularly if

[6]DOD reported almost $10.8 billion in travel-related expenses for fiscal years 2001 and 2002 combined.

the traveler traveled within Europe—to thousands of dollars. In one instance, a traveler's first class flight between Washington, D.C., and Los Angeles was 14 times, or about $3,000 more than, the price of a comparable coach class flight at the government fare.

Higher-ranking civilian personnel and military officials accounted for a large part of premium class travel. Based on our statistical sample, we estimated that DOD civilian employees under the General Schedule (GS) grade GS-13 to GS-15 (supervisors and managers), Senior Executive Service (SES) (career senior executives), presidential appointees with Senate confirmation, and DOD senior military officers O-4 and above accounted for almost 50 percent of premium class travel. GAO's *Guide for Evaluating and Testing Controls Over Sensitive Payments*[7] considers travel by high-ranking officials, in particular senior-level executives, to be a sensitive payment area because of its susceptibility to abuse or noncompliance with laws and regulations.

Internal Control Activities Not Effectively Implemented

Control activities occur at all levels and functions of an agency. They include a wide range of diverse activities such as authorizations, reviews, approvals, and the production of records and documentation. For first and business class travel, we tested control activities designed to provide assurance that premium class travel transactions are (1) authorized and (2) justified in accordance to the *Federal Travel Regulation* (FTR), issued by GSA to implement travel policies for federal civilian employees and others authorized to travel at government expense, and DOD's travel regulations, including the *Joint Federal Travel Regulations* (JFTR), which applies to uniformed service members, and the *Joint Travel Regulations* (JTR), which applies to DOD civilian personnel who are subject to GSA's travel regulation. These regulations generally require that premium class travel be specifically authorized in advance of travel and only under specific circumstances. (See app. I for further details of GSA and DOD premium class travel regulations.) For example, although FTR and DOD travel regulations allow premium class travel when the scheduled flight time is in excess of 14 hours, these regulations prohibit use of premium class accommodation if the traveler has scheduled rest stops.

[7]GAO/AFMD-8.1.2.

In addition to the FTR and DOD regulations, we also applied the criteria set forth in our internal control standards[8] and sensitive payments guidelines[9] in evaluating the proper authorization of premium class travel. For example, while DOD travel regulations and policies do not address the issue of subordinates authorizing their supervisors' premium class travel, our internal control standards consider such a policy to be flawed from an independence viewpoint. Therefore, a premium class transaction that was approved by a subordinate would fail the controls over authorization test. Using these guidelines, we estimated, based on our statistical sample, that an estimated 72 percent of the DOD centrally billed travel transactions containing premium class travel for fiscal years 2001 and 2002 were not properly authorized and that an estimated 73 percent were not properly justified.

Table 2: Estimate of Fiscal Year 2001 and 2002 DOD Premium Class Travel Transactions That Failed Control Tests

Control test	Estimated percentage failure rate in key internal controls	
Not properly authorized by a designated official at equal or higher rank/grade to the traveler		72
• Premium class travel was not specifically authorized on the travel order or other supporting documentation	64	
• Travel order authorizing premium class travel was not signed	6	
• Premium class travel was authorized by a subordinate	2	
Not properly justified		73

Source: GAO analysis of DOD premium class travel transactions and supporting documentation.

Note: Our testing excluded all business class transactions costing less than $750. We determined that many of these lower dollar transactions were covered by a blanket authorization for certain intra-European flights. Although, as discussed in this section, we did not believe the blanket authorization was valid, we eliminated these transactions from our sample to avoid possible skewing of the results.

As shown in table 2, an estimated 64 percent of premium class transactions did not contain travel orders that specifically authorized the traveler to fly premium class, and thus the commercial travel office—a travel agency—

[8]GAO/AIMD-00-21.3.1.

