STATEMENT OF

MR. ZACK E. GADDY

DIRECTOR
DEFENSE FINANCE AND ACCOUNTING SERVICE

BEFORE THE PERMANENT

SUBCOMMITTEE ON INVESTIGATIONS

UNITED STATES SENATE

ON

"WHETHER THE DEFENSE TRAVEL SYSTEM (DTS) IS A COST EFFECTIVE
SOLUTION FOR DOD'S TRAVEL NEEDS"

SEPTEMBER 29, 2005

Chairman Coleman, Distinguished Members of the Subcommittee, my name is Zack Gaddy, the Director of the Defense Finance and Accounting Service (DFAS). Thank you for this opportunity to discuss the Defense Travel System (DTS), a seamless integrated computer-based travel and financial system.

The DTS improves accuracy, financial management, accountability and record keeping for temporary duty travel orders, tickets and approximately 5.6 million vouchers processed each year by the Active, Guard, Reserve, and civilian members of the Department of Defense (DoD). It creates the travel order; authorizes the travel; generates the traveler's reservations; creates a commitment and obligation of funds in DoD financial systems; accepts and computes the traveler's claim for reimbursement; accepts the authorizing official's approval of the travel claim and generates disbursements against all approved travel claims. Disbursements for reservations, the traveler's charge card and traveler entitlements are paid through electronic fund transfers within an average of 3-5 days of receipt of the traveler's claim for reimbursement. Additionally, DTS archives the entire travel record from travel order creation to disbursement including the traveler's and authorizing official's digital signatures.

Although there are significant benefits that will accrue from full implementation of DTS, it does not solve all travel management issues and the Department is continuing to explore ways to take advantage of emerging technology and adjust to the dynamics of our personnel environment. It provides a tool for management of premium travel and unused tickets, but does not preclude the problems. The large deployments of guard and reserves to Afghanistan and Iraq highlighted a need for group travel during mobilization, not included in the DTS requirements. Permanent change of duty station is another area that was not fully incorporated in the current requirements. Another area that requires enhancement is the usage rate of DTS at fielded sites. The change to DTS is a more significant business process change than had been anticipated, so we are challenged to find ways to increase usage to obtain full benefit of the program.

The DTS increases process efficiency and produces substantial cost savings for both the user and the American taxpayer. The DTS is a Web-based, end-to-end system that uses two-way interfaces and information flows to communicate with over 32 DoD accounting, disbursing and archiving systems. The DTS includes secure measures to safeguard information and is available 24-hours a day, 7-days a week, 52 weeks a year.

Presently, DTS is operational at 5,628 sites supporting 685,000 DoD employees and has successfully processed over 1 million authorizations approving travel orders and 872,000 travel claim vouchers. When fully implemented in FY 2007, it will be operational at more than 11,000 sites and support all of DoD's 3.2 million members. It will process an annual average of approximately 6.8 million travel authorizations approving travel orders and 5.6 million travel claim vouchers.

The concept for DTS was created when the National Performance Review called for reengineering of the DoD travel system in September 1993. In 1995 DoD established the Program Management Office Defense Travel System (PMO-DTS) as a special interest program to reengineer DoD travel processes to achieve greater efficiency by eliminating multiple DoD temporary duty travel systems and processes that are independent, redundant and include manual

processes. This complex architecture of systems and processes is costly to maintain, unresponsive to customer needs, untimely for reimbursement to vendors and travelers, and presents several management challenges for control of fraud, waste and abuse.

To consolidate travel processes through an automated solution, the PMO-DTS released a Request for Proposal in June 1997. An eight-year contract (five-year base with three one year renewal options) with an estimated value of $263.7 million was awarded in 1998 to BDM as BDM was being acquired by TRW. Northrop Grumman Mission Systems subsequently acquired TRW in 2002.

The DTS envisioned a combination of commercial-off-the-shelf software packages and government developed software to integrate authorization, reservation, vouchering, accounting and disbursing for temporary duty travel. The challenge of integrating 32 systems with commercial travel services and implementing the emerging policy requirement for digital signature and public key infrastructure was more complex than originally envisioned. The assumptions used in the original estimate were overly optimistic and resulted in projected deployment to be completed by FY2001; this date proved to be unrealistic. Several pre-2002 audits and reviews identified the flaws in the assumptions and led the Department to review the entire program to determine whether it was in the best interest of the Department to continue the program. In May 2002, a baseline schedule was established incorporating more realistic assumptions and established FY2007 as the deployment date.

From 1997 through 2001, three Economic Analyses (EAs) were performed and published. The analyses projected steady state savings based on tangible savings. Tangible savings are based principally on projected DTS cost savings derived from reduced costs for voucher processing, centrally billed account reconciliation and commercial travel office fees. The September 1997 EA anticipated tangible savings at approximately $90 million annually beginning in FY 2003. The December 1998 EA estimated tangible savings of approximately $99.6 million annually beginning in FY 2004 and the January 2001 EA estimated tangible savings of approximately $65.6 million annually beginning in FY 2006. Despite variability in the steady state cost projections, attributed to delays in DTS usage, each economic analysis justified the Department's continued investment in DTS.

