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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-210892

APRIL 22, 1983

The Honorable Caspar W. Weinberger
The Secretary of Defense



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Attention: Office of GAO Report Analysis

Dear Mr. Secretary:

Subject: More Effective Use of Contract Airlift
Could Reduce DOD's Transportation Costs
(GAO/PLRD-83-55)

The Department of Defense (DOD) is losing millions of dollars annually because of empty seats on aircraft under contract from commercial air carriers.

The Military Airlift Command (MAC) is the single manager designated by DOD to provide international airlift from commercial carriers based on requirements submitted by each military service. The requirements include both military and civilian travelers. MAC spent \$228 million in fiscal year 1981 and about \$250 million in fiscal year 1982 to airlift DOD passengers on contracted international flights.

We found that a significant number of empty seats existed on MAC-contracted international flights. There are two major reasons for these empty seats. Passengers do not show up for flights as scheduled, and the services apparently do not generate the volume of passengers anticipated at the time their requirements are submitted to MAC.

In fiscal year 1981, MAC's no-show rate was 13.5 percent. In fiscal year 1982, the no-show rate climbed to 14.7 percent. We estimate that empty seats caused by no-shows cost \$13.5 million annually. Our estimate of savings has been reduced to give consideration to overbookings and passengers who walk in and actually use seats that were intended for use by no-shows. In addition, we estimate that underutilization of seating capacity for reasons other than no-shows costs DOD another \$13.0 million annually.

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OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to see if DOD could reduce its passenger transportation costs through better use of MAC's international airlift. We reviewed and analyzed MAC's passenger movement data to determine the major reasons for empty seats on MAC's contracted flights. Once we determined that the reasons were no-shows and underutilization, we interviewed officials of each military service responsible for setting transportation policies to obtain their views regarding the two issues. We also interviewed MAC officials who operate the system, officials in the Office of the Assistant Secretary of the Air Force, and staff members of DOD's Per Diem Committee.

To establish a norm for evaluating MAC's passenger no-show rate, we surveyed six major U.S. airlines providing international service to obtain a no-show rate representative of the industry. We also reviewed Air Force audit reports and Army and Marine Corps studies on the subject to better understand the underlying causes of no-shows.

During our review of seating capacity underutilization, we noted that a DOD directive and implementing travel regulations were not clear, making it possible for military members to use commercial flights instead of MAC. In addition, we found that a provision in the Joint Travel Regulation (JTR) states that DOD civilians cannot be directed to use MAC because of life insurance considerations. We interviewed a transportation officer at the Pentagon to confirm that travelers bypass MAC as a result of unclear travel guidance. We did not contact transportation officers at other military installations. We queried 10 major life insurance companies to see if the reason for allowing DOD civilian employees to use commercial flights in lieu of MAC is still valid since the JTR provision was written many years ago.

Our review was performed in accordance with generally accepted government audit standards.

NO-SHOW RATES NEED TO BE REDUCED

We estimated that no-show passengers cost DOD an estimated \$13.5 million annually. A no-show passenger is defined as anyone whose name is on a flight manifest but fails to board a scheduled flight. Some empty seats resulting from no-shows are eventually used by walk-in passengers, but many go unfilled. Walk-in passengers include those who are on emergency leave and do not have reservations, those who have reservations for later flights but wish to depart early, and those who missed earlier flights.

The no-show problem is not new to MAC or the military services. The Air Force Audit Agency, for example, issued a report to MAC in 1976 recommending ways to reduce the then 10-percent no-show rate. The Army completed studies in 1980 and 1981 addressing causes of no-shows, and the Marine Corps issued a report on the same subject in 1980. No-show rates, however, have continued to climb to the present 14.7 percent for flights outbound from the Continental United States (CONUS). This rate consists of aggregate no-show data for all services. We did not attempt to identify and analyze no-show trends applicable to each military service.

Compared to commercial air carriers, MAC's no-show rate is high. Several U.S. airlines surveyed reported an average no-show rate of 6 percent for international flights. Many of their no-shows are a result of prospective travelers making multiple reservations.

In computing no-show percentages, commercial air carriers contacted used the same methodology we used in establishing DOD's experience--the difference between bookings and the number of booked passengers who actually flew on their designated international flights. This methodology clearly defines the extent of the problem before corrective actions, such as overbookings and walk-ins, offset some of the potential loss.

