Audit Report

OFFICE OF THE INSPECTOR GENERAL

AIRFARE COSTS FOR OVERSEAS COMMERCIAL AIRLIFT

Report No. 93-154 August 11, 1993

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Department of Defense

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Acronyms

AMC	Air Mobility Command
GSA	General Services Administration
MTMC	Military Traffic Management Command

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

August 11, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Audit of Airfare Costs for Overseas Commercial Airlift (Report No. 93-154)

We are providing this final report for your information and use. It addresses DoD transportation officers' purchase of commercial airfares (category Z, General Services Administration city pairs, and commercial standard) to book passengers to overseas destinations. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that you provide final comments on the unresolved recommendations addressed to you by October 11, 1993.

As required by DoD Directive 7650.3, the comments must indicate concurrence or nonconcurrence with the finding, internal control weakness, and each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and estimated dates for completion of planned actions. If you nonconcur, state your specific reasons for each nonconcurrence. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John S. Gebka at (703) 692-3303 (DSN 222-3303) or Mr. Billy T. Johnson at (703) 692-3318 (DSN 222-3318). The planned distribution of this report is listed in Appendix E.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-154
Project No. 2LC-0038

August 11, 1993

AIRFARE COSTS FOR OVERSEAS COMMERCIAL AIRLIFT

EXECUTIVE SUMMARY

Introduction. Transportation officers are allowed to book DoD passengers on commercial carriers when the Air Mobility Command's (formerly Military Airlift Command) procured services are not available to meet mission requirements. The three principal airfare programs that transportation officers use to book passengers to overseas destinations are category Z, General Services Administration (GSA) city pairs, and commercial standard. The category Z airfares, which are voluntarily offered by carriers, are for DoD passengers only. GSA city pairs airfares are contract fares negotiated by GSA for the benefit of the entire Federal Government. DoD is not a mandatory user of overseas city pairs. Commercial standard airfares are over-the-counter airfares charged to the general public. During FY 1991, DoD activities spent $128 million to book 419,000 passengers on overseas flights. The bookings were in addition to the passengers that the Air Mobility Command processed. Of the $128 million, $97 million was spent on 334,000 category Z passengers, $10 million on 33,000 GSA city pairs passengers, and $21 million on 52,000 commercial standard airfares passengers.

Objectives. The objectives of the audit were:

o to determine if DoD is using category Z airfares to transport DoD passengers to overseas destinations instead of lower cost fares available through the GSA city pairs program,

o to determine why selected Military Department transportation offices sometimes used higher fares,

o to evaluate the Military Departments' policies for using category Z or GSA city pairs fares,

o to determine if Military Department transportation offices used standard commercial fares when lower cost fares were available, and

o to evaluate applicable internal controls.

Audit Results. Passengers frequently could be booked to overseas destinations at less cost to DoD. In FY 1991, DoD expended about $1.6 million more than necessary to book passengers on overseas flights.

Internal Controls. Internal control procedures were not effective to prevent transportation offices from purchasing higher priced commercial airline tickets when lower airfares were available to overseas destinations. See Finding for details on this weakness and Part I for details of our review of internal controls.

Potential Benefits of Audit. DoD could realize a potential cost avoidance of about $5.9 million during the 6-year Future Years Defense Program if greater use of lower cost commercial airfares were made to book passengers to overseas destinations (see Appendix C).

Summary of Recommendations. We recommended that the Routing Guide for DoD Overseas Air Travel be revised to require DoD transportation officers to consider GSA city pairs airfares when booking overseas passengers and that GSA be provided comprehensive DoD overseas passenger volume so that city pairs airfares can be established on additional overseas routes used by DoD.

Management Comments. The Principal Deputy Assistant Secretary of Defense (Production and Logistics) partially concurred with our prior recommendation that DoD Directive 4500.9 be revised to require transportation officers to consider GSA city pairs when booking overseas travelers. He stated that policy guidance is adequate and already in place, but that, within the next 60 days, the Military Traffic Management Command (MTMC) will remind transportation officers worldwide that GSA city pair airfares must be considered when determining the most cost-effective alternative to the Air Mobility Command contract airlift. The Principal Deputy also partially concurred with providing DoD's category Z passenger volume to GSA, and stated that MTMC was already doing this and coordinating with GSA in establishing service on category Z routes that are not served by the GSA city pairs program. The comments are further discussed in Part II of the report, and a complete text of the comments is in Part IV.

Audit Response. After considering managements' comments to the draft report, we made some revisions to the final report. We consider the Principal Deputy's alternative action as partially responsive to the intent of our previous recommendation to revise DoD Directive 4500.9 to require that transportation officers consider the use of GSA city pair airfares. The proposed action to have MTMC remind transportation officers on the use of GSA city pair airfares is considered to be an interim action. We have revised the final report Recommendation 1. to have MTMC revise the Routing Guide for DoD Overseas Air Travel to include GSA city pairs as an alternative means of overseas travel. We request comments to the revised recommendation. We also request further comments from the Principal Deputy on providing DoD's passenger volume data to GSA because the data provided to GSA was determined to be insufficient and incomplete. We consider the Principal Deputy's partial concurrence as responsive to the intent of Recommendation 2.b. to establish city pairs airfares on additional overseas routes used by DoD. Comments to this final report are requested by October 11, 1993. Part IV contains the complete text of management comments, including general comments on the draft report. The audit response to the comments is also included in Part IV.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate at (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

