

**Testimony of
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President,
Citizens Against Government Waste before the Committee on Homeland Security
and Governmental Affairs**

September 29, 2005

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Committee on Homeland Security and Governmental Affairs. My name is Tom Schatz and I represent the 1.2 million members and supporters of the Citizens Against Government Waste (CAGW).

CAGW was created 21 years ago after the late Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These 2,478 recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1984, the implementation of Grace Commission and CAGW recommendations have helped save taxpayers more than \$685 billion. With a national debt of more than \$7.9 trillion, our work is far from done.

Each year CAGW publishes *Prime Cuts*, a comprehensive list of spending cut options available to Congress. The 2005 edition lists 600 recommendations that could save taxpayers \$232 billion in one year and \$2 trillion over five years. *Prime Cuts* proves that the problem in Washington is not the lack of ideas, but the lack of political will to implement these ideas.

In September 2004, Citizens Against Government Waste published a *Through the Looking Glass* report entitled the "Defense Travel System: The Twilight Zone of Travel." The report revealed that the Defense Travel System (DTS), from its beginning in 1997 through today, has been replete with waste and mismanagement. I would like to submit the full report for the record.

CAGW applauds this subcommittee's efforts to evaluate DTS. The original rationale for DTS was valid: a streamlined, cost-effective way for the Department of Defense (DOD) to purchase and manage commercial travel. Like many other well-meaning government ideas, poor execution and misinformation doomed DTS.

The DTS project began with the establishment of the Defense Travel System Program Management Office (DTS PMO), which has three main duties: (1) procure a DOD-wide automated travel system; (2) reduce costs; and (3) streamline the travel process. To accomplish these goals, the DTS PMO sought to acquire a software-based

travel system, which would make business travel “quicker, easier, and more efficient by providing automated commercial and government travel support services to DOD travelers.”

In May 1998, the DTS PMO competitively awarded a contract estimated to cost \$263.7 million to BDM, which was subsequently purchased by TRW, Inc., which in turn was purchased by Northrop Grumman (Northrop). Northrop was required to develop an “e-travel system” which would provide for an “end-to-end” automated system. Once completed, the end-to-end system was supposed to provide every aspect of DOD’s travel management needs, including travel authorization, ticketing, voucher preparation, and travel reimbursement.

After operational deployment of a fully functional DTS, Northrop would receive a one-time, fixed price of \$20.00 per DOD user connected to the DTS, plus a fixed fee of approximately \$5.27 for each DOD trip performed using the travel system. DTS PMO assumed that all 3.2 million DOD users would be connected to the DTS by September 2001, and approximately 5 million transactions would be completed annually using the DTS through September 2006. Thus, upon full operational deployment to all 3.2 million DOD users at 11,000 sites worldwide, Northrop would receive payments of \$64 million. Thereafter, Northrop’s revenue would be based solely on the number of actual trips made by DOD travelers using the DTS.

In late 1998, the DTS PMO began testing the system. The initial tests of the DTS were failures. The DTS PMO soon recognized that the envisioned travel system was more complicated than originally thought and Northrop’s software was far less capable than promised. The DTS PMO ran the travel program with 326 various scenarios to see if the program would accept a trip request, give an accurate, reasonable price, and process a reimbursement voucher for the traveler. The numerous problems found in these tests included the system’s inability to either calculate temporary duty travel combined with leave or compute travel that required partial payments. Northrop immediately began to work on the identified glitches, but it was clear by early 1999 that the commercial off-the-shelf software provided by Northrop as the basis for the DTS could not be fixed with revisions; it needed a major redevelopment.

In the fall of 2000, the DTS PMO began the second batch of testing, yielding no better results than the first. Even though the system passed some of the test scenarios, 87 “critical” discrepancies were found in the software. Although 72 of the discrepancies were solved during the next few rounds of software updates, the completion of the software continued to be pushed back with each new problem. By August 2001, less than one month before DTS was to be fully deployed at all DOD sites worldwide, the DTS continued to fail its tests and was not ready for use at any DOD site. During this period it became apparent to the DOD and Northrop that DTS simply would not result in a functional end-to-end travel management system.

Things then went from bad to worse.