MAC's CONUS outbound passenger movement data for fiscal years 1981 and 1982 showed the following no-show rates for space-required passengers.

<u>Fiscal year</u>	<u>Total bookings</u>	<u>Total no-shows</u>	<u>Percent</u>
1981	417,208	56,275	13.5
<u>a/1982</u>	415,698	61,243	14.7

a/Figures are based on 10-month actual data projected for the year.

We recognize that not all no-shows cause empty seats. Some are replaced by passengers with official travel orders who "walk in" with no reservations, and some are offset by overbookings. Although these two categories of passengers offset some of the impact of no-shows, no-shows still cause a large number of empty seats as shown below.

<u>Fiscal year</u>	<u>Total no-shows</u>	<u>Total walk-ins</u>	<u>Total overbooks</u>	<u>Net empty seats</u>
1981	56,275	29,998	386	25,891
<u>a/1982</u>	61,243	36,808	493	23,942

a/Figures are based on 10-month actual data projected for the year.

MAC, according to our estimate, spent \$478 million for 1,761,644 seats during fiscal years 1981 and 1982. Therefore, each seat costs about \$270. No-show data for CONUS inbound flights was not available for our detailed analysis. However, a special MAC internal study in July 1982 showed that the no-show rate for inbound flights during the first 6 months of fiscal year 1982 was 16.4 percent, or 4 percent higher than outbound flights. Assuming that the same number of empty seats existed on inbound flights, we estimate the total cost of empty seats for the 2-year period to be \$27 million ((25,891 + 23,942) x 2 (inbound and outbound) x \$270).

According to recent studies conducted by DOD organizations, no-shows resulted from several causes, including failure of installations to cancel reservations when a traveler's orders were canceled or delayed, failure of travelers to show up on time because of poor trip planning, MAC administrative errors, unavoidable occurrences, and poor weather conditions. The following table shows the percentage of no-shows by each cause as reported by the DOD studies.

<u>Cause of no-shows</u>	<u>Army</u>	<u>Marine</u>	<u>Air Force audit-agency</u>
	----- (percent) -----		
Installation	53	75	67
Traveler	20	5	-
MAC errors	17	-	-
Unavoidable	10	20	-
Other (not identified)	<u>-</u>	<u>-</u>	<u>33</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>

Based on the findings reported in the three studies, we believe there would be an appreciable decrease in the no-show rate if transportation officers at installations canceled reservations as soon as changes to travelers' orders were known. Also, we believe the services should be more stringent in their dealing with travelers who have invalid reasons for missing flights. In the Army study, travelers accounted for 20 percent of all no-shows due to invalid reasons--AWOL and poor travel planning.

No incentive currently exists within the airlift system to encourage MAC or the services to improve no-show rates. First, the military services are not held accountable for no-shows. Second, the service with a low no-show rate pays the same MAC tariff as the service with a high rate. Finally, MAC knows that the cost of empty seats caused by no-shows is fully recovered through the tariff irrespective of what the no-show experience may be.

INCREASED UTILIZATION OF MAC'S
CAPACITY COULD REDUCE COSTS TO DOD

In addition to empty seats caused by no-shows, other seats were empty because the military services fail to fully utilize MAC's capability. These seats are the result of the difference between the allowable cabin load and the number of seats booked by paying passengers. Empty seats created by no-shows are the result of the difference between passengers with booked reservations and those who actually flew as scheduled. In fiscal year 1981, 23,864 empty seats on outbound flights resulted from underutilization. In fiscal year 1982, empty seats totaled 24,047. ^{1/} Although inbound data was not readily available, indications are that inbound flights generally have greater underutilization than outbound flights. However, for report purposes, we are assuming that the underutilization rate was the same on both outbound and inbound flights. We estimate that empty seats resulting from underutilization cost \$13 million annually or \$26 million for the 2-year period discussed previously ((23,864 + 24,047) x 2 x \$270).

MAC, as the single manager for all airlift services, buys international airlift from commercial carriers on the basis of military and civilian requirements submitted by each military service. The discretion of whether to direct travelers to use MAC's service rests on order-issuing authorities at military installations worldwide. When military travelers are issued directed orders, they must use MAC-provided airlift. However, if authorized orders are issued, they have the option of buying tickets with their own funds with subsequent reimbursement not to exceed the MAC tariff rate. When this occurs, empty seats will exist on MAC flights.

