# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 1, 1998

## H.R. 930
### Travel and Transportation Reform Act of 1998

*As ordered reported by the Senate Committee on Governmental Affairs on June 17, 1998*

## SUMMARY

H.R. 930 would require that federal agencies verify travel and transportation bills for accuracy prior to payment and that employees use a government charge card for official travel. In addition, the legislation would allow agencies to reimburse employees for certain tax liabilities. CBO estimates that enacting this legislation would reduce federal travel costs—which are largely paid out of appropriated funds—by about $90 million over the 1999-2003 period by increasing the amount of funds saved by auditing transportation payments and by increasing the amount rebated to federal agencies by American Express or other contractors that issue charge cards for official government travel. These savings would be partially offset by payments of approximately $5 million in fiscal year 1999 to reimburse employees for certain taxes they had to pay. Agencies would be allowed to spend any of the funds saved from prepayment audits and travel card rebates. Hence, increasing the audits of transportation vouchers prior to payment or the use of a government charge card would have no net budgetary effect over time, unless agency appropriations were reduced to reflect the savings.

Because implementing H.R. 930 would affect direct spending, pay-as-you-go procedures would apply. CBO estimates that enacting the legislation would increase direct spending by less than $1 million in fiscal year 2000 and by about $3 million each year thereafter. That change would result from increasing prepayment audits, which would reduce the net amount that the General Services Administration (GSA) recovers annually from auditing paid travel and transportation bills. Receipts above the amounts GSA spends to administer and pay for audit contracts accrue to the Treasury, whereas agencies may retain and spend the funds they save by auditing bills prior to payment. Because it would not take effect until 18 months after enactment, the provision would not affect spending in fiscal year 1999. In addition, the legislation also could affect travel costs and employee reimbursements by agencies not

funded through annual appropriations, such as the Tennessee Valley Authority (TVA) and the Bonneville Power Administration (BPA).

H.R. 930 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 930 would affect spending in three ways. First, it would require that agencies audit travel and transportation bills for accuracy prior to payment. Second, H.R. 930 would require that employees use the government-issued charge card to pay expenses related to official government travel. Third, it would allow agencies to reimburse its employees for all income taxes, as well as any penalties and interest incurred during tax years 1993 and 1994, that arose from a provision within the Energy Policy Act of 1992 that limited deductions for business travel expenses. The legislation would allow agencies to reimburse their employees from funds authorized to pay administrative expenses.

### Spending Subject to Appropriation

**Transportation Audits.** H.R. 930 would require that agencies audit all travel and transportation bills prior to payment. Under current law, agencies may pay travel and transportation bills prior to any audit of the bill for accuracy. GSA uses private contractors to audit some travel and transportation bills after they are paid in order to identify and collect overcharges. GSA finances both the expenses of these contracts and its own administration expenses from the overcharges it recovers (about $16 million in fiscal year 1997), including balances from previous years. Any excess collections accrue to the Treasury. Additionally, GSA may audit travel and transportation bills prior to payment or delegate the authority to other agencies. (GSA has delegated the authority to 12 agencies, including DOD, and the Departments of Energy, State, the Interior, and Veterans Affairs.)

Requiring that agencies audit bills prior to payment would reduce discretionary costs. Savings would result if the amount of overcharges avoided by agencies through prepayment audits exceeded both the amount of overcharges recovered under current law and the amount of additional costs incurred in auditing all bills. H.R. 930 would allow the Administrator of GSA to exempt all or part of an agency or a particular mode of transportation based on such factors as cost-effectiveness. The provisions of this section would not take effect until 18 months after enactment, or the middle of fiscal year 2000.

GSA estimates that, historically, audits of payment vouchers have uncovered about $1 in incorrect billings for every $100 in audited invoices (that is, a 1 percent rate of return). Using the 1 percent historical rate of return cited above, the federal government could save a maximum of $110 million annually by auditing 100 percent of the approximately $11 billion in annual payments for transportation of property. CBO estimates that achievable savings would likely fall significantly short of that maximum potential. Assuming that about 25 percent of the $11 billion represents payments from one federal agency to another and that, together, GSA and agencies with prepayment audit authority already audit about two-thirds of the remaining amounts obligated, then CBO estimates that requiring that agencies audit bills prior to payment could save less than $30 million annually. Because we expect that GSA would allow agencies to audit less than 100 percent of all vouchers, CBO estimates that enacting H.R. 930 would save about $10 million in fiscal year 2000 and between $20 million and $25 million annually in fiscal years 2001 through 2003, or between $75 million and $80 million over the 2000-2003 period. (Additional savings could result by auditing travel payments made to airlines; CBO, however, has no basis for estimating such potential savings.)

