



## EXECUTIVE SUMMARY

### Government of Guam Medical Referral Benefits Bank Account Report No. 09-06, November 2009

This report presents the results of our review of the Guam Medical Referral Benefits Bank Account (MRBBA), which was established by Public Law (P.L.) 24-276 for the deposit of frequent flyer miles earned by travelers at government expense. The review was initiated at the request of a Senator of the 30<sup>th</sup> Guam Legislature. Our audit objective was to identify and report difficulties in the implementation of P.L. 24-276. In summary, we found that the MRBBA cannot be implemented because the current mechanisms identified in P.L. 24-276 does not take into account the major airline that services Guam's (major airline) authority and prerogative to establish, regulate, and restrict its frequent flyer program. Similar attempts to pool travel miles by the U.S. Federal Government and the governments of the Commonwealth of the Northern Mariana Islands (CNMI), and the Republic of Belau (Palau) were equally unsuccessful for the same reason.

#### **DOA's Implementation Difficulties**

In an effort to credit travel mileage to a single account, the Department of Administration (DOA) acquired a business credit card in October 2008 to be used exclusively to pay for all DOA approved air travel. By arrangement with the local financial institution which offers the credit card, purchases made on the credit card earn airline miles from the major airline. Although DOA earns miles through the purchase of the tickets, the travelers are awarded the flight miles.

As of October 12, 2009, the business credit card earned 789,598 frequent flyer miles from airline ticket purchases. As of November 12, 2009, no miles have been redeemed for free flights pursuant to P.L. 24-276.

#### **The Airline's Frequent Flyer Program**

The major airline and its program partners retain the right to regulate their frequent flyer programs. Currently, the program is limited to individual members who may not establish more than one account. Corporations and other entities are not allowed membership. The major airline's Sales and Marketing official explained that government efforts to establish accounts and to pool government travel miles is in conflict with their corporate policy. In response to the then proposed legislation, a senior airline official noted in a 1997 letter of "*the need for some fundamental changes in the proposed structure of the program,*" and that pooling miles "*is not physically possible*" in their system.

#### **Service Charge for Miles Transfer**

The major airline does allow the transfer of miles from one account to another. For a service charge of \$7.50, 500 miles can be transferred to another account. Although transfers are allowable, travel recipients also need to have their own frequent flyer accounts. P.L. 24-276 does not address the transfer of miles, including who should pay the transfer service charge, nor does it require medical patient recipients to establish or maintain their own accounts.

## **Other Government Mileage Banking Programs**

We reviewed mileage banking initiatives by the U.S. Federal Government, CNMI, and Palau. None were successful for the same reason as the government of Guam's.

- U.S. Federal Government: In May 2001, the Government Accountability Office (GAO) reported to Congress that implementing frequent flyer mileage banking programs would be difficult because (1) airlines would not pool the miles earned on official travel; (2) airlines would not create separate accounts for the individual's personal and official travels; and (3) as experienced by the GAO, the General Services Administration, the Department of Defense, and the Department of Interior, the administrative costs of managing frequent flyer banking programs outweighed the benefits.

Subsequently, in December 2001, Congress passed P.L. 107-107, allowing federal employees to retain the miles and benefits they earn from government travel.

- CNMI: The Commonwealth's P.L. 9-54, passed in 1995, required all miles earned on government travel be allocated to the medical referral program. The law was repealed in 1998 because the airlines could not be required to establish a master account for the CNMI government.
- Republic of Palau: Palau's Bill No. 7-12, proposed in 2005, would require all frequent flyer miles earned from government travel be used by the Ministry of Health to benefit citizens who require urgent off-island medical care. As of November 2009, the bill has yet to pass, despite numerous re-introductions in the Senate.

## **Conclusion and Recommendation**

P.L. 24-276 attempts to mandate some government control over a privately initiated incentive program. The airline retains the right to implement, regulate, and/or discontinue the program, if it so chooses, and cannot be required to change its policies on this issue. The airline will not allow individual travelers to establish separate personal and government accounts, nor will it allow communal master accounts for governments or corporate entities. Should the government of Guam require employees to transfer government travel miles, P.L. 24-276 makes no provision for the payment of transfer service charges or for monitoring such transfers. We encourage charitable donations of employees traveling at the government's expense to give miles earned from official travel into the MRBBA. However, the administrative burden of monitoring the deposit of frequent flyer miles should not be placed on a government agency.

Although well intended, the current mechanisms identified in P.L. 24-276 does not take into account the airline's authority and prerogative to establish, regulate, and restrict its frequent flyer program nor does it recognize the failed attempts of other governments to initiate change in airline policies. We believe that the implementation of the MRBBA under the current mechanism is not feasible; therefore we recommend the repeal of P.L. 24-276.



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