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December 19, 2006

The Honorable Norm Coleman
Chairman, Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Response to a Posthearing Question Related to GAO's November 16, 2006 Testimony on the Defense Travel System*

Dear Mr. Chairman:

On November 16, 2006, I testified before your Subcommittee on the results of our audit on the Defense Travel System (DTS).¹ This letter responds to a question from Senator Coburn that you asked us to answer for the record. The question and our response follow.

Q. Mr. Williams, GAO's September 2006 study looked at DOD's Program Management Office-DTS (PMO-DTS) projected DTS annual savings estimates. GAO found that PMO-DTS' \$56.4 million of anticipated personnel savings are unrealistic. PMO-DTS projected that the Army and Navy would have \$24.2 million of personnel savings as a result of using DTS. However, GAO found that the Army and Navy have not had and are not anticipating any savings through decreased personnel from the implementation of DTS. DOD has refuted GAO's findings by claiming that the savings created by DTS are not necessarily achieved through decreased personnel, but through increasing personnel productivity and reducing inefficiencies. Were PMO-DTS' projected personnel savings based solely on personnel reduction, and if not, is it possible to quantitatively measure cost savings through increased personnel productivity and reducing inefficiencies?

As discussed in our September 2006 report² and reiterated in our November 2006 testimony³ before your Subcommittee, the \$24.2 million of personnel savings estimated by the Department of Defense (DOD) relates to the Air Force and the Navy.

¹ GAO, *Defense Travel System: Estimated Savings Are Questionable and Improvements Are Needed to Ensure Functionality and Increase Utilization*, GAO-07-208T (Washington, D.C.: Nov. 16, 2006).

² GAO, *Defense Travel System: Reported Savings Questionable and Implementation Challenges Remain*, GAO-06-980 (Washington, D.C.: Sept. 26, 2006).

³ GAO-07-208T.

More specifically, the September 2003 economic analysis noted that personnel savings of \$12.9 million and \$11.3 million would be realized by the Navy and Air Force, respectively. The assumption behind the personnel savings computation was that there would be less manual intervention in the processing of travel vouchers for payment, and therefore fewer staff would be needed. However, based on our discussions with Air Force and Navy DTS program officials, it is questionable as to how the estimated savings will be achieved. Air Force and Navy DTS program officials stated that they did not anticipate a reduction in the number of personnel with the full implementation of DTS, but rather the shifting of staff to other functions. Furthermore, according to DOD officials responsible for reviewing economic analyses, while shifting personnel to other functions is considered a benefit, it should be considered an intangible benefit rather than tangible dollar savings since the shifting of personnel does not result in a reduction of DOD expenditures. Also, as part of the Navy's overall evaluation of the economic analysis, program officials stated that "the Navy has not identified, and conceivably will not recommend, any personnel billets for reduction." Finally, the Naval Cost Analysis Division (NCAD) October 2003 report on the economic analysis noted that it could not validate approximately 40 percent of the Navy's total costs, including personnel costs, in the DTS life-cycle cost estimates because credible supporting documentation was lacking. The report also noted that the PMO-DTS used unsound methodologies in preparing the DTS economic analysis.

The extent of personnel savings for the Army and defense agencies, which DOD estimated to be \$16 million and \$6.3 million respectively, is also unclear. The Army and many defense agencies use the Defense Finance and Accounting Service (DFAS) to process their travel vouchers, so the personnel savings for the Army and the defense agencies were primarily related to reductions in DFAS's costs. In discussions with DFAS officials, they were unable to estimate the actual personnel savings that would result since they did not know (1) the number of personnel, like those at the Air Force and Navy, that would simply be transferred to other DFAS functions or (2) the number of personnel that could be used to avoid additional hiring. For example, DFAS expects that some of the individuals assigned to support the travel function could be moved to support its ePayroll program. Since these positions would need to be filled regardless of whether the travel function is reduced, transferring personnel from travel to ePayroll would reduce DOD's overall costs since DFAS would not have to hire additional individuals.

As pointed out in your question and as discussed in our report and testimony, DOD strongly objected to our finding that the personnel savings are unrealistic. In its written comments, the department stated that it is facing an enormous challenge and continues to identify efficiencies and eliminate redundancies to help leverage available funds. We fully recognize the challenge the department faces in attempting to improve the efficiency and effectiveness of its business operations. The fact remains, however, that the results of an economic analysis are intended to help management decide if future investments in a given endeavor are worthwhile. In order to provide management the most realistic information possible to support decision-making in this area, it is imperative that an economic analysis be supported

by valid assumptions. However, we found that the underlying assumptions were not valid, particularly in regard to the estimated amounts for the Navy and Air Force. Moreover, the department did not provide any new data or related documentation in its comments that were counter to our finding. As a result of these factors, we continue to believe that the estimated annual personnel savings of \$54.1 million are unrealistic.

If you or your staff have questions about our response to this question, please contact me at (202) 512-9095, or williamsml@gao.gov.

Sincerely yours,

A handwritten signature in black ink that reads "McCoy Williams". The signature is written in a cursive, flowing style.

McCoy Williams
Director, Financial Management and Assurance

(195107)

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