An Army transportation officer at the Pentagon confirmed this practice when he advised us that, of the 400 to 500 Permanent Change of Station orders processed monthly by his office, between 5 and 10 percent of the travelers elected to buy (with subsequent reimbursement) their own tickets for personal convenience reasons. These travelers came to him to obtain endorsements to travel orders which they felt would facilitate

^{1/}Figures are based on 10-month actual data projected for the year.

the processing of their travel claims. He said that others bought tickets on their own and filed claims without coming to him for endorsements. The number of travelers doing this is not known.

The transportation officer also told us that the number of travelers buying their own tickets is increasing because of discount fares offered by the airlines since deregulation and because airlines are also erroneously offering the low DOD furlough fare to military travelers who are on official business and are not authorized to accept the furlough fare. He believes travelers at other Army installations are also buying their own tickets, but he could not estimate to what extent. We did not attempt to quantify this occurrence throughout the over 500 military installations worldwide since our purpose was to just develop evidence that seats on MAC flights are not being fully utilized.

The current DOD Directive 4500.9, which promulgates policies governing the use of DOD-owned and commercial transportation, does not include a clear policy statement requiring that military services use MAC where appropriate. Also, individual service regulations do not provide guidance as to when authorized travel orders should be used. We believe that regulations should address in detail the exceptions under which authorized orders can be issued.

Paragraph C2001-4 of the Joint Travel Regulation (JTR) generally prohibits DOD from directing either civilians or their dependents to use MAC. The reason for such wording was to protect employees and their dependents from having their life insurance policies voided while traveling on MAC flights. This could have been a valid reason at the time when the JTR was first written in the early 1960s when MAC was transporting passengers mostly on its own aircraft. But, today, it may no longer be a valid reason because MAC transports over 90 percent of its passengers on contracted commercial aircraft.

Additionally, unless the insured person is a pilot or crew-member, none of the 10 major national life insurance companies we surveyed (including Federal Employees Group Life Insurance and GEICO) issue policies with clauses voiding the policy if death or injury occurs while traveling on a military or commercial aircraft.

CONCLUSIONS AND RECOMMENDATIONS

Empty seats on MAC international contract airlift are costly and must be absorbed by the transportation budgets of its DOD customers. These unnecessary costs will continue to be incurred as long as no effective incentive exists to reduce the passenger no-show rate and DOD personnel continue to use commercial flights instead of MAC. To date, MAC and the military services have not adequately addressed the long-recognized no-show problem.

In an effort to reduce the passenger no-show rate to an acceptable level, we recommend that military services be required to place greater emphasis on managing the use of MAC-provided international airlift. One way to accomplish this would be for MAC to provide each military service at the department level a monthly list of the names of passengers who missed flights. The military services, in turn, could distribute the names of passenger no-shows to the command which made the reservation. This information would serve as the basis for commands to determine the causes for no-shows and to take corrective action. MAC could also be directed to provide aggregate no-show percentages to DOD periodically so it could monitor the services' progress.

If over a reasonable period of time the no-show rate has not improved to the level nearer that experienced by commercial air carriers providing international service, DOD should consider penalty billing each military service for empty seats caused by their no-shows.

In addition, we recommend that DOD Directive 4500.9 be revised to require that the military services use MAC airlift where appropriate and that order-issuing authorities be given guidance in revised travel regulations as to specific conditions under which authorized orders can be issued. We also recommend that DOD consider revising the JTR provision governing civilian travelers to require them, like their military counterparts, to use MAC-provided airlift.

AGENCY COMMENTS AND GAO'S EVALUATION

DOD officials agreed that utilization of MAC-provided international contract airlift could be improved. Initiatives are currently in process or being considered as a result of our recommendations. However, DOD officials raised questions regarding various aspects of our report. A discussion of each point along with our rebuttal follows.

Incentive to reduce no-show rates

DOD officials acknowledged that to the extent no-shows actually cause empty seats and loss of revenue, operating costs will rise. They claim that user services are aware of this and that costs will be offset in future years by increases in the MAC tariff to recover losses to the Airlift Service Industrial Fund. According to the officials, the potential for increased costs provides incentive to the military services to pursue corrective action.

Awareness on the part of the services that a tariff will increase as a result of costs attributed to no-shows is not, in our opinion, sufficient incentive. The fact that the no-show percentage rate has grown from 10 percent in 1976 to 14.7 percent in 1982 supports our position.

