

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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**SUMMARY OF:** A Special Report on the Department of Administration, Division of Finance's implementation of the state travel office, state travel procurement, and agencies' use of the Alaska Airlines EasyBiz program.

### PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted an audit to analyze and evaluate the changes being made to processes for procuring state travel, as well as review of the Alaska Airlines EasyBiz mileage program used by state departments.

### REPORT CONCLUSIONS

The benefits from the State Travel Office (STO) should outweigh the costs after its full implementation. During the implementation period the costs are at least as much as the benefits achieved by the State to date; the extent to which is extremely difficult to ascertain at this time. The process of implementation is ongoing, with only a few departments currently using STO. Furthermore, information prior to the establishment of STO was limited to expenditures and no data exists related to travel patterns.

According to Alaska Airlines, the State has been purchasing travel at the highest cost (full coach) airfare 44% of the time. And again, according to Alaska Airlines, the industry standard for businesses for full coach fare is about 10%. A key component of travel savings is in the use of negotiated government rates, but those rates are not available until the department begins using STO to purchase air travel. Alaska Airlines required the State to have a central point of contact for travel requests before serious negotiations could proceed. Once the decision was made to create a central travel office, extensive planning and input from "customer" agencies occurred. Approximately two years elapsed from the initial concept to implementation; most of that time was spent in planning activities.

The benefits of travel purchase information, identifying savings and other travel activity, is essential for managers. This kind of information can only be generated by a travel agency. The STO can provide this information which the departments cannot, otherwise, economically prepare for themselves. Until report development is completed and all state agencies are using the STO, the State is not capable of realizing the full benefits of relevant and reliable information available through the STO.

The STO has some measures in place to ensure its objectives are met; however, improvements and additional measures are still needed. DOF has identified the primary objectives for the State's centralized travel office as obtaining least cost, better travel purchasing enforcement, and the ability to provide relevant and reliable information about state travel.

Agencies have large inventories of accrued mileage accounts with minimal purchases of mileage ticket activity during our review period. As of December 31, 2005 the State had approximately 18,800,000 miles within EasyBiz accounts. The State of Alaska needs a policy to guide departments' use of business miles.

Overall, we conclude that the concept and framework of a central travel office is viable for the State and can provide costs savings for travel purchases. However, improvements in the STO's processes, procedures, and reporting will assist the State in achieving the greatest benefits from centralization.

#### FINDINGS AND RECOMMENDATIONS

1. The director of Finance, working with the STO manager, should summarize and report travel activities to commissioners on a monthly basis.
  - A. Lost Savings should be reported.
  - B. Additional travel activity should be reported to management.
2. The STO manager should work with department travel coordinators to enhance travel request processes.
3. The directors of administrative services should work with travel coordinators to improve travel desk operations.
  - A. Additional training for travel desk staff is needed.
  - B. Improve efficiencies by reducing the number of travel desks.
  - C. Cross train departmental travel coordinator prior to implementation.
4. The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes.
5. The STO manager should refine the complaint process used by state employees.

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January 20, 2006

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

### DEPARTMENT OF ADMINISTRATION STATE TRAVEL PROCUREMENT PROCESS

January 3, 2006

Audit Control Number

02-30030-06

This report summarizes our review of travel procurement changes affecting all state departments. This audit evaluates the implementation of the centralized travel office and the Alaska Airlines EasyBiz mileage program utilized by state agencies.

The audit was conducted in accordance with generally accepted government audit standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in black ink that reads "Pat Davidson".

Pat Davidson, CPA  
Legislative Auditor



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# OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted this audit to analyze and evaluate the changes being made to processes for procuring state travel as well as review of the Alaska Airlines EasyBiz mileage program used by state departments.

## Objectives

The objectives of the audit were to:

1. Determine if benefits of State Travel Office (STO) offset costs of implementation and operation.
2. Identify Division of Finance's measures to ensure STO objectives are met.
3. Determine if the selection process of the travel contractor was in accordance with state rules and regulations.
4. Analyze whether sufficient planning was conducted prior to creation of the State Travel Office.
5. Determine whether State agencies are maximizing the benefits of the EasyBiz mileage program.

## Scope and Methodology

The audit focused on two main areas; the EasyBiz program, which state agencies started using in April of 2003; and the State Travel Office services and reporting provided by the Department of Administration, Division of Finance. These included all state agencies utilizing the EasyBiz program<sup>1</sup>; the travel management software, the Request for Proposal (RFP) documentation for the travel agency, the Alaska Airlines Government Fare Agreement, the overall travel request and purchase process performed by the STO<sup>2</sup>, and, various other travel related information and data. Our review covered planning and initial STO implementation, which began in spring 2003 through January 3, 2006.

Our scope was limited due to our inability to confirm information prepared by Alaska Airlines; particularly, the estimated percentage of full fare tickets purchased by the State of Alaska. Alaska Airlines was unable to provide supporting documentation and no similar information is maintained by the State.

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<sup>1</sup> Excluded agencies were the University of Alaska and Legislative branch.

<sup>2</sup> Agencies using the STO during the review period were: DOA, DHSS, DOC, DOR, and DOLaw—except the Criminal Division.

The federal laws and regulations governing the Medicaid program ensure the client has “freedom of choice” in making travel arrangements, including which air carriers to use. Therefore, we have not included Medicaid clients in the testing of the travel request process.

Our evaluation of the STO and agency use of the EasyBiz program involved:

- Interviews with departmental staff responsible for agencies’ EasyBiz mileage accounts as well as travel needs in general.
- Interviews with DGS contracting and procurement staff.
- Interviews with the Director of Finance, key DOF staff responsible for programming and management of the STO operations, and the STO manager.
- Discussions with and job shadowing of USTravel agents working within the STO.
- Discussions with various USTravel management and staff responsible for STO contractor operations.
- Review of planning documentation developed as part of the creation of the STO.
- Review and analysis of the travel agency selection RFP documentation.
- Review of the reduced government fare agreement with Alaska Airlines.
- Discussions with Alaska Airlines EasyBiz account managers and acquisition of various state agency EasyBiz accounts activity.
- Interviews with the State of Utah central travel office manager.
- Analysis of EasyBiz mileage account balances and activity.
- Analysis of airfare purchases and government reduced air travel rates.
- Review of travel cost information and estimated STO operational costs.
- Review and analysis of the travel management software.
- Review and analysis of USTravel’s detailed travel activity reports.
- Review of various performance monitoring and other documentation maintained by the STO manager.