[9]GAO/AFMD-8.1.2.

should not have issued the premium class ticket. Another 6 percent of premium class transactions were related to instances where the travel order authorizing business class was not signed (left blank) or the travel order authorizing first class was not signed by the service secretary or his or her designee, as required by DOD regulations. If the travel order is not signed, or not signed by the individual designated to do so, DOD has no assurance that the substantially higher cost of the premium class tickets was properly reviewed and represented an efficient use of government resources. We also estimated that 2 percent of the premium class transactions involved situations where a subordinate approved a superior's travel. Although these limited instances do not necessarily indicate the existence of a significant systemic problem, allowing subordinates to approve their supervisors' premium class travel is synonymous with self-approval and reduces scrutiny of premium class requests.

Another internal control weakness identified in the statistical sample was that the justification used for premium class travel was not always provided, not accurate, and/or not complete enough to warrant the additional cost to the government. As previously stated, premium class travel is not an entitlement and recent changes to DOD regulations state that in the context of lengthy flights premium class travel should only be used when exceptional circumstances warrant and alternatives should be explored to avoid the additional cost of premium class travel. As shown in table 2, an estimated 72 percent of premium class transactions were not authorized and therefore because they were not properly authorized they could not have been justified. An additional two transactions in our sample which were authorized but not justified in accordance with DOD's criteria increased our estimate of premium class transactions that were not justified to 73 percent.

Considering the significant breakdown in key internal controls, it was not surprising that our audit identified numerous examples of improper premium class travel that cost DOD significantly more than what would have been spent on a coach class ticket. Table 3 illustrates a few of the types of unauthorized and/or unjustified transactions from both our statistical samples and data mining work, along with a comparison between amounts actually paid and the comparable coach fares at that time. Without authorization or adequate justification, these cases illustrate the improper use of premium class travel and the resulting increase in

travel costs. For further details on the cases shown in table 3, as well as additional examples of unauthorized and/or unjustified transactions, please refer to the report that we released today on this subject.[10]

Table 3: Examples of Improper Use of Premium Class Travel

Traveler	Source	Grade/ rank	Itinerary	Class of ticket	Cost of premium ticket paid	Estimated cost of coach fare ticket[a]	Reason for exception
1	Data mining	GS-14[b]	One-way from London to Honolulu for a family of four for relocation purposes	First and business	$20,943	$2,500[c]	Travel order did not authorize use of premium class travel. Traveler obtained premium class tickets on the basis that these tickets were issued to other permanent change of station (PCS) moves exceeding 14 hours in total travel time. Navy policy excludes PCS move over 14 hours as a condition under which premium class travel can be authorized. Transaction failed authorization and justification.
2	Statistical sample	GS-13	San Diego to Busan, Korea, and back	Business	3,695	2,161	Travel order did not authorize business class travel. Transaction failed authorization and justification.
3	Statistical sample	GS-13	San Francisco to Tokyo, and back	Business	3,168	610[c]	Travel order authorizing the traveler to fly business class on the basis that the flight exceeded 14 hours was not signed. Transaction failed authorization and justification.
4	Statistical sample	GS-13	Tucson to Bahrain and Bahrain to Los Angeles	Business	8,308	4,966	Travel order contained authorization for traveler to fly business class on the basis that the flight lasted more than 14 hours. However, the traveler had a layover in London on both the outbound and return portions of the trip, which, per the FTR and JTR, would have precluded the traveler from traveling in premium class. Transaction passed authorization but failed justification.
5	Statistical sample	GS-15	Los Angles to Washington, D.C., and back	First	3,253	238	First Class Ticket not authorized by the Secretary of Defense or designee as required.

[10]GAO-04-88.

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Traveler	Source	Grade/ rank	Itinerary	Class of ticket	Cost of premium ticket paid	Estimated cost of coach fare ticket[a]	Reason for exception
6	Data mining	GS-15	Washington, D.C. to Amsterdam, and back	Business	4,525	570[c]	Business class travel authorized but no justification provided on the order. Over 18 months after the trip occurred, the traveler's supervisor—not a physician—wrote a note stating that he authorized premium class based on a medical need. The traveler also flew coach on a number of trips that lasted longer than his flight from Washington D.C. to Amsterdam. The traveler admitted that he should not have traveled business class. Transaction passed authorization but failed justification.
7	Statistical sample and data mining	Political appointee	Washington, D.C. to London, then Paris to Moscow	Business	7,450	3,060[c]	Business class travel authorized on basis that travel is mission essential, which is not a DOD criterion for authorizing business class travel. Traveler was part of a group of 13 attending a conference in Moscow. Transaction passed authorization but failed justification.