Category Z airfares are reduced economy class airfares that commercial airlines voluntarily give to DoD official travelers going to overseas destinations on U.S. flag carriers' regularly scheduled commercial flights. The Headquarters, Military Traffic Management Command (MTMC) maintains and collects data on category Z passenger movements. DoD has been using category Z airfares since 1962. In October 1986, the General Services Administration (GSA) expanded its city pairs airfares to include overseas destinations. GSA city pairs airfares are contract airfares negotiated by GSA for the benefit of all Federal Government passengers (DoD and non-DoD). Unlike domestic GSA city pairs airfares, DoD does not mandate the use of GSA city pairs airfares for overseas travelers. The movement of passengers on U.S. flag carriers' regularly scheduled commercial flights available to the general public is known as commercial standard. DoD Directive 4500.9, "Transportation and Traffic Management," requires transportation officers booking overseas passengers to first utilize airlift service available through the Air Mobility Command (AMC) (formerly Military Airlift Command). When AMC airlift services are unavailable, DoD transportation officers can book overseas travelers directly with commercial carriers.

Objectives

The audit objectives were:

o to determine if DoD was using category Z airfares to transport DoD passengers to overseas destinations instead of lower cost airfares available through the GSA city pairs program,

o to determine why selected Military Department transportation offices sometimes used higher cost airfares,

o to evaluate the Military Departments' policies for using category Z or GSA city pairs airfares,

o to determine if Military Department transportation offices used standard commercial airfares when lower cost airfares were available, and

o to evaluate applicable internal controls.

Scope

We visited transportation offices from each of the Military Departments and other selected DoD activities. We obtained from MTMC a listing of FY 1991 bookings on category Z, GSA city pairs, and commercial standard airfares. We reviewed FY 1991 travel orders, canceled tickets, and airfare cost records. We held discussions with transportation officials to ascertain policy issues related to overseas travel.

This economy and efficiency audit was made from April through November 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Organizations visited or contacted during the audit are in Appendix D.

Internal Controls

The audit identified a material internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effective to prevent transportation offices from purchasing higher priced commercial airline tickets when lower airfares were available to overseas destinations. The recommendations in this report, if implemented, will correct the weakness. We estimated that the monetary benefits that can be realized by implementing the recommendations will be about $5.9 million during the 6-year Future Years Defense Program. Copies of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense, the Army, the Navy, and the Air Force.

Prior Audits and Other Reviews

No audits have been performed in the last 5 years covering the specific objectives and issues discussed in this report.

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Part II - Finding and Recommendations

Commercial Airfares

DoD transportation officers unnecessarily booked official Government passengers traveling to overseas destinations at higher priced commercial airfares. The higher priced bookings occurred, in part, because DoD did not have a definitive air transportation policy requiring the use of the lowest overseas airfares. Additionally, DoD did not provide comprehensive information on passenger volume on overseas routes to GSA, so that GSA could establish additional overseas city pairs routes and obtain lower cost city pairs airfares on existing routes for passengers from all Federal agencies. As a result, DoD expended about $1.6 million more than necessary on overseas airfares during FY 1991. By using more lower cost airfares, we estimated that DoD can realize a cost avoidance of about $5.9 million over the 6-year Future Years Defense Program.

Background

DoD Directive 4500.9, "Transportation and Traffic Management," January 26, 1989, states that AMC-owned or contracted airlift shall be used for the overseas movement of DoD sponsored passengers when airlift capability is available and meets mission requirements. When AMC airlift service is not available, DoD Components can arrange alternative transportation through AMC or directly with commercial carriers, if such arrangements are consistent with DoD and Military Components traffic management policies. To the extent practical, commercial air carriers that are contracted with DoD under the Civil Reserve Air Fleet Program are to be used.

Each of the Military Departments issued separate guidance on the use of commercial airlines to meet overseas travel requirements. Army Regulation 55-355, "Defense Traffic Management Regulation," July 31, 1986, requires that the lowest overall cost of transportation be booked from origin to final known destination. Naval Military Personnel Command Instruction 4650.2A, "Movement of Personnel," November 2, 1987, requires that the lowest cost commercial air transportation that satisfies mission requirements be used when Government transportation is not available or will not meet mission requirements. Air Force Regulation 75-8, volume 1, "Transportation and Traffic Management, Movement of Personnel," July 1, 1992, states that when either category Z or commercial standard airfares are used, the traffic management officer should compare category Z cost to the best discount available and use the least expensive fare that meets mission requirements. During FY 1991, DoD spent approximately $128 million on 419,000 passengers for category Z, GSA city pairs, and commercial standard airfares.

Policy Guidance

DoD policy and Air Force implementing procedures on the use of alternative transportation for DoD passengers to overseas destinations does not contain specific guidance on the use of category Z, GSA city pairs, or commercial standard airfares. DoD guidance does require the use of the lowest overall cost commercial carrier when AMC is unable to meet mission requirements. However, DoD passengers are not specifically required to use the GSA city pairs program when it is the lowest cost airfare for traveling to or from destinations outside the continental United States. Additionally, the Routing Guide for DoD Overseas Travel that prescribes authorized routings and methods (AMC airlift services, category Z, or commercial standard) for overseas air travel, reiterates DoD guidance and makes no mention of GSA city pairs airfares as an alternative means of overseas travel. Because of the lack of DoD and Military Components' guidance on transportation officers' responsibilities in choosing the lowest cost overseas airfare, some higher cost fares were used.