## ORGANIZATION AND FUNCTION

The State contracted with USTravel Alaska, LLC, to arrange all state business travel for executive branch employees, members of boards and commissions and authorized non-state individuals traveling on official state business. The State also entered into a government fare agreement (contract) with Alaska Airlines. The contracts with Alaska Airlines and USTravel were negotiated by the Department of Administration, (DOA) Division of General Services (DGS). DOA is primarily responsible for the general management of those contracts.

DOA provides centralized administrative and telecommunications support services to state agencies', legal and advocacy service for indigent Alaskans, vehicle licensing and registration services to the public, and administrative support to commissions assigned to the department. Within DOA, DGS and the Division of Finance (DOF) are the primary agencies involved with the centralized travel office functions.

DGS provides purchasing, leasing and facilities management, property management, and central mail services for all state agencies. DGS also provides the Alaska video teleconference service and manages parking permits and state forms.

The mission of DOF is to provide accounting, payroll and travel services for state government. The DOF director and systems security administrator have been instrumental in the development and oversight of the State Travel Office (STO). The STO, established under the E-Travel Initiative, provides travel procurement services to all agencies within the Executive branch. The State Travel Manager, an employee of DOF, monitors USTravel's daily operational performance and functions as a liaison between the State and USTravel. The STO is housed within state facilities located in Juneau.

Located in the STO, USTravel has approximately 13 staff; the majority of whom are professional travel agents. Additionally, providing support to the STO is an account manager, IT staff, and Medicaid billing specialists located in their Anchorage offices.

All state departments have at least two designated positions which deal with work travel issues; they are the travel coordinator and travel desk staff. Travel coordinators function as the primary contact between the department, the STO, and DOF. Their main purpose is to disseminate travel information, educating travel desks and travelers about travel issues and processes. They are also required to ensure travel desks receive training and understand state and department travel policies.

Travel desk staff is designated by each Department's management to handle the day-to-day functions with requesting and approving travel. There is no limit on the number of travel desks. Frequently, there is one travel desk for each division in each regional office. Travel desk staff also supports the Department's one travel coordinator.

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## BACKGROUND INFORMATION

Historically, the State of Alaska's travel planning and procurement has been quite decentralized. Departments have relied on managers and program administrators to manage travel and ensure state and department travel policies and procedures are followed. However, typically, minimal information is available on cost until travel is completed.

### Travel issues surrounding cost containment are not a recent concept for key decision makers.

During the mid-1990s, concern was expressed by managers over travel issues and the number of employees involved with travel processing. A survey conducted by departmental administrative services directors<sup>3</sup> identified over 1,000 positions<sup>4</sup> involved in travel-related issues on a regular basis. No significant travel initiatives were developed as a result of the survey. However, there generally continued to be a concern over the amount of resources required to procure and process state travel. A 2004 document prepared by the Department of Administration (DOA), Division of Finance (DOF), noted that current staff dealing with travel issues on a regular basis has increased. (See Appendix C)

Significant changes in the travel industry have occurred since the survey; most notably the elimination of travel agents commissions paid by air carriers. Subsequent to that change the state has paid for travel agency services that previously were obtained at no cost. DOA travel procurement policy changed in 2002, establishing a cap on travel agent fees. The regulations change was an effort to facilitate continued departmental use of travel agency services by departments to procure travel as efficiently as possible. (See Appendix A for a brief timeline of events relating to state travel.)

Concurrent with the elimination of travel agents commissions, there was a substantial growth in the travel services and products offered over the internet. Given that travel agent fees would now have to be paid by the traveler coupled with increased access to travel providers through internet sites, state agencies gradually reduced use of travel agents services. Departments began placing more reliance on the internet for routine travel planning and purchasing due to access and speed of information. Travel agencies were being used primarily for complex travel issues.

Top management's oversight of travel was reduced because of the easy use of internet travel services coupled with decentralized travel arrangements and decision making. The current travel situation, identified through state finance officers association (SFOA) work group noted:

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<sup>3</sup> Twelve of 16 departments completed the survey.

<sup>4</sup> The number of staff dealing with travel issues equated to approximately 86 full-time positions.

*Travelers are making their own travel arrangements, using whatever method they choose. The only compliance monitoring for state travel policies is between the traveler and their administrative support staff at the time of reimbursement,<sup>5</sup> causing friction between the service organization and its customer. Information about our travel expenditures is limited to our credit card data or pulling it manually from printed Excel travel authorization forms.<sup>6</sup>*

With both continued reductions in state budgets and concern by managers over travel issues, reduction of travel costs became a higher priority. DOA explored options for travel cost containment; however, the State's current accounting system could not provide sufficient information to allow senior staff to initiate policy changes. Instead, focus shifted to target savings through leveraging the volume of the State's purchases with travel providers. Research by DOF in FY 04 identified the State's largest airfare vendor was Alaska Airlines.

#### Alaska Airlines negotiations resulted in the State of Alaska Government Fare Agreement.

Negotiation efforts by DOA, Division of General Services (DGS) over a two-year period, resulted in a reduced fare contract with Alaska Airlines. The contract term of two years began January 1, 2005 with a provision that the State and Alaska Airlines would meet annually to review terms and conditions.

Generally the framework of the contract required all airfare purchases, exchanges, and refunds to be handled through a central point of contact to access the reduced fares. Reduced rates are available on last minute airfare purchases, exchange of ticket for other travel, and full refundability at no charge. Access to reduced rates is limited to seat availability within the special fare class; which may not be the last available seat on a flight. Contract rates and eligible destinations can be changed by Alaska Airlines at any time without notice. The contract also contains the ability for either party to terminate the agreement at any time with thirty days notice.