Up to this point, DOD had not invested any money into the program since all development, testing and deployment costs for the DTS would be covered by Northrop, as stated in the contract. Payments to Northrop would only commence upon completion, proof of effectiveness, and operational deployment of the travel system. However, rather than terminate the DTS contract and competitively procure a system that actually worked, the DTS PMO and Northrop entered into an unlawful agreement to totally restructure the contract and pass on hundreds of millions of dollars in costs to taxpayers.

Without opening the contract back up for competitive bidding, DOD and Northrop entered into secret negotiations and produced an entirely new agreement, violating the Competition in Contracting Act (CICA) of 1984. Negotiations lasted until February 2002, when modifications were executed that totally changed the technical requirements, performance schedule, and pricing provisions of the original DTS contract. In fact, the only contract feature not completely changed was the contract number.

The new agreement removed the most stringent aspects of the original contract. Instead of requiring a DTS system that operated in a client server mode (customizing and installing software in each individual computer server at every military base), Northrop only had to develop a web-based DTS, which would be similar to existing commercial Internet travel booking systems. Since DOD suddenly had to find a temporary solution to its travel needs while Northrop developed its web-based system, DOD also illegally added a new requirement for traditional travel services to the Northrop contract. These services were subcontracted to a large travel company (Navigent/Sato) at exorbitant rates, well above prices available in DOD's other competitively procured traditional travel service contracts.

The most significant alteration in the DTS contract restructuring was the change to a cost-reimbursable contract, which meant that the cost and risk for development and testing was shifted from Northrop to the taxpayers, thereby eliminating any incentive for Northrop to keep its costs under control. Even worse, the government paid Northrop \$53.5 million to cover the retroactive costs incurred during the unsuccessful tests prior to December 2000, and the government paid another \$30-\$40 million between January 2001 and March 2002, while both parties illegally negotiated the restructure of the DTS contract and Northrop continued its fruitless attempts to make the original DTS work. Finally, the DOD agreed to pay approximately \$35 to \$50 million a year commencing on April 1, 2002 to continue efforts to develop a functional system using the Internet.

In July 2002, DOD Inspector General (IG) Joseph E. Schmitz released a report that estimated the costs of the DTS program had grown from the original \$263.7 million to \$491.9 million – 87 percent higher than the original contract amount. He agreed with the DTS PMO that the project would not be concluded until 2006, four years behind schedule. Mr. Schmitz also severely criticized the management of the program, stating that the DTS was being “substantially developed without the requisite requirements, cost, performance, and schedule documents and analyses needed as the foundation for assessing the effectiveness of the system and its return on investment.” The IG noted that the quarterly reports issued by the DTS PMO “did not always appear to report the ‘true

state' of the DTS program.” Finally, Mr. Schmitz said DTS “remains a program at high risk of not being an effective solution in streamlining the DOD travel management process.”

Despite the IG's harsh critique of DTS, DOD continued to fund Northrup's system.

The DOD's Office of Program Analysis and Evaluation (PA&E), following up on the IG's findings, released an in-depth report and cost analysis of the DTS to the DOD comptroller in December 2002. The PA&E recommended that the DOD consider commercial e-travel systems that were now available but were unavailable during the time of the original contract award to Northrop. The PA&E report noted that, without performing any cost/benefit analysis, the DTS PMO had included many features in its original solicitation for the travel system that were not required by DOD travelers. The PA&E stated that “DOD requirements need to be compared against commercial trends and software availability to see if developing this functionality is worth the cost.”

The PA&E noted that “many new web-based tools are available today on the Internet. These Internet tools interface with airline, hotel and rental car reservation systems ... providing a myriad of services and information directly to the traveler during all phases of travel planning.” Although the DTS PMO reported improved test results after the contract was restructured, the program nevertheless “still has a considerable ways to go before full functionality is delivered.” The PA&E found that “it has taken four years to achieve about half the required functionality with an additional three years needed to provide full functionality.”

The PA&E report also reviewed the original DTS PMO cost analysis for the DTS and found that the DTS program expects to spend \$537 million to complete development and maintenance during its life cycle (fiscal year 2001 to fiscal year 2014). The PA&E compared the cost per transaction fees of commercial e-travel systems (non-end-to-end systems) to the DTS (an end-to-end system). Testing at pilot DOD sites revealed that the average cost per transaction of commercial systems was \$41; the average cost per transaction of DTS was \$33.60. Therefore, the added benefit to DOD's DTS end-to-end system would be \$7.40 per transaction, equaling \$37 million in total savings per year for a fully implemented DTS system. Taking all of these factors into consideration, the PA&E concluded that “at this rate, it will take 15 years of savings to break even on the DTS program.”