Comparison of Fares

Based on our discussions with transportation officers and our review and analyses of MTMC's travel data, we concluded that transportation officers did not evaluate the lowest cost option for transporting DoD passengers to overseas destinations. DoD incurred unnecessary costs of about $1.6 million in FY 1991 by not taking advantage of the lowest cost alternative for air travel to overseas destinations (see Appendix A).

DoD passengers are booked through travel agent contractors who provide reservation and ticketing services to passengers at local activities. Using the 124 overseas routes listed in the GSA Federal Travel Directory for FY 1991, we made a three-way price comparison of airline tickets issued for category Z, GSA city pairs, and commercial standard airfares to determine the lowest cost alternative for routes with duplicate service. Our audit analysis was limited to those category Z or commercial standards routes that duplicated GSA city pairs routes. Based on our analysis of MTMC data for FY 1991, 27,300 passengers were booked at a cost of $10.6 million on either category Z or commercial standard airfares on routes that duplicated GSA city pairs routes. Additionally, 18,400 passengers were booked on GSA city pairs routes at a cost of $7.7 million that duplicated category Z routes.

Category Z Favorable Routes. Category Z airfares were sometimes less expensive than GSA city pairs airfares. Of the 124 GSA overseas city pairs routes, 45 (36 percent) routes were priced lower using category Z airfares instead of GSA city pairs or commercial standard airfares. Examples of the city pairs routes are travel from Guam to Los Angeles, California; Manila, Philippines, to Los Angeles, California; Guam to San Francisco, California; and Washington, D.C. to Tokyo, Japan.

During FY 1991, transportation officers booked 5,435 passengers using GSA city pairs and 2,970 passengers using commercial standard airfares on routes

where category Z airfares were offered and cost less. Transportation officers did not book overseas passengers using the lowest cost airfares. DoD could have realized a cost avoidance of $650,000 if the lower cost category Z airfares had been purchased.

GSA City Pairs Favorable Routes. On 30 (24 percent) of the 124 overseas routes listed in the GSA Federal Travel Directory, the use of GSA city pairs fares would have been the lowest cost alternative. The routes included travel from Frankfurt, Germany, to Washington, D.C.; Frankfurt, Germany, to New York, New York; Istanbul, Turkey, to New York, New York; and Tokyo, Japan, to Los Angeles, California. Transportation officers booked 3,328 passengers on category Z routes and 2,706 passengers on commercial standard class routes when airfares on GSA city pairs routes were lower. We estimated that DoD could have realized a cost avoidance of about $284,000 during FY 1991 if GSA city pairs fares had been selected.

Commercial Standard Favorable Routes. The audit was conducted based on the premise that airfares on commercial standards routes were more expensive than airfares for either category Z or GSA city pairs routes. On some overseas routes, commercial standard airfares were actually lower. Airfares on 49 (40 percent) routes cost less using commercial standard airfares instead of GSA city pairs or category Z airfares. Included in commercial standard routes was travel from Atlanta, Georgia, to Frankfurt, Germany; Dallas, Texas, to Frankfurt, Germany; Brussels, Belgium, to New York, New York; and New York, New York, to Munich, Germany. During FY 1991, transportation officers booked 4,188 passengers on routes using GSA city pairs airfares and 4,377 passengers using category Z airfares when airfares on commercial standard routes were generally lower. Transportation officers sometimes used higher airfares because procedures were not adequate to make sure passengers were booked at lower cost airfares. As a result, DoD incurred additional cost of about $650,000 because the lowest cost alternative was not selected.

Consolidation of Requirements

MTMC did not provide estimated passenger volumes to GSA to use in GSA's solicitation for favorable city pairs rates. GSA solicits regularly scheduled U.S. commercial carriers for bids, based on the estimated overseas monthly passenger volumes on overseas routes. GSA officials stated that their solicitations are based on an estimated monthly average of 400 passengers per route. During FY 1991, DoD transportation officers booked 307,000 passengers on 6,100 category Z routes with airfares totaling about $88 million. No GSA city pairs service was available for the same routes. Our review of passenger data for category Z routes and our discussions with GSA officials disclosed that DoD has sufficient passenger volume for the top 25 category Z routes (see Appendix B), if consolidated with other Federal agencies, to warrant establishing new GSA city pairs airfares on the 25 category Z routes. To establish the city pair airfares, GSA officials stated that Federal agencies would have to provide GSA with passenger requirements and selected overseas

destinations. The data would be provided to a commercial airline carrier for its determination of a potential class on a specific route. If the airfare program is not satisfactory to GSA, no contract will be awarded.

MTMC and GSA officials indicated that an increase in estimated monthly passenger volume could result in the establishment of more favorable GSA city pairs routes airfares. Neither DoD nor GSA has the advantage of using the entire Federal Government's passenger volume when negotiating overseas passenger airfares. Lower GSA city pairs airfares may be negotiated because DoD's passenger volume would be included in volume data that GSA uses in the negotiation process.

Using GSA Overseas City Pairs

No clear guidance existed within the Military Departments on using GSA city pairs airfares for overseas travel. Some transportation officers did not use GSA city pairs airfares because DoD was not a mandatory user of the GSA city pairs program. Because DoD is not a mandatory user, when booking flights to overseas destinations, the airlines do not have to give DoD the lower cost GSA overseas city pairs airfares. However, other transportation officers used GSA city pairs airfares when it was determined that GSA city pairs airfares were cost-effective. MTMC personnel informed us that the Military Departments will not agree to mandate the use of GSA city pairs airfares because they want to maintain flexibility in choosing overseas flights. GSA officials also informed us that since DoD was not a mandatory user of the GSA city pairs program, some carriers were reluctant to allow DoD the benefit of booking passengers at lower prices on favorable routes.

