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**BUSINESS PROCESS
REENGINEERING**

**DOD Has a Significant
Opportunity to Reduce Travel
Costs by Using Industry
Practices**

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Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to discuss travel management within the Department of Defense (DOD). Specifically, I will discuss our work and recent report,¹ which focused on DOD's administrative travel processes and related costs for temporary duty travel.

Travel processing at DOD is currently a wasteful and burdensome operation, involving multiple travel agents, hundreds of voucher processing centers, and over 1,300 pages of regulations. Travel processing is also costly. DOD reported that it spent \$3.5 billion for temporary duty travel in fiscal year 1993. However, the Department estimated that it cost an additional 30 percent of that total, or over \$1 billion, to process that travel.

Travel processing does not have to be like this. And it cannot remain so, especially given current fiscal constraints. Leading private companies provide good examples for DOD, as well as other federal agencies, to follow in reengineering travel management. Private companies have dramatically improved service to the traveler and minimized travel processing costs by implementing a variety of initiatives known as "best practices." Best-in-class companies now spend less than 6 percent of their direct travel costs to process travel.

I would now like to walk you through some of the differences we found between travel management practices at DOD and those of leading private companies. I will also discuss travel process reengineering efforts currently underway to close this gap. Reengineering is essential, not only to save time and effort, but to provide improved support for DOD's mission and business operations. Reengineering could also save DOD hundreds of millions of dollars in travel processing costs.

DOD TRAVEL COSTS AND PROCESSES NOT FULLY IDENTIFIED

Travel is big business at the Department of Defense. DOD reported that it processed 8.2 million vouchers for temporary duty travel in fiscal year 1993 alone.

DOD has not identified its actual costs to process travel, however. A DOD-wide task force, established in July 1994 to develop a new travel system, estimated that during fiscal year 1993, DOD spent \$500 million, or 14 percent of direct temporary duty travel costs, for processes including order writing, airline ticket payment and reconciliation, and voucher payment. The task force identified other travel management activities, such as internal processing, arranging travel, and training, but did not attempt to estimate their individual costs. Taking these activities into account, the task force concluded that DOD may be spending 30 percent of direct costs to process temporary duty travel. This estimate does not

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Travel Process Reengineering: DOD Faces Challenges in Using Industry Practices to Reduce Costs (GAO/AIMD/NSIAD-95-90, March 2, 1995).

include the cost of lost productivity of travelers, who must take time to support the administrative process. This could add another 10 to 15 percent to the cost to process travel.

DOD's difficulty in determining actual travel processing costs can be attributed to several factors. It is due in part to limitations of the Department's accounting systems, which do not record such data. It is also due to management's inability to identify the agencywide travel processes from which those costs are derived. DOD travel processing is highly decentralized, varying not only among the military services but within each service. DOD travel processing generally includes the following elements:

- authorizing the funding and appropriate means of travel and issuing travel orders;
- arranging transportation and accommodations and developing itineraries;
- making travel expenditures, purchasing tickets, and collecting receipts;
- preparing and processing vouchers based on receipts and other supporting documents; and
- reconciling accounts, auditing vouchers, making payments, and generating management reports.

The number and type of steps to complete these individual elements vary depending upon local policies and the degree to which automation is used.

Besides being decentralized, DOD's travel processing is highly inefficient, posing a burden on both travelers and support staff. For example, DOD travel processing is characterized by:

- multiple layers of review and approval to issue travel orders,
- routine issuance of cash advances, with corporate credit cards generally used on an optional basis,
- consultation with numerous offices to make transportation, lodging, and car rental arrangements,
- over 700 voucher processing centers responsible for computing travel expenses,
- over 1,300 pages of regulations,
- manual preparation of expense reports, and
- routine audits of all travel expense reports.

The inefficiencies we found at DOD are similar to conditions at other federal agencies.

Attachment 1 provides an overview of DOD's travel process. Although the flowchart does not capture the variations among services or within individual services, it depicts some of the complexities in DOD's travel management operations. The process--which includes at least 28 steps at the beginning for approval and arrangements to carry out travel and 22 steps at the end to make reimbursements and reconcile accounts--clearly needs streamlining.

