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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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B-153862

DECEMBER 18, 1981

The Honorable Charles McC. Mathias
Chairman, Subcommittee on Governmental
Efficiency and the District of
Columbia
Committee on Governmental Affairs
United States Senate



117236

Dear Mr. Chairman:

Subject: General Services Administration's Actions to
Collect and Improve Controls Over Refunds Owed
by the Airline Industry (AFMD-82-33)

In your July 13, 1981, letter (encl. I) you asked us to re-
view procedures for airlines to reimburse the Federal Government
when Federal employees exchange their tickets for lower cost travel
accommodations. The Civil Aeronautics Board (CAB) estimated the
amount of such refunds due but not paid to be about \$8 million at
the time of your request. Your office specifically asked us to es-
tablish why such a large amount was outstanding and what actions
have been taken to recover refunds by the General Services Admin-
istration (GSA), since it has Government-wide responsibility for
the travel program.

In summary, we have found that since at least the early 1970s
the Nation's airlines have failed to promptly remit millions of
dollars in refunds due the Federal Government. We have verified
the following:

- Some airlines are still holding substantial amounts of re-
funds due the U.S. Treasury. We estimated that, as of Sep-
tember 1981, three of the four airlines we visited were
holding refunds totaling over \$1 million which accumulated
between July 1976 and December 1980. GSA may have diffi-
culty identifying the number of unpaid refunds as well as
the amounts because the airlines do not have uniform record
retention policies.
- This situation exists primarily because Federal agencies,
Government travelers, and the airlines fail to follow a
special procedure set up to refund money owed the Federal
Government. This procedure is basically the same as that
available to the general public, except that the airlines
do not give cash to Government travelers. Instead, the
travelers are given data for their agencies to use in re-
questing the refunds. The procedure permits voluntary

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refunds by the airlines without a request from Federal agencies. However, most airlines were not making refunds without being billed.

--GSA has taken steps to recover the refunds due the Government and to prevent future problems. For example, GSA clarified its regulation to require that carriers remit Government refunds without the Federal agency submitting a special request. As a result, about \$1.5 million in refunds were sent to GSA before our audit. GSA took additional action based on our findings that led to the collection of another \$1.5 million. Substantial amounts of refunds, however, are still owed.

These findings are presented in greater detail in the following sections of this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

We were asked to review the system used by the Nation's air carriers to reimburse the Government when higher priced tickets purchased with Government Transportation Request (GTRs) were exchanged for tickets of lower values. The request was prompted by a Civil Aeronautics Board report estimating that carriers owed the Government about \$8 million in refunds.

Our review covered only those refunds owed because Federal travelers (1) changed their itinerary (routing change) or (2) changed from a higher to a lower class of service (ticket downgrade). Such refunds must be handled in accordance with refund regulations implementing the Transportation Payment Act which provides for expeditious payment of Government bills. The carriers present their vouchers supported by GTRs covering services rendered to the applicable agency for payment. Most agencies perform various checks to ensure proper authorization and prevent duplicate payment of bills. However, under the refund regulations Federal agencies cannot recoup refunds for routing changes and ticket downgrades against moneys owed the carriers under other bills. Instead, the agencies must request such refunds from the carriers via the Standard Form 1170--Redemption of Unused Tickets (hereafter referred to as the refund form or refund document), and the carriers are to make prompt refunds directly to the Federal agencies.

Consistent with your request, our review did not address the problem of entirely unused tickets. That issue is the subject of another ongoing GAO review, and the results of our work will be provided to your office.

We performed audit work at GSA headquarters in Washington, D.C. Our work there dealt with Federal agencies' refund procedures and GSA's specific plans for collecting the refunds and preventing the refund problem from recurring. We interviewed officials, reviewed records related to refunds, evaluated the adequacy of

specified procedures, and obtained information on the extent to which procedures were followed by airlines and Federal agencies.

We also visited the headquarters office of four major airlines: Trans World, Northwest, Republic, and United. These airlines were selected primarily because CAB estimated they were holding substantial portions of the \$8 million owed the Federal Government. At each airline, we interviewed officials about their policy governing refunds and reviewed files associated with their refund system.

This audit was made in accordance with generally accepted Government auditing standards, but we did not use random sampling techniques to arrive at our estimates. Differences in data available at the airlines required us to estimate amounts owed the Government. Consequently, our estimates cannot be projected with a high degree of confidence, but they were discussed with airline officials, who agreed they appeared reasonable.