However, it is highly unlikely that a fully implemented and fully functional DTS will be achieved, even by September 2006. Taxpayers continue to fund the program, Northrop continues to make changes and modifications to the system, yet DTS continues to experience serious problems. In fact, the DTS may not even be able to keep up with commercially available products. As the PA&E noted, “[i]n attempting to keep pace with ever increasing capabilities in commercial travel software, the probability of requirements growth in DTS software development will increase before final delivery.”

This is not the first time it has been proven that the government cannot develop software at the same rate, efficiency, or low cost that can be achieved by the private sector.

Part of the confusion existed because DOD had not released current figures on the cost of the DTS program to date or projected estimates to complete the system through September 2006. Each time DTS is re-evaluated, the cost calculations rise significantly. In July 2002, the DOD IG estimated the system would cost \$491.9 million upon completion. Subsequently, the PA&E December 2002 report re-evaluated the DTS PMO's cost benefit and analysis findings and stated that a fully deployed DTS would cost a total of \$537 million. A July 2004 article reported that "DTS is expected to be finished by Sept. 30, 2006, at a total cost of \$474 million."

The most current cost estimate was released in March 2005. The Government Accountability Office (GAO) concluded that the "DTS total life cycle cost estimate, including the military service and Defense agencies, is \$4.39 billion." The new estimate means that taxpayers are paying \$4.13 billion, or 1,565 percent, more than the original 1998 figure of \$263.7 million.

However, DTS's problems do not end with rising costs and questionable functionality.

On July 26, 2004, the U.S. Court of Federal Claims, in the case of CW Government Travel, Inc. v. the United States, held that "[the DTS PMO's] failure to issue a competitive solicitation for the traditional travel services added by Modification P00029 violated CICA [the Competition in Contracting Act]." The court found that the change to the DTS contract was "a cardinal change" and required the DTS PMO to re-solicit the traditional travel services work, which "will serve the public interest by ensuring fair and open competition in public contracts."

In a small victory for taxpayers, the court ordered the government to terminate the traditional travel services portion of the 2002 DTS contract and conduct a competitive procurement that would result in a new contractor performing these services by November 2004. Based on a comparison of the pricing for traditional travel services in the Northrop contract to the pricing in CW Government Travel's competitively won DOD travel contracts, DOD has overpaid for traditional travel services under the unlawful Northrop contract by approximately \$14 million since 2002.

Although the court found the 2002 restructure of the 1998 Northrop contract to be unlawful, it subsequently determined, in a novel and unprecedented decision, that the e-travel portion of the Northrop contract should remain in force. The court relied on a unique equitable argument that preventing the restructured 2002 Northrop contract for e-travel services from going forward would delay the project even further, and that Northrop's system was "substantially complete." The court assumed that "[a]ny new contractor would not have a system that could be immediately deployed." Despite the unlawful pricing and technical changes, the court said the agreement with Northrop

would remain because it was simply too late to terminate the contract and re-compete the web-based travel management system.

Unfortunately, the court's conclusions are not supported by the facts. While the court believed the DTS to be "substantially complete," it will cost taxpayers at least another \$50 million to deploy the system by late 2006. The DTS that is currently deployed frequently cannot find the lowest applicable airfare available for DOD travelers, nor does it work for international travel. Of the 5 million tickets the DOD issues annually, DTS cannot find the lowest available price for approximately 40 percent of them. Travel agents who have tested the DTS found that flights booked by DTS can cost as much as \$1,200 more per ticket than applicable fares available to government travelers because the DTS software did not alert the traveler or travel agent that a lower priced government fare was available.

Another fundamental problem with the DTS is that it does not provide travel agents with the information necessary for them to process DOD travel expenditures. The original contract stated that this would be a time-saving tool that the enhanced e-travel system would perform; yet, today this task must still be performed manually for the majority of travel transactions and often requires travel agent intervention at higher fees to correct the DTS errors.