INDUSTRY BEST PRACTICES HAVE RESULTED IN EFFICIENT TRAVEL MANAGEMENT PROCESSES

In contrast with DOD, travel processing at leading private companies is quite simple. Attachment 2 depicts the general travel processes for General Electric and Allied Signal--two industry leaders in improving travel management. Their processes include only 11 steps, compared with the total of 50 steps we identified at DOD. Streamlined operations at these companies are the result of a variety of initiatives implemented as part of their travel process reengineering efforts. Successful initiatives, deemed "best practices," are often the exact opposite of travel practices we identified at DOD. Best practices include:

- empowering employees to decide when travel is necessary to carry out the company's mission,
- eliminating prior approval of travel and travel orders,
- mandating use of a corporate charge card for travel expenses and cash advances,
- reducing the number of travel agents used to one or two,
- consolidating travel processing centers into a single location,
- simplifying travel policies and reducing them to 11 pages or less,
- automating voucher processing, and
- conducting random audits of travel expense reports.

Attachment 3 compares the travel management practices of the two private companies and DOD.

As a result of implementing best practices, General Electric and Allied Signal Corporation have dramatically improved service to the customer and minimized their travel processing costs. While General Electric representatives could not provide savings estimates in dollars, they estimated that they reduced travel processing costs to 3.2 percent of direct travel costs. Allied Signal reduced its costs even further--to under 1 percent--and saved about \$2 million the first year after implementation. These processing costs are well below the 6 percent that American Express recently reported for efficient operations.² These figures also provide a striking contrast with DOD's processing cost estimate of 30 percent.

DOD COULD BENEFIT FROM APPLYING INDUSTRY BEST PRACTICES

If DOD applied industry practices to its travel management, it could reduce its processing costs and achieve significant annual savings. Attachment 4 depicts potential savings at four levels of reduced processing costs. For example, if DOD cut its processing costs in half to 15

² Jeffrey B. Lang, The American Express Guide to Corporate Travel Management (New York: American Management Association, 1994).

percent, it could save over \$500 million a year. Reducing costs to 6 percent--industry's target for efficient operations--could save over \$800 million annually.

Clearly, the financial benefits of applying industry best practices are worth pursuing. The question remains, however, as to whether this is a viable option for DOD. We believe so. We are encouraged that, like private industry, Defense has recognized the need to improve travel management and has already taken steps to do so.

Specifically, DOD charged its agencywide travel reengineering task force with (1) providing a conceptual framework for a new temporary duty travel system, (2) developing a detailed program for moving DOD towards meeting the mission support, service, and cost savings objectives of the new system, and (3) providing a set of system specifications that will serve as a guideline for proposed policy changes. In carrying out its work, the task force reviewed studies of travel management developed by both the Department and the private sector, obtained benchmarking data from the National Security Agency's (NSA) study of best industry practices, determined high-level travel processes, identified available cost data for those processes, and conducted focus groups at four DOD locations to identify customer satisfaction indicators.

In its January 1995 report, the task force made a number of recommendations that, if successfully implemented, would greatly simplify Defense's travel process and align it more closely with industry best practices. For example, the task force recommended

- changing the travel management philosophy to treat travelers and supervisors as responsible, honest customers, and focus on mission support and performance rather than compliance;
- delegating budget and expense approval to supervisors who authorize travel;
- eliminating cash transactions and checks for advances and reimbursements and maximizing use of a credit card to pay for travel;
- mandating use of commercial travel offices for all arrangements under a standard DOD travel services contract;
- integrating processes to achieve a paperless process that has a single data entry point;
- simplifying travel rules and reissuing regulations in a single document of 10 pages;
- simplifying voucher computation; and
- conducting random audits to ensure oversight and control.

The task force did not, however, have sufficient documentation on DOD's current processes to model the impact of proposed travel process changes on meeting service and cost savings objectives. Although the task force did not determine the amount of projected savings, it believes that its recommended improvements will save money.

On January 23, 1995, the Deputy Secretary endorsed the task force's recommendations and delegated responsibility to the DOD Comptroller for continuing the reengineering effort through a transition team. The transition team is charged with conducting pilots for the new

travel system, marketing the system throughout DOD, developing recommendations for implementing a revised system, and establishing coordination mechanisms and milestones for carrying out these objectives.