During this period several critical reports and reviews regarding the management of the program were issued. The Department recognized the challenges and complexity of the program and concurred with a DoD Inspector General recommendation that DTS be managed as a Major Automated Information System (MAIS), Acquisition Category (ACAT) 1AM program. An ACAT 1AM program is a MAIS that impacts multiple DoD components. It is estimated to have program costs exceeding $32 million in any single year, total program costs in excess of $126 million, or have total life-cycle costs in excess of $378 million. Further, a MAIS must be designated by the Assistant Secretary of Defense for Networks and Information Integration (ASD(NII)).

In May of 2002, DTS was designated as an ACAT 1AM program with the ASD(NII) as the principle decision authority. As a MAIS, the DTS program's progress and challenges were reviewed through a rigorous and disciplined method with oversight at the highest levels across

DoD. The DoD's Office of Program Analysis and Evaluation (PA&E), was an active participant in the MAIS review and surfaced all of the previously documented concerns for consideration. The PA&E also continues to monitor DTS through the acquisition and budget review process.

DoD determined the economic viability of DTS based on a fourth EA published in July 2003, and an addendum in September 2003, and established a program baseline. This EA supported the continuation of DTS as an ACAT 1AM program and adjusted the steady state savings to $56.4 million per year beginning in FY 2009. During this time, estimated DTS program costs were reduced from $491.9 million to $474 million.

An Acquisition Decision Memorandum, issued on December 24, 2003, documented the acquisition designation and the approval to continue the DTS program. It also confirmed that appropriate actions had been taken with respect to the system in the areas of business process reengineering, analysis of alternatives, economic analysis, and performance measures. The DTS program reports cost, performance and schedule in compliance with the Defense Acquisition Executive Summary and has met all reporting requirements. Since designation as an ACAT 1AM program, the DTS program has been managed within cost and schedule and is delivering system performance as planned.

Actual savings from voucher processing in FY 2005 and prior have been over $22 million. The DFAS average voucher processing rate reduction for FY 2006 is $36.70 per voucher. Although steady state savings for DTS are not planned until FY 2009, based on the current average voucher volume of 80 thousand vouchers per month, we expect DTS to yield over $35 million in savings during FY 2006. The centrally billed account reconciliation and reduction in commercial travel office fees are just beginning to accrue. The average centrally billed account reduction is $20.67 per posting and the reduction in commercial travel office fees for the first consolidated region contract award is $23.35 per transaction. The fees for other contracts are still being negotiated.

The DTS provides intangible benefits in addition to the direct financial benefits discussed previously. The DTS maintains accountability throughout the travel process, meets all mandated security requirements, tracks every change of every transaction, and identifies the individual who made the change. The Common Access Card (CAC) is the tool that makes the discrete tracking possible. This tracking is important because it provides a positive audit trail for every transaction and affixes legally binding accountability in a more precise manner than the current process that includes a series of paper documents maintained in several locations and posted to several systems. Issues such as potential abuse of premium travel, disposition of unused airline tickets, and other travel process abuses are more visible and auditable than through the existing systems that are not CAC enabled.

Abuse of premium travel has been a recent issue with the Congress due to indications that some travelers had been able to secure first class airline tickets against DoD policy. While DTS does not preclude abuse of premium travel, it does provide a tool to help manage it. The DTS notifies travelers if they are not in compliance with travel policy, including premium travel policy by flagging the document and allowing signature only with a written justification. Travelers can override these policy flags with a written justification. The justification is retained

with the file and is also flagged for the traveler's approving official who has pecuniary responsibility for the travel authorization. This added visibility of DoD policy and any decisions to make exceptions is expected to reduce the instances of unauthorized use of premium travel.

The Congress also recently addressed the issue of unused tickets. While DTS does not solve the issue of unused tickets, it does provide a management tool to better manage it. Non-DTS travel processes use centrally billed accounts managed by someone other than the travelers to pay for tickets. The existence of unused tickets was not being communicated to the account manager in a timely manner. Given the volume of DoD travel, management of unused tickets paid for by the Government is a significant challenge. The DTS charges most airline tickets to the individual travel card accounts, aligning responsibility for resolving any unused tickets with the traveler and provides an incentive to resolve the unused ticket situations in a timely manner. For those using centrally billed accounts, DTS compares and identifies in the record which form of payment was used to prevent duplicate payments.

The DTS contains a flexible budget module that enables organizations to assign travel funds management responsibility directly to those whom have mission responsibility. This feature enhances the ability to match funding to task and know the status of travel budgets in real time. The organization's financial managers can also monitor the overall travel budget status, and take corrective actions prior to problems occurring. The DTS verifies availability of funding in the accounting system at each step of the process, through commitment, obligation, and expenditure of funding, which significantly improves the accountability of the travel processes throughout the Department and eliminates the need for maintaining several separate ledgers and audit processes.