Following the July 2004 decision, DOD issued a competitive solicitation for traditional travel services worldwide. According to the solicitation, travel agents are required to manually verify that DTS found the lowest fare available. In the event that DTS has not found the correct price for a ticket, travel agents must fix the problem or be held liable for any additional costs. If DTS worked as DOD claims, that requirement of travel agents would be unnecessary.

The court's determination that Northrop's e-travel system was substantially complete is further undermined by the fact that the DTS is rarely used at the military facilities where it has been operationally deployed. The DOD issues approximately 5 million tickets each year. Between 1998-2004, 15,000 tickets had been purchased through the DTS since 1998. This means that 99 percent of the DOD tickets were issued via traditional travel services. At that time, the most current DTS cost estimate was \$491.9 million; therefore, each of the 15,000 tickets issued cost taxpayers \$33,000.

On March 16, 2005, GAO confirmed that DTS is not able to complete many of the functions it was originally intended to perform. According to GAO, DTS cannot calculate late payment interest and fees, so travelers do not have any assurance of receiving proper and timely reimbursement for travel. According to "DTS officials," the system was never designed to handle such information. Also, the report noted that for the first quarter of fiscal year 2004, the Defense Finance and Accounting Service (DFAS) "reported a 14 percent inaccuracy rate in DTS travel payments of airfare, lodging, and meals and incidental expenses.... In addition to these deficiencies, DFAS noted errors in DTS calculations for meals and incidental expenses." The DFAS report "also noted that DTS was not adequately retaining an audit trail of administrative and security data,

leaving management unable to investigate suspicious activities or research problem transactions.”

Currently, the DTS PMO states that DTS is already operating at 5,624 sites, has processed more than 1 million authorizations and more than 836,000 vouchers. However, these numbers are misleading. The DTS PMO claims that DTS is deployed at a site once one computer is hooked up to the system. The military facility is not required to use DTS nor does every computer need to be programmed to use DTS. The most effective use of the DTS system is its ability to produce authorizations and vouchers. However, this was not the original intent of DTS, nor was it the goal for the rewritten 2002 contract.

Taxpayers should not have to pay \$4.39 billion for a voucher system when there are alternative travel systems available for DOD use that have not cost the taxpayers a dime to build. DOD can purchase e-travel services from two vendors that were awarded contracts by the General Services Administration (GSA): CW Government Travel and EDS. Each of these two vendors provides a web-based system that was developed at their own expense rather than by the taxpayers, demonstrating that DOD did not have to assume all costs and performance risks to develop a web-based travel system. Moreover, these GSA contracts are available for DOD use immediately.

In its decision, the Court of Federal Claims refused to terminate the 2002 Northrop contract in part because the government stated that “Northrop would walk away with the system that it has developed and the Government would have to start over.” This is perhaps the most outrageous aspect of the 2002 Northrop contract. Despite having paid Northrop millions of dollars to develop, operate and maintain the DTS, the government does not own it, does not receive any profit from it, and has only been granted a license which requires it to pay Northrop for the right to use the very system built at the taxpayers’ expense.

While the DOD had good intentions to cut expenses and make its travel services more streamlined through the DTS, what the Pentagon has ended up with is a highly ineffective, very expensive and hugely wasteful system with many fundamental flaws that may never be fully resolved. Moreover, the DTS was procured under an unlawful contract at exorbitant costs, and the DTS PMO did not even obtain title to the DTS that it is paying billions of dollars to develop. The DOD steadfastly refuses to look at better e-travel alternatives, such as the systems developed by CW Government Travel and EDS, which cost taxpayers nothing to develop and provide quicker and cheaper solutions.

CAGW recommends that DOD cancel the DTS contract, which is nothing more than a government-subsidized monopoly. The rising costs and questionable performance record indicate that the investment is not a good deal for taxpayers or the government. Furthermore, other systems are available for DOD’s immediate use that are more cost-effective and user-friendly. CAGW also recommends that the 2002 PA&E report be publicly released so that full disclosure of DTS cost benefit and analysis can be provided. And finally, CAGW strongly supports Sen. Tom Coburn’s (R-Okla.) amendment which

would ban DOD from using funds for an e-travel system after October 1, 2005 and instead allow the Pentagon to obtain web-based travel services through GSA's e-travel program, saving at least \$30-\$50 million annually.

Thank you very much for this opportunity to testify. This concludes my testimony. I will be happy to answer any questions at this time.