Independent reengineering efforts by several DOD organizations can provide models or pilots to support the DOD-wide reengineering effort. For example, NSA's ongoing effort to reengineer its travel involves implementing improvements based on a survey of 40 companies that implemented best practices to improve their travel. NSA is also accumulating baseline costs from which to measure reengineering progress. NSA estimated that after reengineering, its cost to process a trip will decrease from 25 percent to about 7 percent of the direct cost of travel.

Further, an Air Force reinvention lab is testing a new travel process at one Air Force unit. This includes reducing the number of people and steps involved in the process and then automating the remaining steps. Lab results indicate that if reengineered processes are implemented Defense-wide, annual savings could reach \$875 million.

SIGNIFICANT IMPLEMENTATION CHALLENGES REMAIN

DOD is at a critical juncture in improving its travel processing. The Department's ongoing efforts are important first steps, and we encourage continued progress. However, we recognize that applying industry practices at DOD will not be simple. DOD still faces serious challenges, which, as we recommended in our report, DOD must address to successfully move from planning to implementation.

One challenge involves consideration of statutory and regulatory requirements that may have to be waived or changed for DOD to adopt management practices similar to those of private industry. In general, statutes governing federal travel are broad authorizations that would not impede improvement efforts. However, in specific instances, statutory changes may be necessary. For example, while private industry has eliminated the requirement for prior authorization of travel, it is unclear how far DOD could pursue such a policy for military personnel because federal law requires that military personnel travel "under orders." Permitting civilian personnel to travel without prior authorization may require changes or waivers to both the Federal Travel Regulations and DOD's Joint Travel Regulations.

Also, DOD must balance the use of private industry practices with the requirement under the Federal Managers' Financial Integrity Act [31 U.S.C. 3512(b)] to establish and maintain effective internal control systems that, among other things, safeguard assets and ensure the use of budget authority in accordance with laws, regulations, and policies. For example, travel payment systems must provide reasonable assurance that payment transactions are properly authorized, documented, and made within the allowed limits. The specific techniques needed to achieve these objectives, with certain exceptions, can vary and are left to agencies to select based on their needs and systems capabilities. However, improvements should be made only

within the framework of adequate controls that provide reasonable assurance that control objectives will be achieved and are cost-effective.

Further, DOD must take steps to help ensure an effective outcome from its agencywide travel reengineering initiative. For example, the Secretary of Defense must provide the leadership needed to promote agencywide support for implementing task force reengineering recommendations. The lack of top-level leadership has limited the success of other management improvement initiatives in the past. The Secretary must also ensure that the transition team has the resources and authority it needs to carry out its mandate. In turn, the transition team must establish the milestones and performance measures necessary to ensure project integrity.

