STATEMENT OF JERRY S. HINTON

DIRECTOR OF FINANCE

DEFENSE FINANCE AND ACCOUNTING SERVICE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERNATIONAL RELATIONS

ON

IMPLEMENTATION OF THE TRAVEL AND TRANSPORTATION REFORM ACT OF 1998

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Good morning Mr. Chairman, members of the Subcommittee, my name is Jerry Hinton, and I am the Director of Finance at the Defense Finance and Accounting Service (DFAS).

DFAS has the charter for the Department of Defense (DoD) Travel Card Program which means we coordinate the policy and procedures for the use of the card with the Bank and the Military Services. I welcome the opportunity to discuss with you the benefits the Department has realized in the use of the Travel Card program and our efforts to address concerns of the Department, the Bank, and the individual card holders.

DFAS is the largest finance and accounting operation in the world. On an annual basis we pay approximately 5.4 million military members, civilians, retirees, and annuitants; issue approximately $288 billion in disbursements; execute some 100 million accounting transactions; pay approximately 14 million invoices and over 5 million travel payments. It is our mission to provide responsive, professional finance and accounting services to the Department of Defense success is defined by how well we support the Commanders, individual soldiers, sailors, airmen, Marines, DoD civilians, retirees, and annuitants.

GENERAL

The DoD has utilized a Travel Card program, under GSA sponsorship, since the1980's. Over the years the Department has increased the number of cards issued to travelers thereby capitalizing on the efficiencies and economies of card usage. We have benefited from rebates offered by the Bank on the card program and, in turn used those funds to reduce the cost of Government operations to the taxpayer. In FY 2000 those rebates totaled $5.7 million.

The "Travel and Transportation Reform Act of 1998" ("TTRA") required that Federal employees use the contractor-issued travel charge card to pay all official travel expenses. The

TTRA also required the General Services Administration (GSA) to publish implementation guidance for federal agencies. This guidance was published on July 16, 1999, as the Federal Travel Regulation (FTR) Interim Rule 8. Once this guidance was available, the DoD established a working group, comprised of members from the Military Departments, selected Defense Agencies, and responsible entities within the Office of the Secretary of Defense to incorporate the FTR Interim Rule 8, into policies and procedures that were then incorporated in the DoD Financial Management Regulation ("DoDFMR") in April 2000. The effective date established by the GSA for the final rule implementing the "TTRA" was May 1, 2000.

The DoD policy builds on the Act and the GSA implementation guidance which gave Federal agency heads significant latitude in the identification and establishment of exemptions to the mandatory card use requirement contained in the Act. The Department supplemented the exemption allowances provided by GSA to address it's specific needs. Those additional exemptions include personnel serving in contingency operations, certain foreign travel circumstances, security concerns, temporary employment, infrequent travelers, and other limited categories.

The DoD implementation guidance recognizes that there may be other classes of individuals or expenses, specific individuals or travel events that would require exemption from the mandatory use requirement. Accordingly, the "DoDFMR" contains a provision that, with the approval of the Under Secretary of Defense (Comptroller), authorizes the Heads of DoD Components to exempt additional types or classes of expenses, or types or classes of personnel from the mandatory use requirements of the TTRA.

DoD OPERATING ENVIRONMENT

By incorporating flexibility into the Department's implementing policy the Department was better able to address what it views as dramatic differences in the make-up of it's personnel needs as compared to other federal agencies. Examples of these differences included but, are not limited to:

1. Large numbers of personnel on either temporary or permanent travel duty worldwide, the result of which negatively impacts the ability of such personnel to receive and validate travel billing statement in a timely manner;

2. The Department's military population is heavily weighted to the junior grades, many of these individuals have never had the responsibility of managing financial obligations or experience using credit cards. This lack of knowledge and experience represents a significant challenge for the Department in terms of providing basic individual financial management training.

DoD EXPERIENCE TO DATE - CENTRALLY BILLED ACCOUNTS (CBAs)

The CBAs have been a major feature of the travel charge card program since the 1980's. These accounts are used by organizations to charge transportation costs (primarily airline tickets) associated with each instance of travel. Rebates are issued based upon a complex formula that includes total monthly spend and payment efficiency each of which have increased on the years.