Summary

We believe that through the consolidation of overseas travel requirements and a greater use of cost comparisons among category Z, GSA city pairs, and commercial standard routes, DoD can achieve savings of about $5.9 million during the 6-year Future Years Defense Program. A precise figure is unknown because of variations in DoD passenger volume due, for example, to downsizing and to fluctuations caused by competition among the commercial carriers. The $5.9 million savings is based on the estimate that the military drawdown in Europe and the Pacific will be 20 percent annually of FY 1991 end strength. (See Appendix C for detailed computations of the $5.9 million projected savings).

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, Military Traffic Management Command revise the Routing Guide for DoD Overseas Travel to require DoD transportation officers, when Air Mobility Command transportation is not available, to include General Services Administration (GSA) city pairs airfares as another alternative when determining the most cost-effective commercial airfares.

Management Comments. The Principal Deputy Assistant Secretary of Defense (Production and Logistics) partially concurred with our prior recommendation to revise DoD Directive 4500.9 to require that transportation officers consider the GSA city pairs airfares program when booking overseas passengers. The Principal Deputy stated that the DoD policy is adequate and already in place. DoD Directive 4500.9 states, "...it is DoD policy to procure safe, secure, reliable and quality transportation services that shall meet DoD requirements at the lowest overall cost." Further, the Defense Traffic Management Regulation states that the most economical mode of transportation that meets mission needs will be used when Air Mobility Command contract airlift is not available. Instead of revising the Directive, the Principal Deputy proposed an alternative action. Within the next 60 days, MTMC will remind transportation officers worldwide that GSA city pair airfares must be considered when determining the most cost-effective alternative to the Air Mobility Command contract airlift.

Audit Response. We consider the Principal Deputy's alternative action as partially responsive to the intent of our previous recommendation to revise DoD Directive 4500.9. Reminding transportation officers to consider the use of GSA city pair airfares would initially be beneficial. However, the Routing Guide for DoD Overseas Travel, frequently used as a reference by transportation officers, could be modified to require consideration of GSA city pair airfares. This action would be a longer term alternative than having MTMC send a message to remind the transportation officers of the requirement. Therefore, we have revised the recommendation to require that MTMC revise the Routing Guide for DoD Overseas Travel to require transportation officers to consider GSA city pairs when booking overseas passengers. The Principal Deputy's comments on the Defense Traffic Management Regulation are incorrect, because Paragraph 3-1 of chapter 3 of the regulation makes no mention that the most economical mode of transportation that meets mission needs will be used when AMC contract airlift is not available. The Regulation states, "... the means of transportation selected will be that which will meet DoD requirements satisfactorily at the lowest overall cost from origin to final known destination (in or outside of CONUS). In determining the lowest overall cost, consideration will be given to the extent to which expedited movement will contribute to economies through reductions in personnel travel time." We request that the Principal Deputy respond to the revised recommendation.

2. We recommend that the Commander, Military Traffic Management Command:

a. Provide, on an annual basis, all DoD overseas passenger volume to GSA on category Z routes that average 100 or more passengers per route per month.

Management Comments. The Principal Deputy partially concurred with Recommendation 2.a. He stated that MTMC already provides, on an annual basis, DoD passenger volume to GSA, on all categories of travel for all routes.

Audit Response. The Principal Deputy's comments are not fully responsive to the intent of the recommendation. We recognize that MTMC provides overseas passengers data to GSA. However, the overseas passengers information was insufficient and incomplete. For example, a MTMC report to GSA dated June 9, 1992, on 1991 passenger movement showed only 26 category Z routes that had monthly passenger movement of 10 or more passengers. Documentation obtained from MTMC, Passenger Traffic Service Division, showed that at least 247 category Z routes had monthly passenger movement of 10 or more passengers. We, therefore, request that the Principal Deputy reconsider his position and provide additional comments to Recommendation 2.a. in response to the final report.

b. Request that GSA negotiate with U.S. commercial carriers to establish service on the category Z routes that are not served by the GSA city pairs program, if sufficient Government-wide passenger volume exists to warrant a GSA city pairs airfare.

Management Comments. The Principal Deputy partially concurred with Recommendation 2.b. He stated that MTMC already works very closely with GSA regarding GSA city pairs program. Further, DoD passenger volumes are provided to GSA on all overseas routes that GSA believes have sufficient Government-wide passenger volume to support a city pairs route and airfare.

Audit Response. The Principal Deputy's partial concurrence meets the intent of Recommendation 2.b. We are emphasizing that DoD needs to provide GSA data on its use of category Z passenger volume. GSA would then be in a better position to negotiate overseas city pairs rates. No further comments are required.

Potential Monetary Benefits, Management Comments, and Audit Response

The Principal Deputy Assistant Secretary of Defense (Production and Logistics) did not agree with our cost savings estimates. The Principal Deputy stated that our estimated savings were based on faulty assumptions and methodology, or inadequate information concerning procurement of DoD commercial overseas airlift. The Principal Deputy's position on each area where he believed we had faulty assumptions and methodology are as follows.