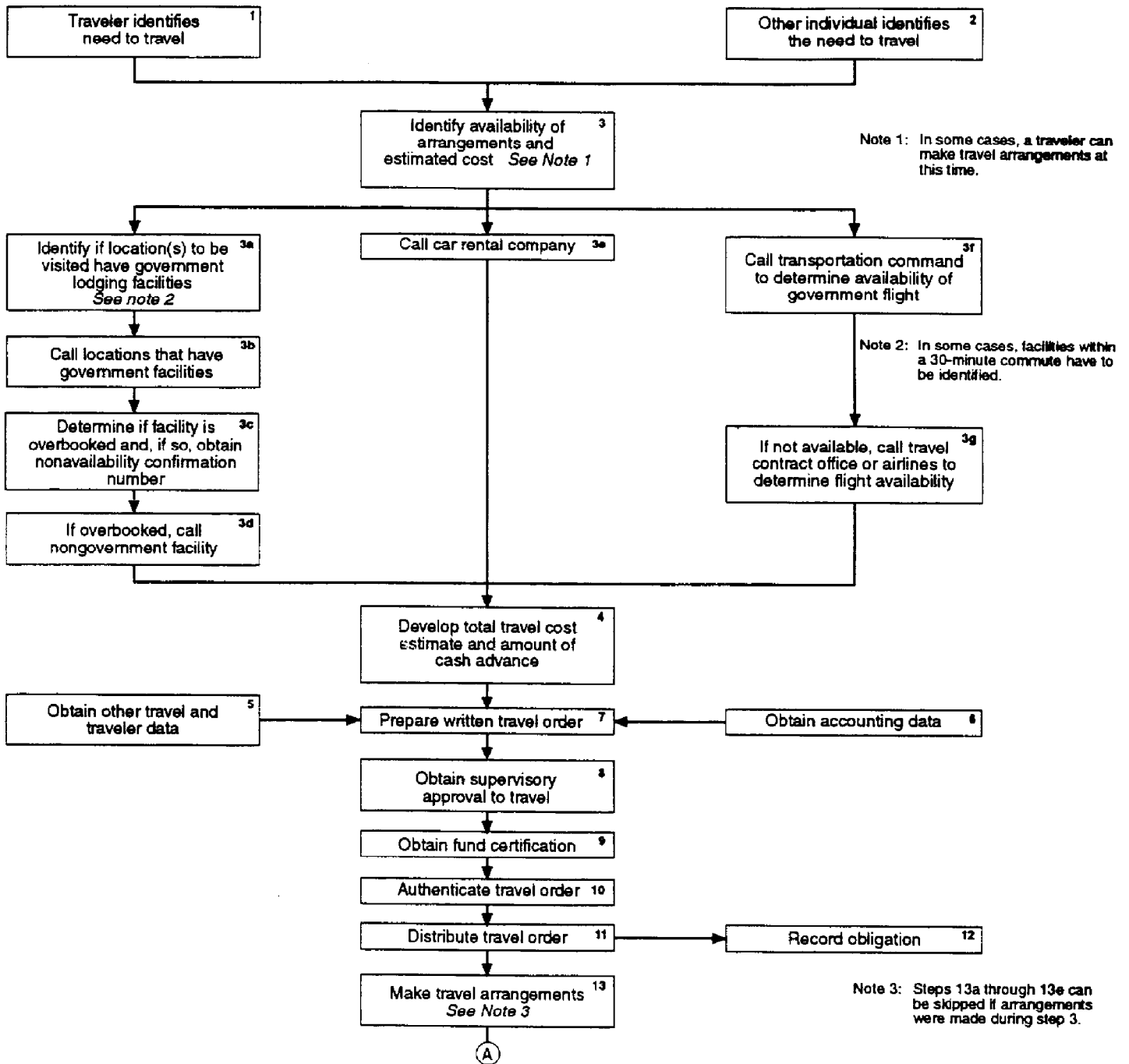
DOD must structure pilot efforts to help identify and document baseline costs and project the costs, benefits, and savings to be gained from new system implementation. Pilot efforts could provide a basis for evaluating the potential for further investments in improving travel management. These efforts could also help identify the need for changes or waivers to applicable statutes and regulations, and ensure that adequate internal controls are in place.