Access to reduced rates on last minute travel with the largest travel provider was significant progress in the State's cost containment efforts on travel. A new business model had to be developed and implemented to meet the contract requirement for a central point of contact. DOF, with substantial input from state agencies, developed the operating framework to be used by the State Travel Office (STO).

#### Agencies travel concerns and issues were addressed in STO development.

During development of the STO, DOF met multiple times with SFOA. Concern about impact on department functions and missions were vetted in these meetings. Concerns included paying a new transaction fee for STO services and the need to substantially change

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<sup>5</sup> At the time of reimbursement, state funds are already committed and no possibility to reduce costs is available.

<sup>6</sup> As identified in the March 2004 Business Case Study, see Appendix C.

established processes which were perceived as working well. DOA summarizes the existing travel situation as follows:

*Administratively we are muddling through with email approvals and Excel travel authorization forms. The business rules for (travel) reimbursement, which are complicated by differing terms in bargaining unit contracts, must be applied by travelers themselves or their support staff. We have no automation to implement them or to monitor for compliance with state policies.*

The final business model provides for continued oversight and enforcement of travel by departments. The business model established a new position – the state travel manager. This position is responsible for monitoring and management of the travel agent contractor. Coordinated efforts between departmental travel staff and the STO were anticipated to create an efficient and cost effective process for travel purchases.

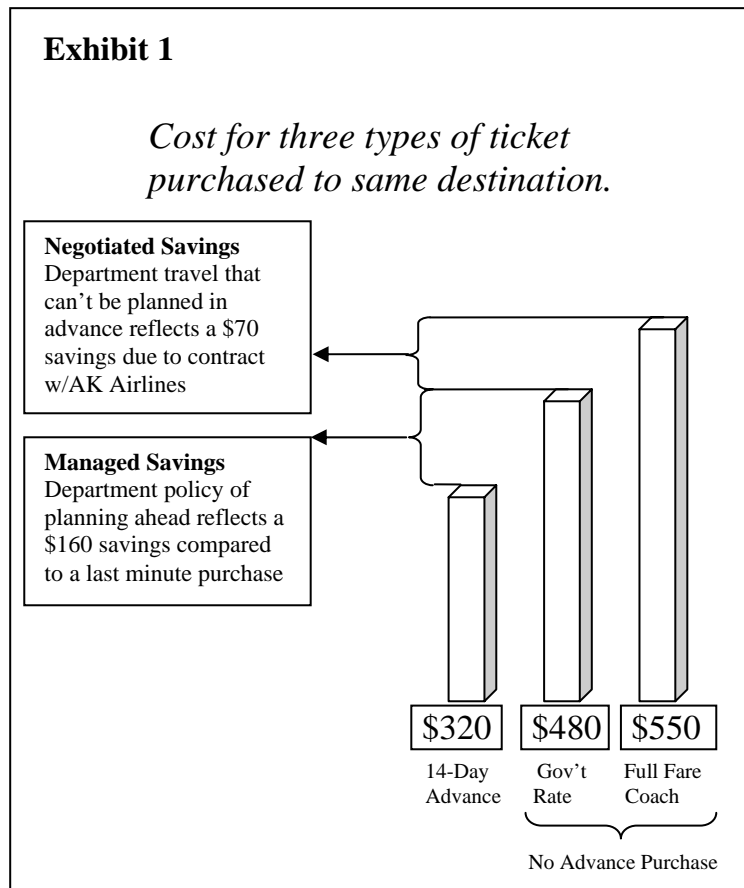
Key concepts significantly affect travel costs.

State employee travel and the processes surrounding travel are quite complex. Throughout the various stages of planning for the STO, key concepts were identified which directly affected costs of state travel. They are: adequate advanced planning, sufficient and relevant management information, limited competition of major air carriers within in the State, and the use of travel professionals.

- Advance planning and purchase guarantees savings

The most critical component to the price of air travel is the timing of purchase. The airlines pricing structure gives significant discounts to tickets purchased in advance. Since the timing of when travel is purchased, oftentimes is within the control of management, any savings from advanced purchased travel is referred to as “managed savings.” Managed savings is the difference between an advance-purchased ticket and a ticket purchased at the last minute.

Purchases made in advance, such as 14 days or greater, means larger savings are realized.



Managed savings represents the department's own ability to contain travel costs. However, departmental missions and programs do not always provide the opportunity to plan ahead. In situations where advanced planning is not realistic, access to a reduced government rate is the only mechanism to obtain a savings. These savings represent what the STO provides state agencies through negotiated rates that would not otherwise be available.

- Management information critical to controlling travel costs

Management oversight is a critical element in controlling travel costs and this oversight occurs in all phases of travel. Management needs to give prior approval for travel, review arrangements for compliance with laws and regulations prior to travel, and review and approve payments to the traveler and vendors after the trip.

Under the decentralized travel procurement process there was little, if any, effective management travel information available. A goal of the STO was to provide better information to management. The types of information envisioned included travel patterns, typical staff positions which require travel, and seasonal fluctuations. This type of information could assist managers in their oversight of travel-related costs.

- Limited number of air carriers affects savings available

There is a lack of competition between major carriers on many segments of in-state air travel in Alaska. This provides the dominate in-state carriers with a stronger bargaining position in negotiations of airfares with the State. This stronger bargaining position allows the major carrier to dictate terms and conditions for providing reduced airfares at a government rate. Statistical information generated from the State's Mastercard data listed over 70%<sup>7</sup> of all purchased air travel excluding Medicaid travel, was with Alaska Airlines. As previously indicated, Alaska Airlines required a single point of contact before offering reduced rates. Because access to reduced rates guaranteed savings on travel, the State adapted to the marketplace and agreed to the requirement of a central travel office.

- Access to industry data through use of professional travel agents

Another goal of the STO is to have access to the best available information when making travel arrangements. Contracting with travel agents is an advantage for the State; the STO has access to the airline industry standard databases. All major airlines—most regional and some rural air carriers—supply their flights, fares, and seat availability<sup>8</sup> to all major industry database systems. Travel providers and travel agencies subscribe to one of these major databases to view real-time air carrier information, including up to the minute seat availability.