SUBSTANTIAL REFUNDS HELD BY CARRIERS

Some major airlines are holding substantial refunds due the Government, and this may have been the case since at least the early 1970s. Because of differences in airline record retention policies, GSA may have difficulty establishing from airline records the exact amounts of refunds due the Government. Therefore, GSA has asked Federal agencies to use their records to help determine more precisely these amounts. For example, at three of the four airlines we reviewed--Northwest, Republic, and Trans World--we estimated that as of September 1981, about \$1.1 million was being held, which accumulated between July 1976 and December 1980. A breakdown of this estimate follows.

Northwest	\$405,000
Republic	148,000
Trans World	<u>560,000</u>
Total	<u>\$1,113,000</u>

Just before our September 1981 visit to Northwest, about \$60,000 in refunds were returned to GSA covering the period of November 1980 through February 1981. Before that time, the airline had not remitted any refunds to GSA--even though in August 1980 GSA requested all the refunds due the Government. Since our visit and brief review of their refund records, Northwest officials have refunded about \$130,000 more to GSA.

The fourth airline we visited--United--did not have records readily available for us to use in estimating the amount the airline owed the Government. The records that were made available to us, however, suggested that United was holding some refunds. After our visit, United told GSA it would not pay refunds due the

Federal Government without first receiving either a refund form or some other documentation with specific refund data. Since other airlines have taken a similar position, GSA recently sent letters to carriers threatening litigation, and GSA officials told us they will continue efforts to collect the money.

The CAB estimate of \$8 million owed the Government by airlines applies to unrequested refunds for the period 1977 to 1979 and covers 20 major carriers. Our \$1.1 million estimate relates to unrequested refunds held from mid-1976 through 1980 by only three airlines. A 1973 Comptroller General report 1/ about unused airline tickets indicates that this problem was prevalent during the early 1970s. Thus, the Government may have lost substantial amounts that are unrecoverable now because of the statute of limitations.

POOR AIRLINE RECORDS
HAMPER GSA'S COLLECTION EFFORTS

GSA's efforts to recover refunds due the Government may be hampered by differences in the length of time airlines hold their records. Our work at the four airlines showed the following variance in record retention periods.

- Republic Airline officials believed they were required to retain records for 5 years but admitted they had them going back only to the beginning of 1977.
- Northwest Airline officials believed they were required to retain refund records for 3 years and acknowledged having them going back to mid-1978.
- Trans World Airline officials also believed they were required to keep refund records for 5 years and had them available from mid-1976.
- United Airline officials believed they were required to keep refund records for 2 years but had such records readily available for only 6 months.

None of these airlines kept records for the same length of time. The airlines' responses to GSA's demand for refund payments also indicate that the record retention period of the airlines varies from 2 to 6 years. These differences in retention policies apparently developed as a result of varying Federal record retention requirements. GSA recognizes this and plans to discuss with airlines the need for a uniform record retention policy for all airlines to follow. In the meantime, recognizing the inadequacies of most airline records, GSA has asked Federal agencies to open their records to help determine the amount of refunds owed the Government.

1/Letter report B-153862 to the Honorable Michael P. Balzano, Jr., Director, ACTION (Sept. 20, 1973).

REFUND PROCEDURES NOT FOLLOWED
BY FEDERAL AGENCIES OR CARRIERS

Although procedures have been established for ensuring that refunds owed the Government are paid promptly, they have not always been followed by Federal agencies and members of the airline industry. Also, GSA's monitoring activities have not been adequate to identify noncompliance.

GSA is responsible for providing guidance to agencies for recovering refunds due the Government, having assumed this responsibility from the General Accounting Office in 1975. GSA has instructed Federal agencies to use the following longstanding procedure for refunds:

1. The traveler submits a ticket to the carrier's ticket counter.
2. The ticket agent determines the amount of refund due.
3. The traveler completes a refund application officially requesting the refund.
4. The traveler is given a copy of the refund application, and a copy is sent to the carrier's accounting office.
5. The traveler carries a copy of the refund application to his/her agency's accounting office.
6. The Federal agency accounting office prepares a "request for refund" form and forwards it, along with a copy of the refund application, to the carrier issuing the original ticket.

These procedures incorporate the requirements of the refund regulations and the airlines' procedures for making refunds to the general public. For example, steps one through four are a part of the carriers' procedures for making refunds to general public travelers, and step six complies with requirements of the refund regulations. Unfortunately, the procedures are somewhat cumbersome, requiring the Government to make two refund requests--one by the Government traveler and one by the Federal agency.

The refund regulations require the use of a specific refund form which is the official document for Federal agencies to use in collecting refunds from the airlines. The regulations also include a procedure whereby airlines can make voluntary refunds to the Government, without first receiving this refund request document.

Many Federal agencies failed to submit the refund request form. A recent report by the Department of Agriculture's Inspector General indicates the following:

- Thinking the refund would be automatically forwarded to their agency since they had turned their tickets in to the carrier, some travelers neglected to give a copy to their agency's accounting office.
- Agency accounting personnel did not always detect refund data attached to travel vouchers during voucher processing.