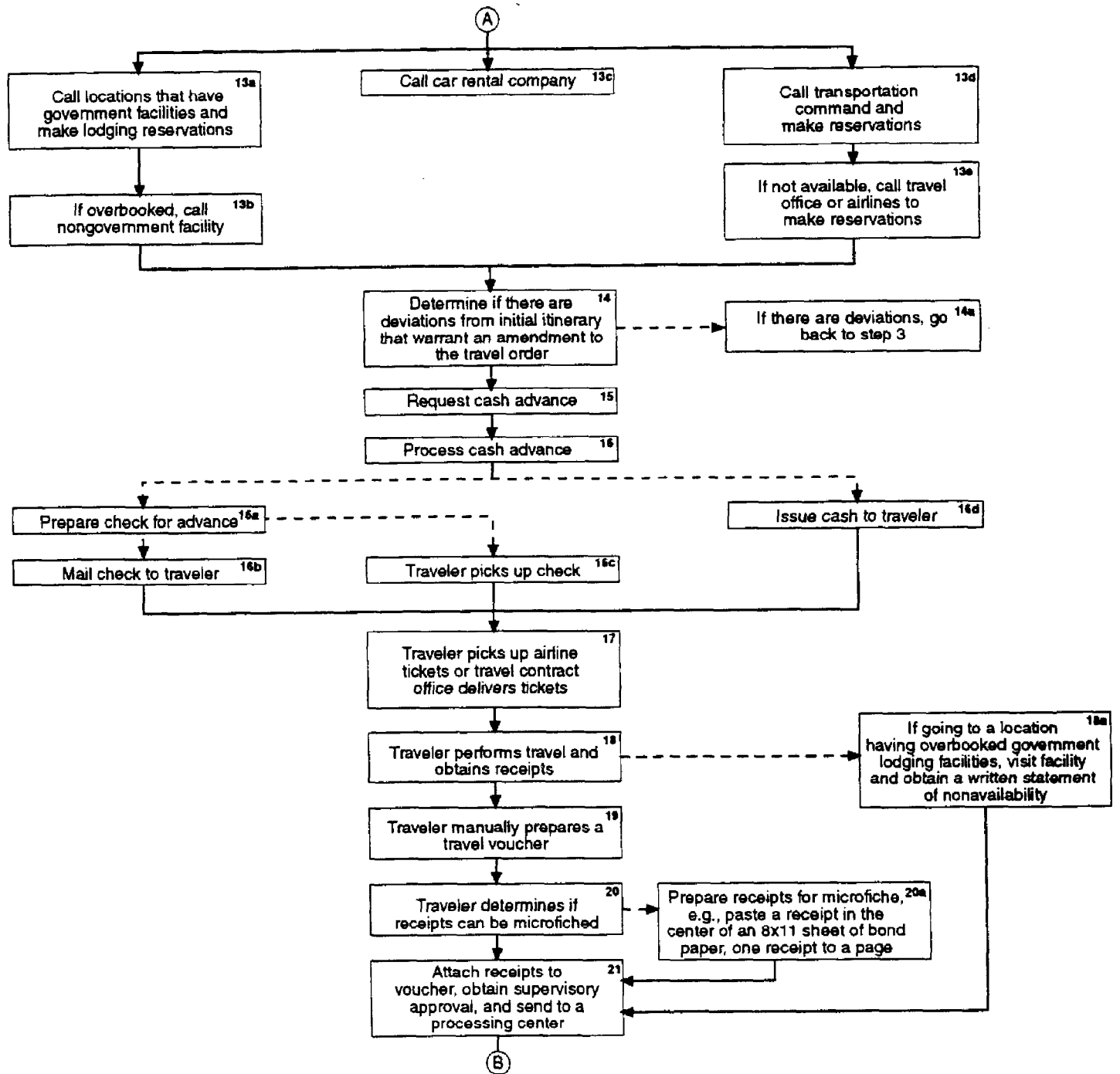
Perhaps the single most difficult challenge will be the Department's own strong internal culture. DOD's culture has traditionally supported multiple applications to carry out similar administrative functions. The inherent desire to "grow your own" has frequently limited success in other DOD process improvement initiatives. Implementing industry practices, as recommended by the reengineering task force, would entail major changes in DOD's culture. Managing such change is difficult within any organization; it is a special challenge within DOD. Sustained top management commitment and oversight are essential for this effort to stay on course.