Management Comments. (Page 1., Attachment 2) This report assumes that GSA city pair airfares are less expensive, when in fact, the process is much more complicated. Category B and Y airfares are significantly cheaper. It is ineffectual to compare only a portion of the airlift purchased by DoD and make recommendations for change based solely on price when a number of factors affect the total cost of travel.

Audit Response. We recognize that the evaluation of overseas passenger movement is a complicated subject. As such, we have studied each segment of the overseas movement of DoD passengers separately. For example, we issued IG, DoD, Report No. 92-017, "Management of DoD Air Passenger Requirements," December 5, 1991. The report addressed the Military Airlift Command's use of chartered (category B) and commercially scheduled (category Y) airlift for transporting overseas passengers. We made no effort to compare category B or Y to category Z in this report. The audit focused on those passengers that did not use AMC airlift. Our finding and recommendations are based not only on price, but also on factors such as mission requirement, security, and stopovers.

Management Comments. (Page 2., Attachment 2) The draft report statement, "DoD transportation officers did not book passengers to overseas destinations at the lowest cost to DoD," does not take into consideration that the lowest cost fare does not always meet the mission requirement (time frame) nor are seats always available at the lowest fare.

Audit Response. Our audit conclusions were based on, in part, our extensive discussions with transportation officers at Ft. Benning, Georgia, Walter Reed Army Medical Center, Washington, D.C., the Pentagon Travel Office, Arlington, Virginia, and the Naval Base, Norfolk, Virginia. Frequently, no attempt was made to secure seats at GSA city pair airfare rates when it was more cost-effective, because DoD personnel are not mandatory users of GSA overseas city pairs airfares. This is why we felt the policy guidance on the use of GSA overseas city pairs needed clarification. Further, our evaluation of the lowest cost alternative considered whether a GSA city pair unrestricted airfare could have been obtained instead of the fare basis selected. The mission requirement (time frame) was not a factor because the passenger was on the same plane, but flying with a higher cost airfare.

Management Comments. (Page 3., Attachment 2) The Principal Deputy stated that our report assumes seats were available if the fares were available. In fact, air carriers control the number of seats available at the category Z price.

Audit Response. We agree that the number of seats available at category Z airfares are controlled by air carriers. The purchase of category Z seats are individual purchase decisions made by transportation officers.

Management Comments. The Principal Deputy stated that the U.S. Transportation Command will perform an analysis of category Z traffic to identify if and where potential savings can be realized if this traffic is diverted to AMC airlift or GSA overseas city pair airfares.

Audit Response. We agree that the U.S. Transportation Command's analysis of category Z traffic to identify potential savings would be beneficial. If the results of the study are available in time, we request that they be included in the

response to this report. If they are not yet available at that point, we will request in followup inquiries related to this report that they be furnished to us for review.

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Part III - Additional Information

Appendix A. Computation of Excess Cost to DoD

Flight Origin	Flight Destination	Passengers	Cost 1	Lowest Cost Alternative 2		Excess Cost to DoD 3
Guam	Los Angeles	2,216	$1,063,779	$952,880	Z	$110,899
Atlanta	Frankfurt	1,297	618,654	529,176	C	89,478
Los Angeles	Manila	610	342,286	253,760	Z	88,526
Dallas	Frankfurt	952	487,928	399,840	C	88,088
Brussels	New York	1,170	456,216	380,250	C	75,968
Frankfurt	Washington	5,722	2,038,894	1,974,090	G	64,804
Frankfurt	New York	2,692	983,918	928,740	G	55,178
Guam	San Francisco	968	442,475	388,168	Z	54,307
Washington	Tokyo	473	309,331	255,893	Z	53,438
Washington	Seoul	398	283,410	241,586	Z	41,824
Houston	Panama City	1,296	334,223	296,784	Z	37,439
New York	Munich	759	305,083	268,686	C	36,397
Rome	New York	1,277	486,251	452,058	Z	34,193
Washington	Sydney	114	100,838	66,918	Z	33,920
Seattle	Seoul	650	370,638	339,300	Z	31,338
Frankfurt	Los Angeles	460	200,268	169,740	C	30,528
Istanbul	New York	503	278,584	250,494	G	28,090
New York	Stuttgart	683	261,867	236,318	C	25,549
Brussels	Washington	997	375,456	351,941	C	23,515
Atlanta	Munich	171	78,502	55,062	C	23,440
Los Angeles	Sydney	133	104,710	81,529	C	23,181
Miami	Panama City	3,191	485,580	462,695	Z	22,885
Washington	Seoul	536	400,052	378,952	Z	21,100
Boston	Glasgow	1,936	642,410	621,456	Z	20,954
Paris	Washington	358	102,818	83,414	C	19,404
Dallas	London	141	64,764	45,402	C	19,362
Los Angeles	Tokyo	953	495,058	476,500	G	18,558
Washington	Berlin	125	47,099	29,500	C	17,599
Washington	Munich	305	107,874	90,585	C	17,289
Los Angeles	Seoul	506	284,236	268,180	G	16,056
Top 30 Routes		31,592	12,553,204	11,329,897		1,223,307 4
All Other Routes		14,110	5,774,042	5,415,033		359,009
Total of 124 Routes		45,702	$18,327,246	$16,744,930		$1,582,316

1 Total cost of category Z, GSA city pairs, and commercial standard tickets issued in FY 1991 on each route.
2 Total of all passengers using a route multiplied by the lowest fare (Z: category Z, G: GSA city pairs, C: commercial standard) available on that route.
3 Actual cost to DoD less lowest cost alternative.
4 Of the total excess cost to DoD, 77 percent occurred on the top 30 routes.