Source: GAO analysis of premium class travel transactions and supporting documentation.

[a]Source of estimated coach fares is GSA city pair or expedia.com.

[b]GS designates General Schedule pay schedule.

[c]Fares do not include all applicable taxes and airport fees.

Our work also included data mining to identify the individuals who traveled premium class most frequently. We identified 28 of the most frequent premium class travelers from the 68,090 premium class transactions during fiscal years 2001 and 2002. All but 1 of the 28 frequent travelers were at least GS-13 civilians or O-4 military, that is, senior DOD personnel. We found that the most frequent travelers were, in most instances, authorized to obtain premium class travel by people at the same or higher levels, with 3 of the 28 failing the authorization test because they or their subordinates authorized their travel orders. However, we determined that many of the transactions were improper because their justification was not supported by the documentation provided or did not adhere to FTR and DOD travel regulations.

Some cases involving frequent travelers were questionable because the justification documentation was not adequate to determine whether the transaction met DOD's criteria. We found that 12 of the 28 frequent premium class travelers justified their more expensive flights with a medical condition. However, we identified several anomalies in the

application of medical condition justification, as evidenced by travelers who used both coach and premium class accommodations during flights of similar duration and during the same time period. For example, frequent traveler 1 in table 4 took 14 premium and 31 coach class trips during fiscal years 2001 and 2002. Many of the coach class trips, for example, from Washington, D.C., to Honolulu or cities in California were similar in duration to premium class trips from Washington, D.C., to Frankfurt or Amsterdam. This may indicate that additional steps should be taken to verify the validity of the medical certification. During testing, an Army official at the Traffic Management Office informed us that his office forwards all medical certifications to the Surgeon General for an opinion before recommending to the Secretary of the Army that approval be granted for first class travel. For further details on the cases shown in table 4, as well as additional examples of travelers who frequently used premium travel, please refer to the report that we released today.[11]

Table 4: Examples of Travelers Who Frequently Used Premium Travel

Traveler	Grade/ rank	Number/ cost of premium class trips	Justification provided for premium travel	GAO's concern with premium class travel	Response by traveler or traveler's staff
1	GM-14	14/$88,000	Doctor's note claiming medical necessity did not indicate whether premium class travel was needed on all flights or flights of certain duration	Traveler took 45 flights—14 premium and 31 coach class trips during fiscal years 2001 and 2002. Many coach class trips were similar in duration to premium class trips.	Traveler admitted to inconsistent application of medical necessity. Traveler considered extra room in business class to be more comfortable for long flights.
2	PAS[a]	17/$68,000	First and business class travel justified through a blanket order based on a medical condition	1. Blanket authorization was used to justify first and business class travel. 2. Premium travel was authorized by a subordinate. 3. Traveler flew in coach class on some flights. 4. Medical certification not attached to travel orders or vouchers, but a doctor's note dated 9/11/2001 was provided a month after we requested additional documentation.	The traveler's aide said that she will get the Deputy Secretary's approval for first class travel and only schedule the traveler for first or business class when alternative seating is not available.

[11] GAO-04-88.