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<sup>7</sup> Information supplied by DOF.

<sup>8</sup> Hotels and major auto rental agencies also supply information about rates and availability.

Contract with USTravel contains pay-for-performance provisions.

DGS began developing the request for proposal (RFP) in early 2004. They researched and contacted a number of other states with state travel offices. DGS determined the State of Utah had the strongest policy enforcement, was proven cost-effective with consistent state savings, and was recommended by other states as a good business model. Staff traveled to Utah to observe daily operations and identify processes to incorporate into the RFP. The final RFP indicated the anticipated relationship between the travel contractor, the state travel office, and user agencies; *“One goal of establishing a state travel office is to standardize travel purchase procedures under additional policies. The state travel office contractor will work with State of Alaska personnel to develop these new standardized policies and enforce them during daily operations.”*<sup>9</sup>

Moving to a centralized operation raised concerns about contingency planning, in the event a contractor failed to supply the necessary services. As part of the RFP, DOF followed Utah’s model where most of the travel office infrastructure is located within state-owned facilities. Having the offices on state property minimizes potentially negative impacts of transitioning to a new travel contractor.

The RFP contains “pay-for-performance” provisions in which the State and the contractor would negotiate the criteria to measure and quantify service and performance levels. This provision allows for increased contractor fees when service levels exceed standard expectations, and conversely decreased fees, when service levels fall below standard expectations. Some of the mandatory measures include verifying that response times are within the maximum two-hour timeframe, accuracy of tickets purchased by verifying complaints received, and complaint tracking. Results of the performance measures are evaluated on a quarterly basis. If the results show substandard performance, the contractor is notified of a reduction in the transaction fee in the subsequent quarter; conversely, if results meet the pay-for-performance standards then an increased transaction fee may be paid to the contractor during the subsequent quarter.

USTravel was awarded a two-year contract. On January 1, 2005 the pilot program was initiated for Department of Health and Social Services (DHSS) Medicaid clients to begin using the STO services provided by USTravel’s Anchorage office, thereby being the first to gain access to the reduced Alaska Airline government rates. USTravel moved into the Juneau State Travel Office and started staffing by March 2005. During the first six months of operation, two more departments, DOA and the remaining portion of DHSS, began using the STO services. During July and early August 2005, the Department of Corrections and two divisions of the Department of Law transitioned to the STO. Additionally, the state travel manager began documenting some performance measures of USTravel. Initial monitoring was limited to review and follow-up on complaints of service and response times. The end of August 2005 performance measures showed inadequate response times and insufficient

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<sup>9</sup> RFP 2005-9900-4755, issue date August 13, 2004.

complaint resolutions by USTravel. As a result, DOF issued two performance cure letters to USTravel and suspended the transition of any additional departments to the STO.

By November 2005, another measure of monitoring was added for verifying travel purchases are made within 24 hours of the preliminary quote, if approvals are received in an agreed upon timeframe. In that same time period, USTravel was addressing the performance deficiencies previously identified. Ultimately, the resolution was accomplished primarily by additional training and the addition of new travel agents. By the end of November, the Department of Revenue (DOR) began using the STO. During the last quarter of 2005 performance monitoring results found USTravel had substantially improved performance. It is anticipated the pay-for-performance provision will increase the transaction fee for the quarter beginning January 2006.

#### Central Travel Office in the State of Utah.

The experience and history of the State of Utah's central travel office was fundamental to the development of Alaska's STO. Prior to the creation of the Utah STO in 1992, Utah contracted with about six travel agencies annually. Travel planning and purchasing was extremely decentralized. Many agencies had diverse and well-established procedures for procurement of travel. Primary enforcement was left to the various departments and the perception by key decision makers was that it was not working well. Due to shrinking budgets and increases in varying travel costs,<sup>10</sup> Utah decided cost savings and enforcement of policies through a centralized office with one travel agency was necessary.<sup>11</sup>

According to the Utah's STO manager, their business model relied heavily on various large corporate travel models for its design. It was the most readily available travel procurement model which focused on cost containments through minimal allowance for traveler preference. *"Once travel was centralized we (STO) quickly started addressing the bad and uninformed behavior and it has saved the state a great deal of money over time."* As a result, financial benefits have been realized. Benefits are both consistent annual savings through negotiated reduced rates<sup>12</sup> and detailed travel information supplied to key departmental decision makers and the legislature.

Initially, the transition was very confusing and took them about a year to stabilize the process. *"At first [departments] were very resistant to change..."* Numerous complaints were received for about the first eight to ten months and then it started to taper off. It took another couple years to address problems in the processes to ensure least cost was purchased.

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<sup>10</sup> Utah found differences in cost for same trip travel varied up to \$300 between two travel agencies.

<sup>11</sup> Annual cost of air travel is approximately \$15.9 million; a little less than half of Alaska's cost.

<sup>12</sup> Utah's savings for FY 2005 was approximately \$7.4 million on managed travel and negotiated rates.



In Utah, only the executive branch was mandated to use the STO. Other government organizations were wary about moving to the STO, primarily due to security of travel information. However, because of the possibility for obtaining savings through negotiated reduced rates, the judicial, legislative branch and the state university eventually moved to utilizing STO services. *“It took awhile for them to be convinced that our processes were secure, protected privacy and that they could save money.”*

Delegation of enforcement authority over travel to Utah’s STO has increased over the past twelve years. *“Our enforcement practices are pretty hard nosed but if (we) didn’t, travelers would not be as mindful in planning and cost to the state.”* Utah’s STO enforcement has ensured more funds are available for essential programs instead of unnecessary travel costs. The move to a centralized office *“has made all state employees’ travel transparent.”* The STO manager indicated programmatic and supervisory peer pressure began to occur once relevant and reliable travel information was available. Utah has found peer pressure among decision makers, once travel was visible, combined with greater enforcement authority given to the STO, were the most effective methods to preserve valuable program funding.

Alaska Airlines EasyBiz program offers potential additional benefits to state agencies.