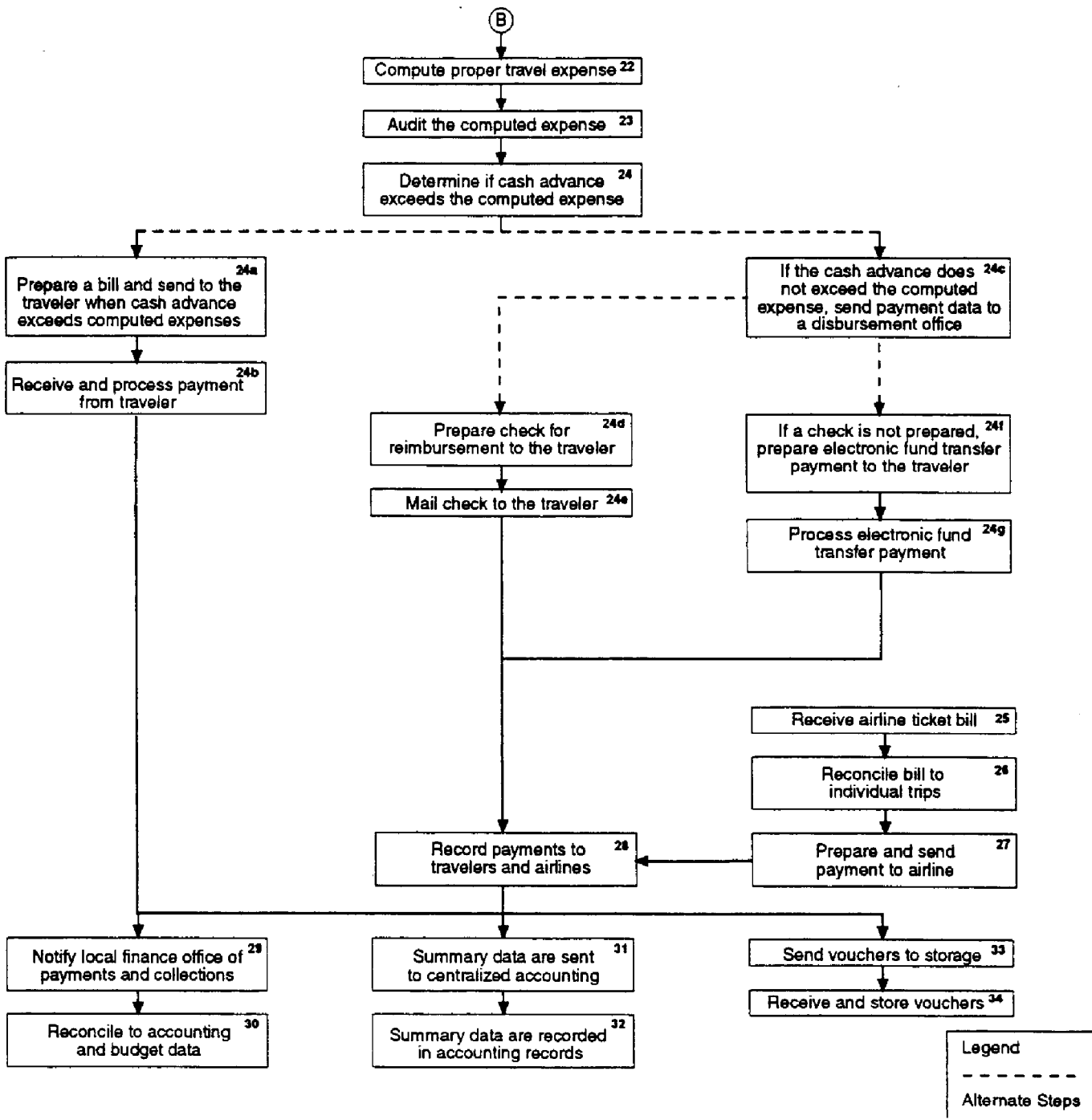
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Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