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Traveler	Grade/ rank	Number/ cost of premium class trips	Justification provided for premium travel	GAO's concern with premium class travel	Response by traveler or traveler's staff
3	GS-15	11/$35,000	First class travel on domestic flights justified through a certification from medical authority	Travel orders were not signed, but the official authorizing first class travel was the traveler himself. Further, first class travel was not authorized by the Under Secretary of the Navy, as required by Navy regulations.	Traveler told us he was not aware that first class travel had to be approved by the Under Secretary of the Navy. Traveler is no longer authorized to fly first class based on medical condition.
4	SES[b]	10/$48,000	Claimed mission essential, so that the traveler would be ready for meetings upon arrival at destination	1. DOD travel regulations do not list mission essential as a basis to justify premium class travel. 2. Some premium class flights were less than 14 hours. 3. Business class was taken on return flights. 4. Specific justification was not always accurate, for example, justification for first class travel from Washington, D.C., to Tampa used to support first class travel from Washington, D.C., to Atlanta.	The traveler said that he did not make his flight arrangements. The traveler's assistant had no explanation for why some premium class trips were not authorized, or why the specific justification was not accurate. The traveler's assistant said that the traveler did not want to leave the day before to avoid the additional cost of a business class flight.

Source: GAO analysis of premium class travel transactions and supporting documentation.

[a]Presidential appointment with Senate confirmation.

[b]Senior Executive Service appointment.

Weaknesses in Internal Control Environment

GAO's *Standards for Internal Control*[12] states that a positive control environment is the foundation for all other standards. The importance of the "tone at the top" or the role of management in establishing a strong control environment cannot be overstated. However, we found that prior to us initiating this audit, DOD had not taken actions to encourage a strong internal control environment over premium class travel. Specifically, DOD and the military services did not (1) maintain adequate and accurate premium class travel data, (2) issue adequate policies related to the approval of premium travel, (3) require consistent documentation to justify premium class travel, and (4) perform audits or evaluations of premium class travel and did not monitor training provided to travelers, authorizing officials, and commercial travel offices employees on governmentwide and DOD premium class travel regulations. During the course of our work,

[12]GAO/AIMD-00-21.3.1.

DOD updated the JTR and JFTR in April 2003 to articulate more clearly and to make more stringent the circumstances under which premium class travel can be authorized.

DOD Did Not Maintain Centralized Management Data on Premium Class Travel

The FTR requires DOD, along with all other executive and legislative branch agencies, to provide GSA annual reports listing all instances in which the organization approved the use of first class transportation accommodations. We found that the Military Traffic Management Command (MTMC), responsible for tracking DOD's first class travel, understated DOD's cost and frequency of first class travel reported to GSA. According to DOD's first class travel reports submitted to GSA for fiscal years 2001 and 2002, DOD civilian and military personnel took less than 1,000 first class flight segments[13] totaling less than $600,000. In contrast, our analysis of the Bank of America airline transaction data indicates that DOD purchased more than 1,240 tickets containing over 2,000 separate segments with first class accommodations. Our analysis also found that these first class tickets costs of about $2.9 million were almost 5 times the amount DOD reported to GSA. We found that a number of cities were omitted from DOD's first class report. For example, while DOD data indicated that no first class flights were taken into Washington, D.C., during fiscal year 2001, Bank of America data identified 88 first class flights into Washington D.C., during the same time period.

We also found that DOD did not obtain or maintain centralized data on premium class travel other than first class, i.e., business class. Consequently, DOD did not know, and was unable to provide us with data related to, the extent of its premium class travel. As mentioned previously, we were able to obtain such data through extensive analysis and extractions of DOD travel card transactions from databases provided by the Bank of America.

Control Environment Is Flawed by Inconsistencies in Premium Class Travel Guidance

DOD travelers must follow a complicated array of premium class travel guidance. The applicability of specific regulations depends on whether the traveler is civilian or military. For DOD civilians, GSA's FTR governs travel and transportation allowances. DOD's JTR and individual DOD and military service directives, orders, and instructions supplement the FTR.

[13]A flight segment is any portion of a ticket with a separate flight number.

For military personnel, DOD's JFTR governs travel and transportation allowances. Individual DOD and military service directives, orders, and instructions supplement the JFTR. The executive branch policy on the use of first class travel applicable to the FTR, JTR, and JFTR is found in OMB Bulletin 93-11. When a subordinate organization issues an implementing regulation or guidance, the subordinate organization may make the regulations more stringent, but generally may not relax the rules established by higher-level guidance.