Alaska Airlines’ internet business mileage program, called EasyBiz, has played and continues to play a significant role in state travel purchasing. In the spring of 2003, the State was authorized by Alaska Airlines to set up internet EasyBiz accounts. Prior to that time, while general private sector businesses had access to EasyBiz, Alaska Airlines prohibited the State from using EasyBiz due to business concerns.

When the State received authorization, state agencies were advised to set up the number of accounts which met business needs of the department. In some departments every division had an account, where others created only one central account.

The EasyBiz program provided agencies with two air miles for every dollar spent on air travel. Departmental staff felt that the accrual of airline miles for future redemption of tickets

**Exhibit 2**

Examples of Utah’s Travel Policies and Enforcement

Declined least cost

When least cost air fare is declined, for any reason, additional confirmation of approval for cost is required from the director prior to purchase. All instances and cost are reported bi-weekly to executive managers responsible for determining business necessity.

Changes to purchased travel

Once travel is purchased the STO allows one free change. Subsequent changes the traveler must pay the change fee in advance, and seek reimbursement. A substantial reduction resulted in the numerous changes which had previously been based on departmental culture or traveler preference.

Travel information provided to the Legislature

At the start of each legislative session an executive summary report by department is provided indicating savings, lost savings and travel deviations from standard policy. Savings and additional costs of travel become part of the budgetary discussions with Executive Staff.

was a savings for the departments. According to managers, the ability to use mileage tickets preserved programmatic funds. The EasyBiz accounts, as such, did not provide any additional savings apart from the convenience that agency staff could quickly book travel over the internet. Departments designated one primary administrator for each account with alternates. There were about 70 administrators and at least as many alternates statewide, not including the University or the Legislature.

Additionally, state agencies could also use their EasyBiz accounts when purchasing through travel agencies. Management of the accounts and redemption of miles has varied depending on the agency's policies. While mileage use is mentioned, guidance in the Alaska Administrative Manual is minimal.

As departments transition to the STO, their EasyBiz account also moves to the travel office to be managed by USTravel agents. Departments will continue to accrue and redeem mileage, while utilizing the services of the professional travel agents in the STO.

E-certificates were used as an interim measure until government rates on air travel were available.

In November 2004, Alaska Airlines allowed a 10% discount<sup>13</sup> on full-fare tickets purchased with E-certificates through State EasyBiz accounts. Once committed to a State Travel Office concept, the State had aggressively sought to gain some immediate savings on travel. This savings offered an interim measure while implementing the STO.

The savings were anticipated to cover the period of time it would take for all departments to transition to the STO. This discount was a short term provision only available to departments not using the STO. Renewed twice during 2005, the discount savings expired December 31, 2005.<sup>14</sup>

The travel request process uses e-mail as the primary communication.

Departmental travel desk staff use an electronic travel form which, when completed, is submitted by e-mail to the STO travel agents. A travel agent then locates and quotes the least cost fare available, unless the request specifies restrictions.<sup>15</sup> When approval is received from the department, the travel agent completes the travel purchase and issues a final itinerary to the travel desk staff. STO travel agents do not enforce state travel purchase policies or whether appropriate staff is approving travel. (Exhibit 3 illustrates the complexity of the overall travel procurement process.)

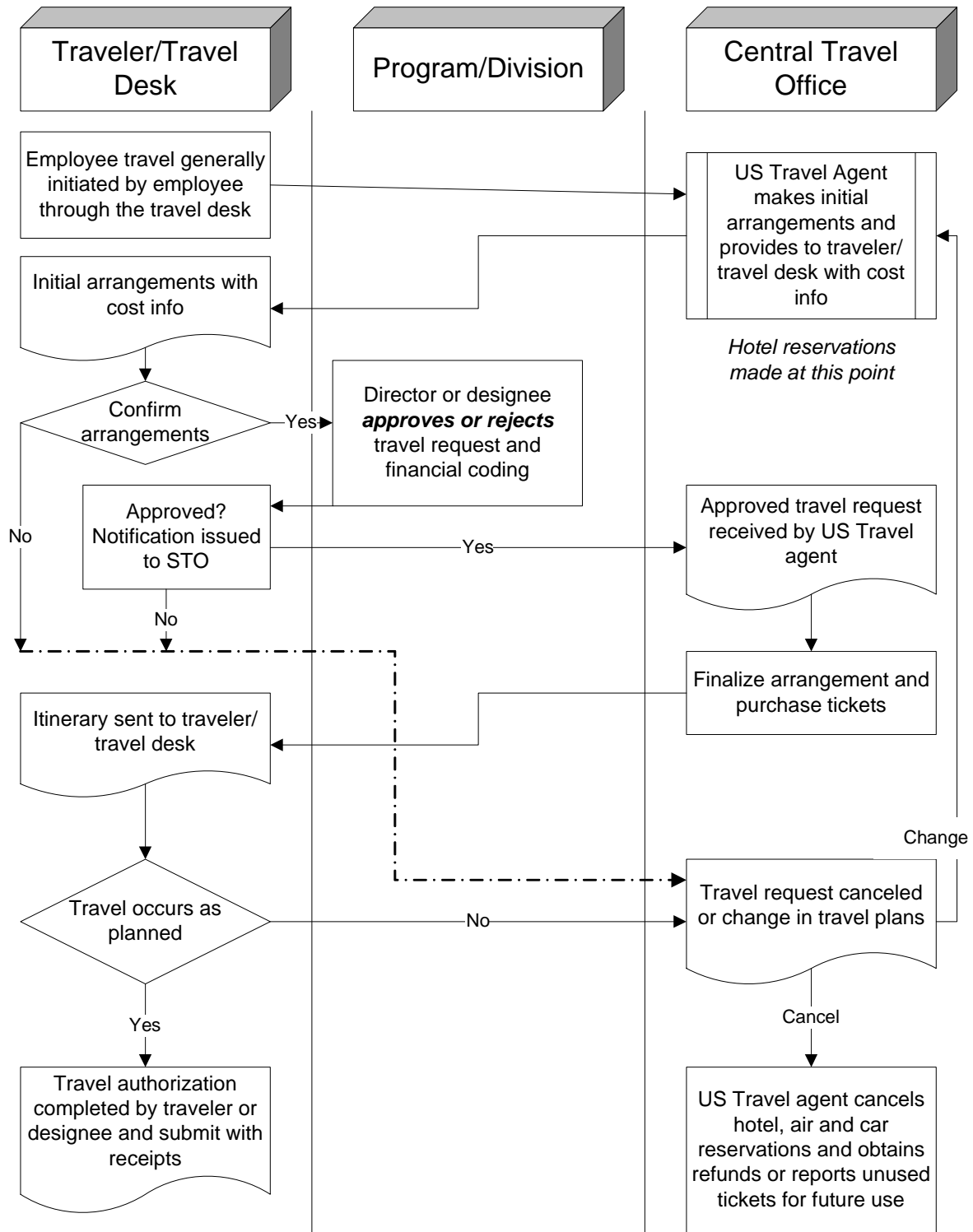
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<sup>13</sup> Alaska Airlines 10% savings discount is called the E-Cert program.