DOD'S TRAVEL PROCESS

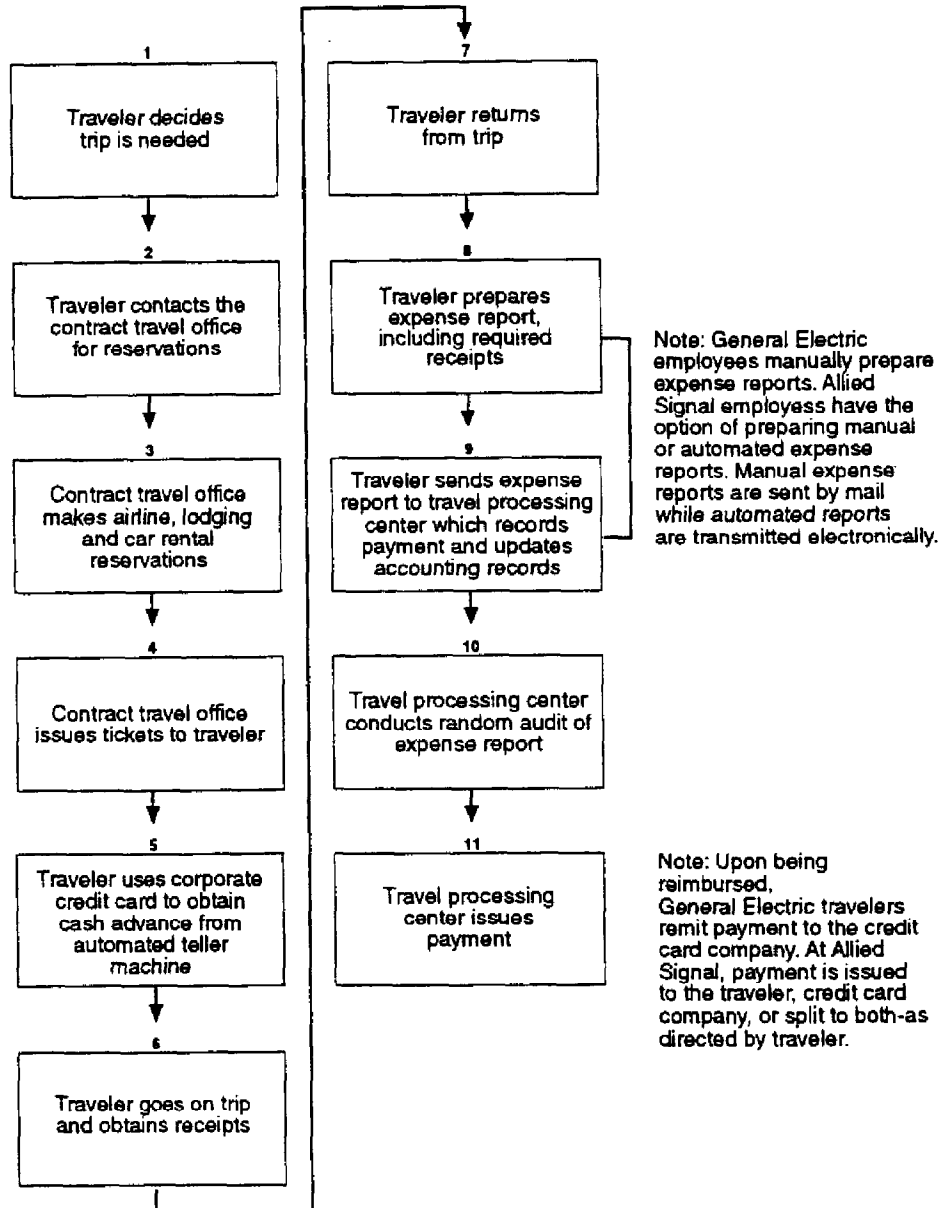






GENERAL ELECTRIC AND ALLIED SIGNAL

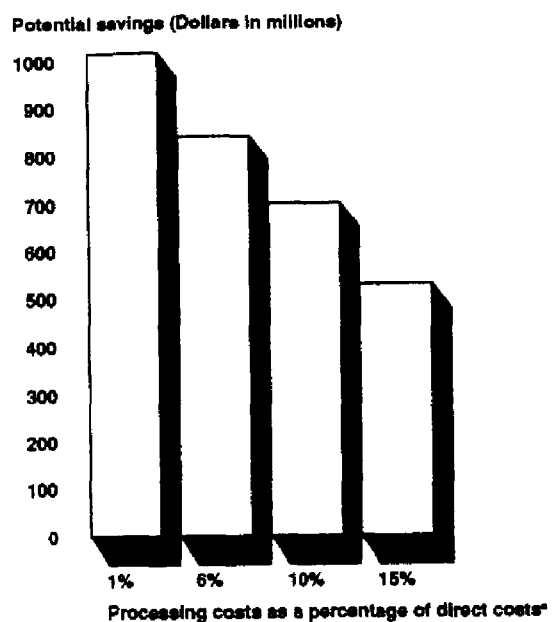
TRAVEL PROCESSES



DIFFERENCES BETWEEN PRIVATE SECTOR
AND DOD TRAVEL MANAGEMENT PRACTICES

Private sector best practice	General Electric	Allied Signal	Department of Defense
Employee can travel without prior approval	Yes	Yes	No
Employee can travel without authorization document	Yes	Yes	No
Travelers must use corporate credit card	Yes	Yes	No
Number of travel agents is limited and these agents provide full services	One agent provides full services	Two agents provide full services	Multiple agents; some provide full services
Expense reporting is automated	No	Partly	No
Number of processing centers is limited	1 center	1 center	700 centers
Travel policies are simplified	2 page policy	11 page policy	1,357 pages of regulations
Expense reports audited	Random	Random	100 percent

POTENTIAL TRAVEL PROCESSING COST SAVINGS



*Direct costs reported for temporary duty travel in fiscal year 1993 were \$3.5 billion.

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