Inconsistencies have accumulated within the various premium class travel regulations because DOD did not revise its directives, or require the military services to revise their travel policies or implementing guidance, when DOD modified the JTR or JFTR. For example, DOD first issued the JTR in 1965 and since then has modified it 450 times through April 2003, including 30 modifications since October 2000. While the JFTR has had fewer modifications—196 through April 2003—the JFTR has also been modified 30 times since October 2000. In contrast, DOD Directive 4500.9, *Transportation and Traffic Management*, was last revised in 1993 while DOD Directive 4500.56, *Use of Government Aircraft and Air Travel*, was last updated in 1999. Similarly, the *Navy Passenger Transportation Manual* was last updated in 1998, the Marine Corps Order P4600.7C *Marine Corps Transportation Manual* was last changed in 1992, and while the Air Force Instruction 24-101 *Passenger Movement* was last updated in 2002, it contains some provisions that are contrary to GAO's internal control standards and sensitive payments guidelines.

Inconsistencies also exist because DOD and its components have elected to authorize the use of premium class travel in different circumstances or have described the authorization to use premium class using different language. For example,

- DOD Directive 4500.9 grants blanket authority for high-ranking officials to use premium class when traveling overseas on official government business. This policy contradicts and is less stringent than the FTR, which does not cite rank as a condition for obtaining premium class travel.

- GSA's FTR authorizes agencies to approve the use of first class or business class accommodations when required by an agency's mission, but neither the JTR nor the JFTR adopt this authorization. In contrast, DOD's policies on transportation and traffic management—DOD

Directive 4500.9—states that the use of business class on domestic travel[14] may be authorized when necessitated by mission requirements.[15]

- GSA's FTR prohibits premium class travel if the traveler is authorized a rest stop en route or a rest period upon arrival at the duty site, even if the scheduled flight time is in excess of 14 hours. While DOD's JTR and JFTR that were in effect at the time of our audit should have contained the same restriction, they were silent as to whether a rest period upon arrival would exclude a traveler from traveling in premium class. Further, the services' implementing guidance is inconsistent in their application of the 14-hour rule.[16]

DOD Does Not Have a Standard Format for Documenting Premium Class Travel

Because premium travel is to be used only on an exception basis after all other alternatives have been exhausted, the documentation for authorization and justification should be held to the highest standards to provide reasonable assurance that in every case, the substantially higher premium travel cost is warranted. The JTR and JFTR state that approval for premium class travel should be obtained in advance of travel, except in extenuating/emergency circumstances that make authorization impossible, and specify the circumstances under which premium travel is to be permitted. However, we found substantial inconsistencies in the documentation trail indicating that appropriate officials approved premium class travel based on inadequate documentation.

In contrast, other federal agencies have issued clear and consistent guidelines related to the documentation of premium class travel. For example, the Department of Agriculture approves the use of premium class accommodations on a case-by-case basis and specifies that premium travel

[14]DOD Directive 4500.56, *DOD Policy on Use of Government Aircraft and Air Travel*, last updated April 19, 1999, states that all DOD travel outside the continental United States is subject to the JTR and the JFTR.

[15]DOD Directive 4500.9, *Transportation and Traffic Management*, ¶ 3.4.3.1.3, Dec. 29, 1993.

[16]The Secretary of the Army policy, last updated in March 2003, adopts the FTR "rest period upon arrival." limitations, but did not define what is considered a "rest period." The Navy's OPNAVINST 4650.15, issued in July 1998, prohibits a "rest period en route." Air Force Instruction 24-101 (March 2002) states that Air Force travelers might be authorized business class accommodations if they are required to perform a full day (8 hours) of work immediately upon arrival. Finally, the Marine Corps Order 4600.25C does not address this matter.

be approved by the under secretary except when frequent travel benefits are used. The justification must include the specific circumstances relating to the criteria, such as a medical justification from a competent medical authority, which must include a description of the employee's disability, medical condition, or special need; approximate duration of the medical condition or special need; and a recommendation of a suitable means of transportation based on medical condition or special need. The National Institutes of Health (NIH) requires that the traveler, when requesting premium class travel based on a medical condition, detail the nature of the disability or special need on an authorization form for employees with disabilities or other special needs. The authorization form must be signed by both the employee and a competent medical authority. NIH's policies state that the medical statement should specifically address why it is necessary to use upgraded accommodations. The form also limits the authority to a period of 6 or 12 months from the initial date of approval depending on the nature of the disability or special need. In the instance of a permanent disability, NIH policy is that authorized use of premium class accommodations is valid for up to 3 years, but that resubmission is necessary to ensure that there continues to be a need for the premium class travel.