<sup>14</sup> The loss of e-cert savings with 11 departments yet to transition has an effect on the implementation timeline, since non-STO use departments no longer receive any savings on last minute travel purchases.

<sup>15</sup> Restrictions represent that information on the travel request which limits the travel agent's ability to provide least cost.

### Exhibit 3 Example Travel Request Process Flow



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## REPORT CONCLUSIONS

The benefits from the State Travel Office (STO) should outweigh the costs after its full implementation. While not all costs can or have been quantified, neither can all of the benefits. However, benefits from STO are seen in the reduced percentage of full fare tickets purchased by the State and in the lower cost of government fare tickets. The identifiable costs associated with the STO are the transaction fees. There are measures in place, although some improvements are needed, for state procedures to meet STO objectives. Procurement statutes and regulations were followed in contracting for travel agent services. State agencies are not fully utilizing the benefits accruing from the EasyBiz program. Further discussion of these conclusions is detailed below.

Preliminary STO benefits do not appear to offset implementation costs in the short term but are anticipated in the long term.

During the implementation period, the costs are at least as much as the benefits achieved by the State to date, but to what extent is extremely difficult to ascertain at this time. The process of implementation is ongoing, with only a few departments currently using STO. Furthermore, information prior to the establishment of STO was limited to expenditures and no data exists related to travel patterns. Also during the implementation<sup>16</sup> phase, intangible costs such as development and learning of new processes, are additional expenses and not readily identifiable but incurred. The limited historical and currently available implementation data provides minimal information with which to form an absolute conclusion at this time. After full implementation of STO, the State will have sufficient documentation to better quantify savings and costs. Further, when decision makers have critical information assisting improvement of travel purchase decisions, the result will be additional savings beyond those achieved through STO negotiated rates. (See Exhibit 4 on the next page)

- Savings are being achieved

Based on its information of the State's purchasing patterns, Alaska Airlines estimated about a 15%<sup>17</sup> overall savings from negotiated government rates on full coach fare travel, translating to at least \$1.4 million<sup>17</sup> in the first year. In August 2005, testing of government rates found the average savings rate was 12% for full coach fare travel.

In the past, state travel has been purchased at the highest cost (full coach) airfare 44%<sup>17</sup> of the time. The industry standard for businesses for full coach fare is about 10%.<sup>17</sup> As of the quarter ended September 2005, for the three and one-half departments using STO,

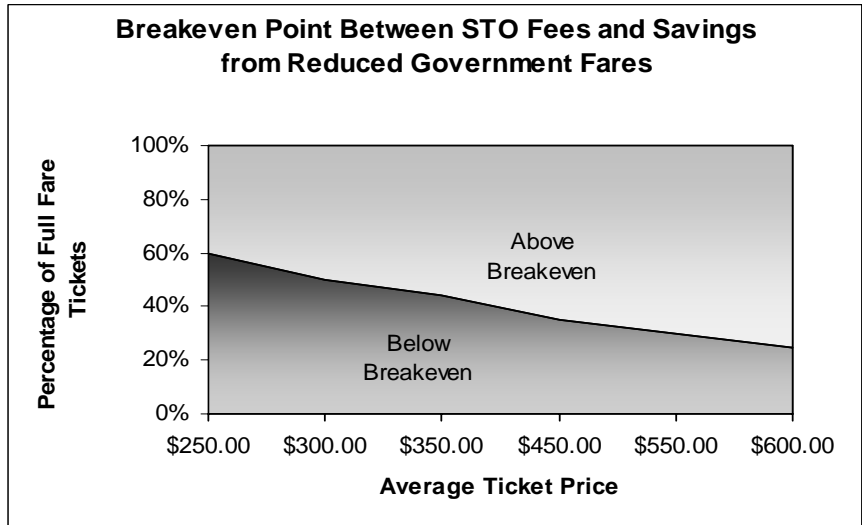
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<sup>16</sup> As of October 2005, three and one-half departments were using STO.

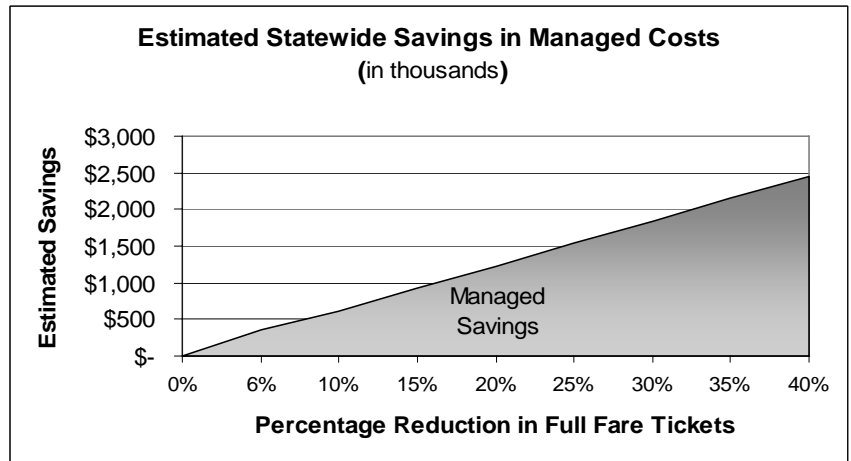
<sup>17</sup> Provided by Alaska Airlines.