**Travel Charge Card.** GSA's current contract provides that American Express rebate to the federal government an amount equal to 0.65 percent of the dollar value purchased with the travel card. (The American Express contract is set to expire early in fiscal year 1999.) According to GSA, agencies received approximately $20 million in rebates during fiscal year 1997. CBO estimates that if employees and agencies used the American Express charge card or a similar one to pay for all agency travel-related expenses, the federal government would be eligible to receive as much as $40 million in rebates during fiscal year 1999, or about $20 million more than the government expects to collect under current law. We estimate, however, that the amount rebated under H.R. 930 would be much lower for several reasons.

First, the legislation would allow agencies to exempt any type or class of payments or personnel. Thus, based on information from GSA and the Department of Defense (DOD), we expect that DOD, which incurs about 60 percent of the government's travel-related expenses, would exempt its personnel from the legislation's requirement. In addition, we expect that agencies would exempt expenses that are generally not paid for with the travel card under current law, such as foreign travel, and that agencies whose costs to reconcile accounts are higher with the travel card than with traditional travel agent accounts would also exempt themselves from the legislation's requirement.

Second, under H.R. 930, agencies could use other contractor-issued cards that provide a lower rebate rate.

Third, while agency travel-related expenses are expected to remain relatively flat over the next several years, we expect that agencies will voluntarily increase their use of the government charge card under current law.

As a result, CBO estimates that, assuming continuation of the 0.65 percent rebate in the current American Express contract, enacting H.R. 930 would increase the annual amount rebated to the federal government by less than $1 million in 1999, allowing GSA time to issue the implementing regulations, and, on average, by about $3 million a year in subsequent years, for a total of between $10 million and $15 million over the 1999-2003 period.

Once agencies have adapted their travel procurement and payment processes to the required use of the charge card, they would reduce administrative costs further by consolidating travel expenditures and streamlining the process for requesting advance travel funds. CBO, however, has no basis for estimating the amount of such potential savings.

**Employee Reimbursements.** The Energy Policy Act of 1992 (Public Law 102-486) limited an individual's ability to deduct from income the expense of business-related travel that extends over a period of more than one year. Because some federal agencies were not immediately aware of the change in the tax code, some employees did not have a sufficient amount of income withheld to pay their expected taxes. H.R. 930 would allow agencies to reimburse those employees affected by the change in law, including paying any fines or penalties that arose from the inadequate withholdings. The Federal Bureau of Investigation was granted similar authority to reimburse employees in its 1997 appropriation (Public Law 104-208).

Based on information provided by GSA, CBO estimates that reimbursing employees for taxes, penalties, and interest from the change in the tax code under the Energy Policy Act would cost the federal government about $5 million in 1999, assuming appropriation of the necessary amounts. Because agencies have since limited most temporary duty travel to less than one year, and because the legislation would permit agencies to pay interest and penalties for the 1993 and 1994 tax years only, CBO estimates that annual reimbursements for future travel would not be significant.

### Direct Spending

**Prepayment Audits.** In addition to the effects on discretionary spending mentioned above, H.R. 930 would also increase direct spending by reducing the amount of overcharges that GSA recovers by auditing payments under current law. These recoveries are recorded as offsetting receipts, and GSA outlays for this purpose are direct spending. Over the last five years, GSA's recovery of overpayments for the federal government has exceeded its expenses to pay for and administer audit contracts by an annual average of about $4 million.

GSA's recoveries would decrease because agencies would prevent many of the billing errors now detected by GSA. CBO expects, however, that GSA would reduce the size and scope of its staff responsible for overseeing the audit contracts, which would counterbalance some of the decrease in offsetting receipts. CBO estimates that the net increase in direct spending would amount to less than $1 million in fiscal year 2000 and about $3 million each year thereafter.

**Agencies Not Funded Through Appropriations.** For most agencies, any change in spending would be subject to appropriation action. However, H.R. 930 could affect spending by agencies not funded through annual appropriations, such as TVA or BPA. CBO estimates that such effects would not be significant.

## PAY-AS-YOU-GO-CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Changes in outlays | 0 | 0 | 1 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Changes in receipts | Not applicable | | | | | | | | | | |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 930 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## PREVIOUS CBO ESTIMATE

On April 14, 1997, CBO prepared a cost estimate for H.R. 930, as ordered reported by the House Committee on Government Reform and Oversight on March 12, 1997. For the House version of H.R. 930, CBO estimated the legislation would reduce travel costs by approximately $105 million over a five-year period, or between $15 million and $20 million more than estimated for the Senate version. The lower estimate results primarily from two factors, both of which involve the legislation's mandate that agencies use the government charge card for all travel expenses. First, the Senate version would allow agencies to exempt any type or class of payment or employee from the charge card mandate; we expect that agencies would use this authority. Second, the estimate of the maximum rebate in 1999 is lower than the amount assumed in the earlier estimate.

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