Oversight and Monitoring Needs Improvement

In general, effective oversight activities would include management review and evaluation of the process for issuing premium class travel and independent evaluations aimed directly at the effectiveness of internal control activities. Our internal control standards state that separate evaluations of control should depend on the assessment of risks and the effectiveness of ongoing monitoring procedures. As mentioned above, we consider executive travel as a high-risk area susceptible to abuse or noncompliance with laws and regulations. However, we found no evidence of any audits or evaluations of premium class travel. The lack of effective oversight and monitoring was another contributing factor to DOD and the services' lacking knowledge of the extent of improper premium class transactions.

The lack of oversight was further demonstrated by the fact that travelers, supervisors/managers, and employees at the commercial travel offices (CTO) responsible for issuing airline tickets to the travelers were not adequately informed on governmentwide and DOD travel regulations concerning when premium class travel is or is not to be authorized. Thus, it was not surprising that some DOD travelers and authorizing officials were under the mistaken impression that travel regulations entitled travelers to

travel in business class when their flights exceed 14 hours. These individuals were not aware that the FTR provides that, in order to qualify for business class travel, travelers have to proceed directly to work upon arriving at the duty location. DOD also did not verify whether CTO employees receive training in DOD premium travel regulations. A representative from one commercial travel office informed us that they issue premium class travel if premium class was requested on the travel order, even if justification for obtaining premium class travel was flawed—for example, the flight was not at least 14 hours.

DOD Issued New Regulations to Better Define When Premium Class Travel is Authorized

During the course of our work, in April 2003, DOD updated the JTR[17] and JFTR[18] to articulate more clearly and make more stringent the circumstances under which premium class other than first class travel, that is, business class, is authorized for DOD travelers on flights to and/or from points outside the continental United States when the scheduled flight time exceeds 14 hours. The revised regulations prohibit the use of business class travel when travelers are authorized a "rest period" or an overnight stay upon arrival at their duty station, and state that business class accommodations are not authorized on the return leg of travel.

Finally, in its revised regulations, DOD states that, in the context of authorizing business class accommodations for flights scheduled to exceed 14 hours, "business class accommodations must not be common practice" and that such service should be used only in exceptional circumstances. Further, DOD directs order-issuing officials to "consider each request for business class service individually." We agree with DOD that decisions regarding the use of premium class travel should be made on a case-by-case basis and based on a preference for coach class.

Conclusions

The ineffective management and oversight of premium class travel provides another example of why DOD financial management is one of our "high-risk" areas, with the department highly vulnerable to fraud, waste, and abuse. DOD does not have the management controls in place to identify issues such as improper use of premium class travel. As a result,

[17]JTR Change 450, April 1, 2003.

[18]JFTR Change 196, April 1, 2003.

millions of dollars of unnecessary costs are incurred annually. Because premium class travel is substantially more costly than coach travel, it should only be used when absolutely necessary, and the standards for approval and justification must be appropriately high. During our audit, DOD began taking steps to improve its policies and procedures for premium class travel. DOD must build on these improvements and establish strong controls over this sensitive area to ensure that its travel dollars are spent in an economical and efficient manner.

Our related report on these issues released today includes recommendations to DOD. Our recommendations address the need to improve internal controls to provide reasonable assurance that authorization and justification for premium class travel are appropriate, monitor the extent of premium class travel, modify policies and procedures to make them consistent with GSA regulations, and issue policies prohibiting subordinates or the travelers themselves from authorizing premium class travel. In oral comments on a draft of this report, DOD officials concurred with our recommendations to resolve the control weaknesses.