**Exhibit 4**

**Negotiated Savings** – These savings are measured as the difference in price between full fare ticket and the fare with the negotiated discount used by the STO. The graph to the right demonstrates the range of breakeven points when only the negotiated savings are sufficient to cover the costs of operating the STO. While negotiated savings occur only on full fare tickets, the \$18.00 STO fee is charged on all tickets. Therefore, as illustrated in the graph to the right,<sup>18</sup> the lower the percentage of full fare tickets or the lower the average ticket price, the more difficult it is to recover the cost of the STO through negotiated savings.<sup>19</sup> The additional information captured regarding state travel has also provided opportunities for the state to negotiate improved hotel rates.



**Managed Savings** - This type of savings is achieved by decreasing the number of full fare tickets<sup>20</sup> purchased through better management of travel. Information provided by the STO may identify financial opportunities for an agency by decreasing the number of full fare tickets and increasing the number of 14-day advance priced tickets. This will provide necessary information to management to better manage travel costs. As shown by the graph to the right, significant savings can be achieved by substantially reducing the percentage of full fare tickets.



A complete evaluation cannot be made to demonstrate the net savings until all departments have transitioned to using the STO. Some agencies such as Department of Public Safety and DHSS Medicaid clients are likely to obtain most of their savings through negotiated government airfares, while other can better manage their travel and see most of their reductions through managed savings.

<sup>18</sup> While actual discount percentage will vary, this analysis assumes an overall 12% savings on all government rate airfares.

<sup>19</sup> For this illustration the average ticket price is a proxy for the volume of tickets purchased through the STO.

<sup>20</sup> This exhibit assumes: 1) the State will spend approximately \$19 million on airfares with Alaska Airlines and their partners, and 2) that an advance purchased ticket will be 32% less than a full fare ticket.

travel purchased at full coach airfare was 35%<sup>21</sup>, a reduction of 9%. Full coach fare travel is anticipated to reduce even more significantly, as workflow processes become more efficient and departmental staff dealing with travel issues is sufficiently trained. (See Recommendations No. 2 and 3)

- Protracted implementation increases costs

A key component of travel savings is in the use of negotiated government rates, but those rates are not available until the department begins using STO to purchase air travel. Therefore, a protracted implementation will delay this type of savings. The Division of Finance's (DOF) measured gradual transition of other departments to using STO will ensure implementation costs are kept to a minimum. Also, how quickly departments can adjust to using STO procedures will impact savings. Resistance to following the process could reduce or negate savings that would otherwise be achieved. Once all departments are utilizing STO, the implementation costs will cease and just routine operational costs will continue. Greater savings will be achieved at that point.

- Benefits of travel information available are not yet realized

The benefits of travel purchase information, identifying savings and other travel activity, is essential for managers. This kind of information can only be generated by a travel agency. STO can provide this information which the departments cannot, otherwise, economically prepare for themselves. DOF has developed some standard quarterly cost savings reports limited to data generated by the four and one-half departments using STO. In addition, USTravel supplies monthly standard detailed-travel activity reports to specific departmental designees. Although dissemination of these reports is occurring, managers are not yet realizing the full benefits of information due to the technical nature of the information being presented. Further, with a few months worth of data, managers generally are still developing an understanding of how they can use this previously unavailable information.

In the long term, standard reports can provide managers with essential information. This information, once fully utilized, should increase the likelihood of managers identifying specific areas for cost containment. Managers can identify the optimal mix of advance purchase travel, and where necessary, obtain a reduced government rate when advance purchase is not an option. Until report development is completed and all state agencies are using STO, the State is not capable of realizing the full benefits of relevant and reliable information available through STO.

Although total savings may not be as great as originally planned in the short term, the reduction in full fare purchases suggests the State is achieving cost savings. Once the STO is fully implemented, agencies should be able to identify their net savings (negotiated savings

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<sup>21</sup> The actual reduction varied month to month; over those three months the rates were 40% for July, 37% for August, and 28% in September.

plus managed savings, less transaction fees). In the short run, some agencies may find an increase to their costs due to the transaction fees not being completely negated by negotiated rates. However, the transaction fee<sup>22</sup> is much less than before.

The long-term benefits are significant enough to offset the short-term implementation costs. Even with only a few departments participating, the information being developed by the STO provides significant management information and creates visibility of travel activity. Visibility of all travel not only assists with better management and accountability; it helps to reduce the public perception that state travel is a perk and not for business necessity.

Some measures are in place to assist with meeting STO's objectives, but improvements are needed.

STO has some measures in place to ensure its objectives are met; however, improvements and additional measures are still needed. DOF has identified the primary objectives for the State's centralized travel office as obtaining least cost, better travel purchasing enforcement, and the ability to provide relevant and reliable information about state travel.

Status of the measures in place to address these objectives include:

- Better enforcement of STO's policies and procedures for travel purchases at least cost needed

Processes, procedures, and forms designed by STO are the framework of a travel request process enabled to achieve least cost and better travel purchasing enforcement. However, travel agents have processed travel requests which do not comply with STO procedures. The STO needs additional procedures to ensure least cost and other travel purchasing requirements, such as adequate purchase documentation, are enforced. (See Recommendations No. 2 and 3) However, while the STO is responsible for the enforcement of its request procedures, the departments are ultimately responsible for compliance with travel purchasing policies and procedures. Lack of consistent enforcement by either STO or the departments decreases the probability that travel is obtained at least cost.

- Travel agency contractually required to purchase least cost

Contractual terms with the travel agency require all agents to identify and quote the least cost available for travel requested. Travel agents were found to regularly provide the least cost on air travel. In most instances where least cost was not provided, the travel request specified a particular fare or itinerary prohibiting the ability to quote the least cost fare.

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<sup>22</sup> The transaction fee is \$18 as of December 14, 2005; prior to STO, travel agent fee was up to \$33 per transaction.