The failure of Federal agencies to submit refund forms has been compounded by most airlines' reluctance to make refunds to the Government without first receiving a refund document. Airline officials told us that they believe Federal refund regulations prohibit this. Some airline officials were aware that they could transmit refund payments to the Government voluntarily, and some had been doing so. Other airline officials acknowledged the "voluntary" provision in the regulations, but chose not to make voluntary payments.

GSA is also responsible for ensuring that refunds due the Government are paid promptly. To do this, it instructs Federal agencies to transmit copies of the refund forms to GSA when the airlines become 3 months delinquent in payment. These data are useful in determining whether the airlines are making timely refunds when requested. However, the data will not provide feedback on whether (1) agencies always request refunds as required by regulations or (2) most carriers are paying the refunds voluntarily. Because GSA did not follow up with the airlines and pursue collections as required, the Government may have lost refunds for which refund requests were submitted to airlines.

A GSA official said that GSA had initially decided it was not economical to follow up on delinquent refunds due Federal agencies. This decision was substantiated by a GSA study showing that about 97 percent of all refunds were eventually paid. GSA, in its November 1981 audit of a major airline, disclosed that the previous statistics were inaccurate. The data on 36 delinquent refunds for one airline were selected for followup and GSA found during its audit that 13 of the refunds, amounting to over \$3,000, had not been paid. This disclosure prompted GSA to make plans for auditing 100 percent of all refund records on hand going back 6 years. We believe this action is an essential step toward recovering the refunds due the Government.

ACTIONS TAKEN BY GSA ON REFUND PROBLEM

GSA has taken several actions to collect refunds due the Government by the airline industry. It has also taken actions which, if fully implemented, can minimize recurrence of the refund problems.

When CAB disclosed in a July 1980 report that members of the air carrier industry may be holding an estimated \$8 million in refunds due the Government, GSA immediately took the following actions:

- Sent a letter directly to each airline known to be holding refunds and requested that the refunds be voluntarily submitted to GSA.
- Asked the Air Transport Association of America for assistance in collecting the refunds. In response, the Association issued a traffic service memorandum requesting that its members promptly make refunds to the Government.
- Wrote the heads of all Federal executive agencies urging them to bring the proper refund procedures to the attention of travel activities and promptly file refund forms. As of December 12, 1981, GSA had not received feedback from the agency heads on their actions.

These actions produced some positive results. As of August 14, 1981, the airlines had remitted about \$1.5 million to GSA, most of it apparently related to refunds subsequent to July 1980.

Upon hearing that our review had identified some airlines as still holding refunds due the Government, GSA began a series of additional positive actions to recover the money. For example, on September 25 and October 2, 1981, GSA sent a registered letter to about 30 major and 70 other airlines demanding that each (1) determine the amount they owe the Government for the last 6 years, (2) respond within 30 days, and (3) make full payment within 120 days. The effectiveness of this effort still has not been determined. As of November 14, 1981, 50 of the airlines had responded--21 of them major airlines. Fifteen of the airlines--3 of them major--indicated they were not holding any refunds due the Government. The responses of the 35 airlines that indicated they were holding Government refunds varied widely.

- Only 11 airlines, 4 of them major, stated the amount of refunds they owed the Government. The amounts totaled about \$350,000 and ranged from a low of \$6 to a high of \$160,000.
- Seven of the airlines, five of them major, indicated that they would remit all refunds to the Government only upon receipt of a request for refund form. However, three of these airlines indicated they would voluntarily remit the refunds for those periods for which they still had records--4.75, 2, and 3 years.
- Most of the remaining 17 airlines indicated they would have to estimate some of the amounts due the Government because refund records were not available for the full 6 years.

GSA was not satisfied with some of the responses and planned to audit five of the major airlines. One of these audits was completed in November. On November 23, 1981, GSA followed up on those carriers that did not respond to its demand for payment by writing them another letter threatening legal action. These additional

actions resulted in another \$1.5 million being refunded to GSA between August 14, 1981, and December 12, 1981.

GSA has also taken the following actions to prevent the refund problem from recurring.

- Amended regulations to clarify and emphasize procedures for making voluntary refunds.
- Disseminated information about the refund problem through the interagency inspector general's conference. Several audits resulted.
- Began reviewing four local Federal agencies' refund programs to see what improvements can be made.
- Proposed amendment to the regulations that would eliminate the need for Federal agencies to request refunds resulting from changes in class of service and routing. Under this proposal the carriers would be required to make refunds to the Government automatically after 90 days.
- Made plans to follow up on all requested refunds and asked Federal agencies' assistance in this effort.