No-show definition

DOD officials claim that no-show percentages reported by GAO are inflated because late cancellations were included in the computation.

Late cancellations occur during the last hours prior to flight departure and produce the same effect (empty seats) as do no-shows because MAC closes out its reservation system 24 hours prior to flight time. In addition, MAC included late cancellations in its definition of a no-show passenger and reported them together with no-shows as one figure on official records during most of the period we reviewed. This would indicate that MAC also believes that late cancellations and no-shows produce the same effect.

Comparing a military airlift operation to a commercial operation

DOD officials questioned the appropriateness of our comparing a military passenger operation to that of a commercial operation when the markets served by the two differ greatly. They claim that young inexperienced travelers and their families are the principal reason for no-shows and that DOD's reservation and ticketing system is less automated than their commercial airline counterparts.

Even though the markets served differ, we believe it is appropriate to compare the two operations to make our point. MAC serves basically a captive audience on mostly chartered flights. Commercial airlines, however, operate in a highly competitive environment with mostly non-chartered regularly scheduled flights. As such, we believe MAC should be able to

outperform the 6-percent average no-show rate reported by the commercial carriers providing international service. In addition, studies done by the DOD components cited in our report show that over 50 percent of no-shows were the result of DOD installations' failure to cancel previously made reservations and failure to properly prepare travel documents. These results do not appear to support DOD's claims that inexperienced travelers and a less than fully automated reservation and ticketing system are the causes of no-shows.

Total cost of empty seats and potential savings to DOD

DOD officials believe our estimate of costs resulting from no-shows could be misleading and that anyone reading our report would expect the entire amount to be saved. We recognize that it would be unrealistic to expect a zero no-show rate. However, we believe that DOD installations can improve no-show rates substantially by preparing travel documents properly and cancelling reservations when plans of travelers have been changed. Concentrated effort by installations alone could reduce the no-show rate, but not eliminate it.

Basis for cost computation of underutilized seats not associated with no-show

DOD officials claim that our estimate of costs associated with empty seats caused by underutilization may be overstated because we included seats purchased on frequency channels. Frequency channels are established for reasons of mission essentiality, not on the demand for passenger requirements. Therefore, MAC expects some empty seats on this type of channel.

We agreed that this could be a factor. However, even if DOD deleted all frequency channels, the cost of empty seats is still about \$8 million.

DOD officials also contend that our estimate of cost due to underutilization is overstated because we included empty seats arising from imbalances of outbound and inbound traffic. They said that MAC, aware that demand for outbound exceeds that of inbound seats, will purchase a round trip rather than a one way flight because it is more cost effective even though a greater number of empty seats may exist on the inbound portion of the flight. To illustrate, if MAC has a requirement to move a minimum of 300 passengers outbound and 100 inbound, it would

purchase a round trip flight on a wide-body aircraft with an allowable cabin load of 350. Considering the illustration above, DOD officials believe we included 250 empty seats on the inbound flight to compute the estimated cost of empty seats. Our computation, as shown on page 5 of this report, was based on the assumption that inbound traffic has the same utilization level as outbound traffic. We, in effect, assumed that 300 travelers came in on the inbound flight rather than the actual 100 and counted only 50 empty seats on the outbound flight and 50 on inbound flight as underutilization. These empty seats have the potential to be fully utilized if military and civilian travelers who choose to buy their own tickets were directed to use MAC-provided airlift.

Penalty billing

DOD took exception to our recommendation that penalty billing be considered if the no-show rate has not improved after a reasonable period of time. DOD officials claim that penalty billing procedures generally require full and accurate documentation.

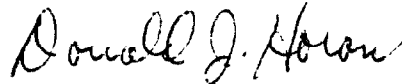
We agree that if the military services have the authority to reject a penalty billing because some information is missing, this procedure will not be effective because of the significant administrative burden and cost imposed. However, correcting the no-show problem has the potential for increasing seat utilization and avoiding procurement. The benefits to be realized would seem to warrant modifying the services' documentation requirements.

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As you know, 31 U.S.C. § 720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairman, House Committee on Government Operations; the Chairman, Senate Committee on Governmental Affairs; the House and Senate Committees on Appropriations and on Armed Services; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald J. Horan".

Donald J. Horan
Director