Appendix B. Schedule of Top 25 Category Z Routes not on GSA City Pairs Contract

Flight Origin	Flight Destination	Total Passengers	Total Cost	Average Monthly Passengers
Honolulu	San Diego	18,811	$3,168,706	1,568*
Fairbanks	Seattle	4,684	1,076,331	390
Norfolk	San Juan	3,844	826,385	320
Atlanta	Honolulu	3,040	869,823	253
Honolulu	Chicago	2,675	619,754	223
Honolulu	Norfolk	2,522	713,041	210
Honolulu	San Antonio	2,477	597,642	206
Anchorage	Honolulu	2,256	592,463	188
Honolulu	Philadelphia	2,166	664,673	181
Honolulu	Seoul	2,119	967,571	177
Honolulu	Okinawa	1,801	779,606	150
Honolulu	Portland	1,798	425,848	149
Los Angeles	Okinawa	1,624	1,073,291	135
Columbus	Honolulu	1,614	537,368	134
Jacksonville	San Juan	1,510	263,007	125
New York	Nueremberg	1,432	579,265	119
Denver	Honolulu	1,418	367,491	118
Honolulu	New Orleans	1,333	393,412	111
Washington	Panama City	1,319	327,989	109
Honolulu	Indianapolis	1,289	336,373	107
San Antonio	San Juan	1,227	296,507	103
Honolulu	Oakland	1,213	166,777	101
Newark	Honolulu	1,152	337,704	96
Honolulu	Sacramento	1,118	203,379	93
Honolulu	Salt Lake City	1,109	291,715	92
Total		65,551	$16,476,121	

* The only route to exceed GSA minimum criteria of 400 passengers per month.

Appendix C. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1. and 2.	Economy and Efficiency. By selecting the lowest cost alternative, either category Z, GSA city pairs, or commercial standard, for a particular route, DoD would reduce transportation costs for DoD overseas air passengers.	Funds Put to Better Use. An estimated $1.6 million in costs for FY 1991 could have been avoided. Over the 6-year Future Years Defense Program (1994-1999) the savings could be $5.9 million. The projected $5.9 million savings was calculated based on the assumption that the military drawdown in Europe and the Pacific will be 20 percent annually of FY 1991 end strength.*

*For example, in the second year the savings is calculated by multiplying $1.6 million by .8 (1 - 20 percent) which equals $1.28 million. A similar calculation is performed each year.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics) Washington, DC

Department of the Army

Headquarters, Military Traffic Management Command, Falls Church, VA
Pentagon Travel Office, The Pentagon, Washington, DC
Walter Reed Army Medical Center, Washington, DC
Ft. Benning, Columbus, GA

Department of the Navy

Headquarters, Naval Military Personnel Command, Washington, DC
Naval Base Norfolk, Norfolk, VA
Bedford Service Center, Bedford, TX

Department of the Air Force

Headquarters, U.S. Air Force Deputy Chief of Staff for Logistics, Washington, DC
Kelly Air Force Base, San Antonio, TX

Defense Agencies

Defense Information Systems Agency, Arlington, VA

Non-Defense Organizations

General Services Administration, Washington, DC

Appendix E. Report Distribution

Office of the Secretary of Defense

Deputy Under Secretary of Defense (Logistics)
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General
Auditor General, U.S. Army Audit Agency
Commander, Military Traffic Management Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Inspector General, Defense Intelligence Agency
National Security Agency

Unified Command

Commander in Chief, U.S. Transportation Command

Non-Defense Organizations

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

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

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

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Part IV - Management Comments

Assistant Secretary of Defense Comments

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-8000

PRODUCTION AND LOGISTICS

JUN 1 0 1993

(L/TP)

MEMORANDUM FOR DOD INSPECTOR GENERAL
~~THRU: CHIEF, CAIR, P.I, OUSD(A)~~ RW

SUBJECT: Draft Report on the Audit of Use of Category Z and General Services Administration City Pairs for Overseas Airlift (Project No. 2LC-0038)

We have reviewed the subject DoDIG draft report and partially concur with its recommendations. The Department of Defense (DoD) has in place procedures that implement the recommendations in the report.

This office does not concur with the DoDIG cost savings estimates because they are based on faulty assumptions and methodology, or inadequate information concerning procurement of DoD commercial overseas airlift. The commands responsible for the implementation of DoD policy on the use of international airfare programs were not contacted by your office during the course of the audit.

We do agree with the DoDIG assumption that consolidation of overseas travel requirements could result in some savings. To explore the possibility of savings due to consolidation of overseas travel requirements, the United States Transportation Command will perform an analysis of category Z traffic to identify if and where potential savings can be realized if this traffic is diverted to Air Mobility Command airlift or the General Services Administration international city pair airfares.

Detailed comments on the recommendations are at Attachment 1 and other general comments are at Attachment 2.

David J. Berteau
Principal Deputy

Attachments

DRAFT REPORT ON THE AUDIT OF USE OF CATEGORY Z AND GENERAL SERVICES ADMINISTRATION CITY PAIRS FOR OVERSEAS AIRLIFT

PROJECT NO. 2LC-0038

RECOMMENDATIONS

RECOMMENDATION 1: We recommend that the Assistant Secretary of Defense (Production and Logistics) revise DoD Directive 4500.9 to require DoD transportation officers, when Air Mobility Command transportation is not available, to include the General Services Administration city pair airfares when determining the most cost-effective alternate commercial airfares.