ADDITIONAL ACTIONS REQUIRED
TO ENSURE EFFECTIVE REFUND PROGRAM

The actions taken by GSA will improve management of the Government's refund program. However, since GSA proposes to require airlines to pay refunds without refund forms, other monitoring efforts will be necessary.

Under current procedures, the requirement for Federal agencies to request refunds places an explicit responsibility on agencies to keep a record of refunds due them. These records provided sufficient information for agencies to aggressively pursue refund collection activities. It provided checks and balances to identify airlines paying refunds late.

The proposed change eliminates the requirement that the agency request refunds, thus forestalling carriers' claims that they are prohibited from making refunds without a refund form. We agree with the need for this change, but we believe that travelers should immediately turn over the refund documents to their agency so that accounts receivable can be set up, as required by current procedures. The refund regulations should also require agencies to take aggressive collection action.

The proposed change also provides for automatic refunds to be made by airlines after 90 days. This may allow an excessive amount of time for airlines to hold Government money, and we will consider the appropriateness of the period in our ongoing review.

Also, it appears that the current refund procedures may not be the most cost effective means of handling refunds and our ongoing review is considering other alternatives, including the feasibility and legality of offset procedures.

CONCLUSIONS

GSA has taken a number of actions that could lead to collection of most of the refunds owed the Government. However, to minimize the effect of the statute of limitations on the Government's collection efforts, GSA must act expeditiously. We realize that it will not be easy for GSA to determine and collect all refunds due the Government. Additional resources may be required. We believe the value of the refunds involved will justify the cost of GSA's additional resources.

RECOMMENDATIONS

To provide effective controls until a decision can be made on alternatives to current procedures, we recommend that the Administrator of General Services take the following actions:

- Establish from records available to the Federal agencies and the airlines the refund amounts owed by each carrier and require carriers to make prompt payment.
- Confer with individual airlines or airline associations about the need for carriers to retain refund application documents associated with ticket downgrades and routing changes, bearing in mind the applicable statute of limitations.
- Make sure affected travelers know their responsibilities regarding refunds due the Government, and hold them accountable for complying with established refund procedures.
- Work with Federal agencies to establish refund receivables in accordance with accrual accounting requirements and encourage them to aggressively pursue collection of all refunds not paid promptly.
- Monitor agencies' refund policies, programs, and procedures to determine their adequacy and effectiveness to ensure that all refunds due the Government are paid promptly.

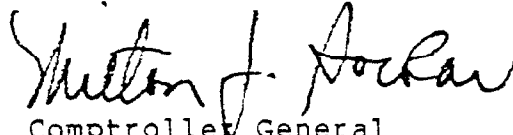
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As you requested, we have not obtained official comments on our findings from GSA. We have, however, discussed the report's content with GSA officials, including the staff of the Office of

B-153862

Transportation Audits, Transportation and Public Utilities Services, and their responses were considered in the report where appropriate. As arranged with your office, we plan no further distribution of this report, unless you publicly announce its contents, until 30 days from its date. At that time we will send a copy to the Administrator of General Services and other interested parties.

Sincerely yours,

for 
Comptroller General
of the United States

Enclosure

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JOHN W. MCINTOSH, STAFF DIRECTOR

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, D.C. 20510

July 13, 1981

Mr. Milton J. Socolar Acting Comptroller General Accounting Office 441 G Street N.W. Washington, D.C. 20548

Dear Mr. Socolar:

This is to request that the General Accounting Office undertake an investigation of unused Government Transportation Requests (G.T.R.s) and the present system of reimbursement of the U.S. Treasury by the nation's air carriers.

It has come to my attention that certain refunds for unused air transportation by federal employees, including military personnel, have not been returned to the U.S. Treasury. This debt to the Treasury, according to the Civil Aeronautics Board, could amount to as much as \$8 million.

This apparently results from a failure on the part of various federal agencies to file with the air carriers, in a timely fashion, SF 1170 forms to request refunds. In addition, the airlines have assumed that they could not refund unused government transportation requests without having these forms in hand.

I have been informed that since this discovery by the Civil Aeronautics Board in August of 1980, GSA has initiated an action plan to recover these funds.

It would be helpful to have an understanding of how this situation arose and how it can be prevented in the future. I would ask your office to work closely with the GSA in carrying out its action plan in recovering the estimated \$8 million. And I would ask that you provide this Subcommittee with your suggestions for improving federal agency procedures and regulations, if necessary, to avoid a repetition of this situation. The Subcommittee would like the benefit of your best estimate of when the present \$8 million debt may be fully recovered.

Sincerely,

[Handwritten signature of Charles McC. Mathias, Jr.]

Charles McC. Mathias, Jr. Chairman Subcommittee on Governmental Efficiency and the District of Columbia

CM:mtm