Mr. Chairman, Members of the Subcommittee, Senator Grassley, and Ms. Schakowsky, this concludes my prepared statement. I would be pleased to answer any questions that you may have.

Contacts and Acknowledgments

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GSA and DOD Premium Class Travel Regulations

DOD travelers must follow a complicated array of premium class travel guidance. The applicability of specific regulations depends on whether the traveler is civilian or military. For DOD civilians, GSA's FTR governs travel and transportation allowances. DOD's JTR and individual DOD and military service directives, orders, and instructions supplement the FTR. For military personnel, DOD's JFTR governs travel and transportation allowances. Individual DOD and military service directives, orders, and instructions supplement the JFTR. The executive branch policy on the use of first class travel applicable to the FTR, JTR, and JFTR is found in OMB Bulletin 93-11. When a subordinate organization issues an implementing regulation or guidance, the subordinate organization may make the regulations more stringent, but generally may not relax the rules established by higher-level guidance.

GSA and DOD regulations authorize the use of premium class travel under specific circumstances. The JTR and the JFTR limit the authority to authorize first class travel to the Secretary of Defense, his or her deputy, or other officials as designated by the Secretary of Defense. However, while both the JTR and JFTR provide that the authority to authorize first class travel may be delegated and re-delegated, the regulations specify that the authority must be delegated to "as high an administrative level as practicable to ensure adequate consideration and review of the circumstances necessitating the first class accommodations." DOD travel regulations also require that authorization for premium class accommodations be made in advance of the actual travel unless extenuating circumstances or emergency situations make advance authorization impossible. DOD regulations also provide that first class accommodations may be used without authorization only when regularly scheduled flights between the authorized origin and destination (including connecting points) provide only first class accommodations. Specifically, the JTR and JFTR state that first class accommodation is authorized only when at least one of the following conditions exists:

- coach class airline accommodations or premium class other than first class airline accommodations are not reasonably available;
- the traveler is so handicapped or otherwise physically impaired that other accommodations cannot be used, and such condition is substantiated by competent medical authority; or
- exceptional security circumstances require such travel.

The JTR and JFTR allow the transportation officer,[1] in conjunction with the official who issued the travel order, to approve premium class travel other than first class. In accordance with the FTR, DOD restricts premium class travel to the following eight circumstances:

- regularly scheduled flights between origin and destination provide only premium class accommodations, and this is certified on the travel voucher;
- coach class is not available in time to accomplish the purpose of the official travel, which is so urgent it cannot be postponed;
- premium class travel is necessary to accommodate the traveler's disability or other physical impairment, and the condition is substantiated in writing by competent medical authority;
- premium class travel is needed for security purposes or because exceptional circumstances make its use essential to the successful performance of the mission;
- coach class accommodations on authorized/approved foreign carriers do not provide adequate sanitation or meet health standards;
- premium class accommodations would result in overall savings to the government because of subsistence costs, overtime, or lost productive time that would be incurred while awaiting coach class accommodations;
- transportation is paid in full by a nonfederal source; or

[1]The JFTR delegates to the services the authority to determine who may approve premium other than first class travel. The service regulations call for the same authorizing official as the JTR.

- travel is to or from a destination outside the continental United States, and the scheduled flight time (including stopovers) is in excess of 14 hours. However, if premium class accommodations are authorized, a rest stop is prohibited.[2]

Both GSA and DOD regulations allow a traveler to upgrade to premium class other than first class travel at personal expense, through redemption of frequent traveler benefits. GSA also identified agency mission as one of the criteria for premium class travel. However, agency mission is not a DOD criterion for obtaining premium class travel.

[2]The April 2003 change to the JTR and JFTR states that premium class travel is authorized for DOD travelers on flights to and/or from points outside the continental United States when the scheduled flight time exceeds 14 hours. The revised regulations prohibit the use of business class travel when travelers are authorized a "rest period" or an overnight stay upon arrival at their duty station, and state that business class accommodations are not authorized on the return leg of travel.

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