DOD RESPONSE: **Partially concur.** Policy guidance is adequate and already in place. Paragraph C.3. of DoD Directive 4500.9 states that "it is DoD policy to procure safe, secure, reliable and quality transportation services that shall meet DoD requirements at the lowest overall cost." This statement applies to the procurement of all transportation services--including travel. Further, paragraph 3-1 of chapter 3 of the Defense Traffic Management Regulation (a joint-Service regulation) states that the most economical mode of transportation that meets mission needs will be used when Air Mobility Command contract airlift is not available. Based on these policies, the General Services Administration city pair airfares are already considered when determining the most cost-effective alternative. Notwithstanding this policy, within the next sixty days, the Military Traffic Management Command will remind transportation officers worldwide that GSA city pair airfares must be considered when determining the most cost-effective alternative to the Air Mobility Command contract airlift.

RECOMMENDATION 2a: We recommend that the Commander, Military Traffic Management Command provide, on an annual basis, DoD passenger volume to the General Services Administration on category Z routes that average 100 or more passengers per route per month.

DOD RESPONSE: **Partially concur.** The Military Traffic Management Command already provides, on an annual basis, DoD international passenger volume to the General Services Administration, Office of Transportation and Property Management, on all categories of travel for all routes.

1 Attachment 1

RECOMMENDATION 2b: We recommend that the Commander, Military Traffic Management Command request the General Services Administration negotiate with U.S. commercial carriers to establish service on the category Z routes that are not served by the General Services Administration City Pairs Program, if sufficient Government-wide passenger volume exists to warrant a General Services Administration city pair airfare.

DOD RESPONSE: **Partially concur.** The Military Traffic Management Command already works very closely with the General Services Administration with regard to the General Services Administration City Pairs Program. DoD passenger volumes are provided to the General Services Administration on all international routes. The General Services Administration determines which routes it believes have sufficient Government-wide passenger volume to support a city pairs route and airfare.

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DRAFT REPORT ON THE AUDIT OF USE OF CATEGORY Z AND GENERAL SERVICES ADMINISTRATION CITY PAIRS FOR OVERSEAS AIRLIFT

PROJECT NO. 2LC-0038

GENERAL COMMENTS

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Although the Air Mobility Command was identified as an activity to be visited, it was not contacted during the course of the audit. Similarly, the United States Transportation Command who has overall responsibility for DoD common-user transportation was not contacted. Both of these organizations could have provided significant information relevant to the issues addressed in the audit report.

Page i, Executive Summary: The introduction paragraph states that "GSA city pair airfares are contract fares negotiated by GSA for the benefit of the entire Federal Government, but DoD is not a mandatory user." It should be noted that domestically DoD is a mandatory user of General Services Administration city pairs. However, internationally, DoD passengers must first attempt to use Air Mobility Command arranged airlift. i

Page i, Executive Summary, Objectives, first item: This report assumes that GSA city pair airfares are less expensive, when in fact, the process is much more complicated. The Volpe National Transportation Systems Center analyzed airfares on January 20, 1993, for categories Y and Z and the General Services Administration international city pairs. Data extracted from this study showed that on route segments where there are both category Z and GSA city pair fares, a significant savings would have resulted if all the annual DoD projected traffic would have moved on category Z. Moreover, the analysis of the Volpe data on route segments where there are both category Y and category Z fares showed that category Y fares yield a significant savings over category Z, if all the projected annual traffic had moved category Y. When category B full-plane-load charter fares are studied, the prices were significantly cheaper still. Each type of fare has features which make it best under certain conditions. When taken together, these analyses validate the current DoD travel policies. In addition, it is ineffectual to compare only one portion of the airlift purchased by DoD and make recommendations for change based solely on price when a number of factors affect the total cost of travel. i

1 Attachment 2

Final Report Page No

Page i, Executive Summary, Audit Results: The report summary states, "DoD transportation officers did not book passengers to overseas destinations at the lowest cost to DoD." This statement does not take into consideration that the lowest-cost fare does not always meet the mission requirement (time frame) nor are seats always available at the lowest-cost fare. i

Page ii, Executive Summary, Internal Controls, and Page 2 of the Report: The report comments on internal controls in the Executive Summary state, "Internal controls procedures were not effective to prevent transportation officers from purchasing higher priced commercial airline tickets when lower airfares were available to overseas destinations." Page 2 of the report states, "The recommendations in this report, if implemented, will correct the weakness." Recommendation 1, page 7, of the DoDIG report is already standard operating procedures (DoD Directive 4500.9) used by transportation offices. ii

Page 1, Part I, Introduction: The report introduction states, "The category Z program is managed by Headquarters Military Traffic Management Command (MTMC)." Category Z airfares are voluntarily offered by the airlines for DoD official international travel and are filed with the Department of Transportation. 2

Page 3, Part II, Finding and Recommendations, Commercial Airfares: The report states, "DoD did not provide its passenger volumes on overseas routes to GSA so that GSA could establish additional overseas city pairs routes and obtain lower-cost city pairs airfares, on existing routes for passengers from all Federal Agencies." The Military Traffic Management Command provides, on an annual basis, the General Services Administration, Office of Transportation and Property Management, information available on DoD utilization of all airfares. 6

Page 4, Part II, Finding and Recommendations, Comparison of Fares: The audit concludes that "transportation officers did not evaluate the lowest cost option for transporting DoD passengers to overseas destinations." This is based upon the DoDIG's assumption that if the total spent by DoD exceeded the overall cost of using the lowest-cost airfare, the transportation office had not attempted to use the lowest-cost airfare. DoD Directive 4500.9, Transportation and Traffic Management, paragraph 5.a., states that DoD Components must first attempt to use Air Mobility Command arranged international airlift. If the Air Mobility Command cannot support the requirement, then other DoD approved commercial airlift is considered based on best value. The lowest-cost airfare may not support the mission 7

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requirement; however, if it does, transportation offices and commercial travel offices will buy the lowest-cost-available fare (if seats are available).