The DTS provides a debt management capability for those who incur debts through the travel process. It provides an audit trail necessary to verify the debt, provides the information in days in contrast to the existing manual processes requiring weeks, and improves debt recovery for the Department.

The DTS enhances the quality of data and the management of travel-related information. Each manual data entry step eliminated by DTS reduces errors and provides an improvement in accountability and a reduction in cost from the elimination of the corresponding need to audit and correct the manual errors. As we fully deploy DTS, the travel workforce will shift from many data entry clerks and auditors to a smaller workforce managing system interfaces and processing exceptions that may occur due to occasional systems interface issues.

The PMO-DTS program objectives include consolidating the Department's 105 Commercial Travel Offices (CTO) contracts managed by 56 different organizations into about 42 contracts managed by one organization. Thirty-one of these contracts are set aside for small businesses. These contracts establish the fee structure for travel agent ticketing services. The fee structure is based on three distinct service methods:

1. DTS, meaning the exclusive use of DTS for travel reservations;

2. DTS Touch, which means that although the request and confirmation of reservations flows through DTS, some additional CTO assistance may be requested via DTS email or phone that supplements DTS basic reservations; and

3. Traditional is initiated by the traveler using a phone or fax to the CTO to make reservations in a traditional manner whereby the traveler then inserts the data back into DTS for authorization, vouchering and archiving.

To date, travelers have purchased more than 370,000 tickets using DTS. In the September 2003 EA, the number of airline tickets issued was considered as a factor in determining the level of support provided by the travel service industry through the CTOs. We estimated that DTS would reduce ticketing costs by 40 percent based on industry benchmarks. The actual difference between DTS rates and Traditional rates under the first consolidated contract is a reduction in cost to the Government of 82 percent or $23.35 each time DTS is used to purchase a ticket.

The General Services Administration (GSA) hired the Corporate Solutions Group (CSG) to evaluate DTS and other e-Travel services to ensure airfares are compliant with their respective contracts and travel policies. GSA has not issued a final report because a review of the CSG summary report data reveals that CSG's summary conclusions regarding DTS and other eTravel services did not take into account the differences between the vendors' on-line booking engine settings. For example, the DTS settings had a maximum number of 12 flights within a four hour window display while the other eTravel services had various other display settings. The DTS travelers had the ability to specify departure times based on mission requirements to get a display showing flights available two hours before and two hours after departure time. The four hour display window and other query parameters are a customizable feature of DTS, and may be changed based on government travel policy and traveler and Service/Agency feedback. The DTS is also designed to enforce Defense Travel Regulation policy's order of precedence whereby city-pair fares are to be selected first, followed by available Civil Reserve Air Fleet carriers. We continue to modify DTS displays based on user needs and recently implemented a change so that the first display to the traveler is an 12-hour window of city pair carriers and other allowable flights per policy. This change further enforces support to the city pair program first, but allows travelers to pick other allowable flights per the travel regulations.

The Citizens Against Government Waste issued a report on September 28, 2004, echoing concerns raised by the DoD Inspector General and the PA&E. The report also questioned legal aspects about the restructure of the Northrop Grumman Mission Systems contract that were addressed by the Court of Federal Claims in July 2004. The Court stated that it lacked sufficient information to determine whether the contract restructure violated the Competition in Contracting Act (CICA). The Court ruled that even if the contract violated CICA, it was not in the public's interest to upset the contract given the limited time remaining before expiration of the contract and the large amount of money and effort already expended. However, the Court directed DoD to re-compete the CTO portion of the program, which we have since complied with. Other allegations in the report pertaining to costs were based on outdated information.

Since May 2002, when DTS was designated an ACAT 1AM program, it has been subjected to the rigor of a full acquisition review and has met all cost, schedule, and performance criteria set forth by the ASD(NII) in the Acquisition Decision Memorandum. The Government Accountability Office is currently reviewing DTS and is projected to complete their review this fall.

Mr. Chairman, in summary, the DoD is just beginning to see the benefits of the investment in DTS. The system costs and schedule have been stringently managed since its re-designation as MAIS and the savings and non-tangible benefits experienced to date support continued deployment of the system. Significant challenges remain due to the dynamics of the DoD environment and the travel industry, but the benefits we have seen to date support continued deployment of the system with a parallel effort to continually improve the system to take advantage of emerging technology to meet the changing priorities and adjust to the changing DoD environment and the dynamic travel industry.

The Department remains fully committed to providing world class travel processes to support DoD's Active, Reserve, Guard, and civilian members. We remain vigilant to the challenges of implementation and dedicated to the goal of providing a cost effective travel system to DoD. Every DTS transaction saves the Department money and reduces the need for American taxpayer dollars. Mr. Chairman, this concludes my formal remarks. I will be happy to answer any questions the Subcommittee may have. Thank you.