As with the individual accounts, there are issues with the use of CBAs that we have addressed with the Bank and with the Military Services. Interest penalties accrue on any invoice not paid 31 or more days after the date of the invoice pursuant to the "Prompt Payment Act"

("PPA"). For the CBAs the DoD receives two invoices (1) An electronic invoice is provided to the Commercial Travel Office (CTO) and used to reconcile the charges appearing on the invoice to the CTO records of authorized charges; (2) A paper invoice that is delivered to the designated billing office. The 30-day "PPA" payment period begins at the receipt the later of these two invoices.

DOD SOLUTIONS - CBAs

The Department continues to work with the Bank to refine, where possible, the travel invoice reconciliation processes used by both parties. Also, the continued visibility of the CBA delinquencies at the Command level in the DoD will ensure that these CBA invoices are not allowed to sit idle but will move through the reconciliation process. Our recent monthly reports indicate progress is being made and we are paying the bills more promptly and thus reducing the amount of interest penalties paid.

DoD EXPERIENCE TO DATE - INDIVIDUALLY BILLED ACCOUNTS (IBAs)

There have been some benefits associated with the expansion of the travel charge card program. The card must be used by the traveler instead receiving a travel advance. The GSA SmartPay contract provides for the payment of rebates by the contractor to the agencies based on charge card volumes. The move to mandatory use of the travel charge card has resulted in a $1.4 million increase in the annual rebate.

At the same time, we recognize there have been challenges associated with implementation of mandatory use both for the Department and for the Bank.

1. As the Department requires use of the card and puts more cards in the hands of its travelers the opportunity for improper use of the card increases thereby increasing the

delinquency rate for IBAs within the DoD. The Department is working with the Military Services and Defense Agencies to take corrective steps with its card holders.

2. High delinquency rates (and related write off) result in additional expenses for the Banks and lost revenues through rebates for the Department.

3. The charge card relationship is primarily an agreement between the individual cardholder and the Bank. The charge card agreement requires the individual to pay the card balance when the statement is received regardless of whether the individual has received any reimbursement for the expenses charged. The Department is responsible for timely reimbursement to the traveler upon receipt of a proper TDY travel voucher claim (and even owes interest to the traveler if such payment takes more than 30 days). While there are no doubt individual exceptions, the vast majority of TDY travel claims are paid well within the 30-day timeframe. To date during Fiscal Year 2001, DFAS has settled 99.7% of all TDY travel claims within nine days of receipt. We also have implemented program changes to help address delinquency issues that I will outline in a moment.

4. Individuals who are 120 days past due on their bills may have their accounts cancelled, and they can be reported to the various credit reporting organizations by the Bank.

5. We have worked with the Bank and the Military Services to refine the information provided to unit commanders so that they may take the appropriate administrative action to counsel or restrict an individual's use of a card and to hold such individuals accountable for its payment. The quality of the management information reports continues to improve and provide the necessary information to the unit commanders.

DoD SOLUTIONS - IBAs

As I mentioned before, to address delinquencies and improve the program, DoD has worked with the Bank to implement program changes. On April 11, 2001, the DoD entered into an agreement with the travel charge card contractor, Bank of America, that extended task order performance through November 29, 2001, and added the following risk mitigation features:

-- Increased Command/management attention focusing on individuals who are delinquent;

-- Review the database of cards issued and deactivate/cancel cards of "infrequent" travelers--defined as traveling two or fewer times per year--which are exempt from mandatory use of the card within DoD;

-- Establish procedure to implement deduction from salary for accounts 120 days past due;

-- Unless otherwise directed by the employee, the Bank would receive payment for lodging, rental cars, and transportation directly from DoD as the travel claim is settled. The only exception is in the case of the Marine Corps which is transitioning accounting and disbursing systems and will implement this change when the transition is completed;

-- Lower both cash and credit limits of individual cards:

For standard cards to $2,500 credit line including $250 for ATM cash;

For restricted cards to $1,000 credit line including $125 for ATM cash.

-- Increase the ATM cash fee charged by the Bank; and

-- Increase the fees paid by the individual to the Bank for late payments ($29 per month) and returned checks ($29 per incident).

SUMMARY

In conclusion, I can assure you that the Senior DoD leadership is engaged. The recently implemented changes to the Task Order will be monitored. We will continue to work with the Bank to address areas of concern and the Department will continue to focus on reducing delinquencies and to take advantage of the savings opportunities that the program offers.

That concludes my prepared remarks and I will be happy to address your questions.