Page 4, Part II, Finding and Recommendations, Comparison of Fares: The report assumes seats are available if the fare is available. In fact, air carriers themselves control the number of seats available at the category Z price. In addition, the audit does not consider any factor other than price. Purchase decisions by DoD are made based on the best overall value to the Government that meets user requirements. 7

Page 5, Part II, Finding and Recommendations, Consolidation of Requirements: The report states, "MTMC does not provide estimated passenger volumes to GSA to use in GSA's solicitation for favorable city pairs rates." The Military Traffic Management Command does provide, on an annual basis, estimated international passenger volume for all DoD traffic to the General Services Administration. However, the United States Transportation Command recognizes greater economies may be possible through increased traffic consolidation. To support this objective, the Military Traffic Management Command is developing an analysis of category Z traffic to identify passengers that could possibly be more economically moved by Air Mobility Command procured airlift or the General Services Administration city pairs. 8

Page 6, Part II, Finding and Recommendations, Using GSA Overseas City Pairs: The report states, "There was no clear guidance from the Military Departments on using GSA city pairs airfares for overseas travel." Guidance is provided in the Defense Traffic Management Regulation, a joint-Service regulation. Chapter 3, General Traffic Management Policies, paragraph 3-1, states, "...the means of transportation selected will be that which will meet DoD requirements satisfactorily at the lowest overall cost from origin to final destination (in or outside of CONUS). In determining the lowest overall cost, consideration will be given to the extent to which expedited movement will contribute to economies through reductions in personnel travel time." The report statement that "MTMC personnel informed us that the Military Departments will not agree to mandate the use of GSA city pairs airfares because they want to maintain flexibility in choosing overseas flights," is misleading. The Services have not agreed to mandate use of General Service Administration city pair airfares in the past because they are required to first support Air Mobility Command procured category Y or category B (full-plane-load charters for one-way or round-trip operations) airlift. 9

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Page 6, Part II, Summary: This office does not concur with the DoDIG cost savings estimates because the report's assumptions and methodology are faulty, or the savings estimates are based on inadequate information concerning procurement of DoD commercial overseas airlift. Additionally, the appropriate agencies/commands responsible for the international airfare program were not contacted by the DoDIG during the course of the audit. We do agree with the DoDIG's assumption that consolidation of overseas travel requirements could result in some savings. We further agree that due to changing passenger volume, downsizing of forces, and varying degrees of carrier competition, potential savings to the Government cannot be realistically projected. To explore the possibility of savings due to consolidation of overseas travel requirements, the United States Transportation Command will perform an analysis of category Z traffic to identify if and where potential savings can be realized if this traffic is diverted to Air Mobility Command airlift or the General Services Administration international city pair airfares.

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Audit Response to Additional Management Comments

This section contains extracts from the Principal Deputy Assistant Secretary of Defense (Production and Logistics) comments as presented in a draft of this report and our responses to those comments. Management comments on the recommendations and potential monetary benefits are addressed in Part II of this report.

Management Comments. (Page 1., Attachment 2) The commands responsible for the implementation of DoD policy [the Air Mobility Command and the United States Transportation Command] were not contacted during the course of the audit.

Audit Response. On March 19, 1992, when the audit announcement memorandum was issued, both the Commander in Chief, U.S. Transportation Command and the Commander, Air Mobility Command were provided copies of the announcement memorandum. On July 1, 1992, the Commander in Chief, U.S. Transportation Command was again made aware of the audit when we provided the Commander in Chief a copy of the reannouncement memorandum. Neither command provided a point of contact to explain its role in the category Z program. We believe that commands who have responsibility related to the subject of an audit should provide points of contacts. Since the Office of the Assistant Secretary Defense (Production and Logistics) is responsible for the establishment of DoD policy, we were provided points of contact within that office.

Management Comments. (Page 1., Attachment 2) DoD is a mandatory user of GSA city pairs for domestic travel only. For overseas travel, DoD passengers must first attempt to use airlift arranged through the Air Mobility Command.

Audit Response. Management comments were noted, and appropriate revisions to this final report were made.

Management Comments. (Page 2., Attachment 2) The Principal Deputy stated that Recommendation 1. was already standard operating procedures used by transportation offices.

Audit Response. We have accepted the Principal Deputy's position that the Directive does not need to be modified. See our discussion on page 10 of this report.

Management Comments. (Page 2., Attachment 2) Category Z airfares are voluntarily offered by the airlines for official DoD overseas travel, are filed with the Department of Transportation, and are not managed by the MTMC.

Audit Response. The wording in the report has been changed to reflect MTMC's custodial function in collecting and maintaining data on category Z passenger movement.

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INTERNET DOCUMENT INFORMATION FORM

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B. DATE Report Downloaded From the Internet: 04/19/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
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