- STO manager monitors USTravel performance

The STO manager has been actively monitoring contractor performance through reviewing agents' response time and handling travel complaints from agencies. Additional types of monitoring and performance measures have been planned, but not implemented. Adequate monitoring is essential for the State to determine whether the travel agency contract's pay-for-performance provisions apply. Also, monitoring results should be communicated to the Division of General Services (DGS). Additional monitoring activities should be implemented as soon as practicable.

- Travel agency can provide detailed travel information but STO reporting, to date, provides limited benefits

USTravel has begun supplying detailed reports of the travel activity requested through the STO which include savings, travel locations, and cost of travel. The State did not previously have this type of information available. To date, the STO manager has been working with the travel agency in an effort to determine the additional information to be captured and reported. As soon as possible, the STO needs to provide the critical travel activity information to DGS and work with pertinent departments to assist managers in developing an understanding of the data presented. (See Recommendation No. 1)

- Software purchased to assist in meeting objectives is not yet functional

To meet relevant and reliable reporting objectives, the State purchased travel management software. There are three main parts of the software: planning and reservations, expense management, and the reporting functions; however, to date the software is not functional. The planning and reservations component was found to be inefficient for processing requests and instead DOF has pursued working with USTravel on extensive refinement of the electronic booking request form. The remainder of the software has required additional programming to allow a compatible interface with the State's accounting system. These problems need to be programmatically resolved as well as continued refinement of the electronic booking form. It is important that DOF succeed with installing the cost effective portions of the travel software to realize the best benefits of complete, relevant, and reliable information.

Concept and planning for a centralized travel office developed as result of a requirement to access reduced airfare.

The decision to establish a centralized travel office was made within six months of the initial negotiations for reduced fares from Alaska Airlines. Alaska Airlines required the State to have a central point of contact for travel requests before serious negotiations could proceed. DGS researched several other state travel offices and determined a centralized model could work for Alaska. Some other reviews and analyses were done prior to the final decision, but access to reduced fares was the primary factor in the decision to create a central travel office.

Once the decision was made to create a central travel office, extensive planning and input from “customer” agencies occurred. Particularly, several meetings were held with the state’s finance officer association (SFOA) for technical input. Approximately two years elapsed from the initial concept to implementation, most of that time spent in planning activities.

Within the strategic planning process, many of the core concepts used and proven by the State of Utah were applied to Alaska’s STO business model. Based on the information the State had available during this process, it appears the implementation of the STO was done to the best of their ability and through considerable planning.

Travel agency selection process complied with state procurement code.

Solicitation and award documentation for procuring a travel agency contractor met all state standard procurement rules and regulations.

However, there were some weakness with the estimated volume and types of travel the State provided in the Request for Proposal (RFP). The limited information the State had in the RFP was later found to significantly underestimate actual travel volume. As a result USTravel has had some difficulties during early implementation with adequate staffing and sufficient information technology (IT) support.

State agencies are not utilizing accrued mileage in a cost effective manner.

Agencies have large inventories of accrued mileage accounts with minimal purchases of mileage ticket activity during our review period. The Department of Health and Social Services (DHSS) is the notable exception to this. DHSS not only had detailed written policies and guidance on purchasing mileage tickets, but closely enforced those policies.

<b>Exhibit 5</b>	
<b>Departmental balances over 1.1 million miles</b>	
<b>As of December 31, 2005</b>	
<u>Department</u>	<u>Mileage Balance</u>
Department of Public Safety	3,787,532
Department of Transportation & Public Facilities*	3,559,306
Department of Environmental Conservation	1,728,561
Department of Commerce, Community & Economic Development*	1,563,695
Department of Law	1,142,798

\* Department has more than one EasyBiz account

As of December 31, 2005 the State had approximately 18,800,000 miles within EasyBiz accounts.

The many options for mileage-use make quantifying the mileage inventory difficult. Using various options, between \$300,000 and \$700,000 could be saved using these miles to

purchase travel. Valuing the State's inventory at its purchase price<sup>23</sup> is approximately \$470,000.

Several reasons contributed to the EasyBiz mileage not being used cost effectively. The State of Alaska needs a policy to guide departments' use of business miles. (See Recommendation No. 4)

Overall, we conclude that the concept and framework of a central travel office is viable for the State and can provide costs savings for travel purchases. However, improvements in STO's processes, procedures, and reporting will assist the State in achieving the greatest benefits from centralization.

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<sup>23</sup> Alaska Airlines allows consumers to purchase 1,000 miles for \$25.

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# FINDINGS AND RECOMMENDATIONS

## Recommendation No. 1

The director of Finance, working with the State Travel Office (STO) manager, should summarize and report travel activities to commissioners on a monthly basis.

Some travel management reports are now available which list travel activity detail and cost savings. USTravel is providing information regarding detail travel activities to department management, but these reports are currently, predominantly used for accounting reconciliation purposes. The Division of Finance (DOF) has been striving to develop and refine these reports for internal management purposes. However, better dissemination of travel activities information in a less technical presentation to decision makers is needed for STO to achieve one of its primary objectives.

DOF reports, to date, have focused on reporting cost savings. The initial cost savings reports used internally, until June 2005, tended to inflate savings. During the subsequent months, the DOF director has worked with USTravel to secure more objective and reliable data. Internal reports currently summarize travel savings by the class of fare which provides better information regarding cost savings. However, additional enhancements can still be made to the cost savings information reported.

- Lost savings should be reported

The cost savings report currently does not identify travel activity where savings were not obtained, or in other words, lost savings. Generally, this occurs when air travel is purchased at either a higher price when lower fares are available or a full coach fare when government rates should be available. These instances happen when travel requests specify a higher class of fare or particular itinerary, or when no seats are available at the government rate. Currently, this type of information is not being captured by travel agents. The STO manager will need to work with USTravel to develop procedures for travel agents to report instances of lost savings.

This information should be added to the cost savings report which will provide a more complete summary of travel savings. The enhanced cost savings report should be provided to departments on a monthly basis. In addition, the data on lack of seat availability should be reported to the Division of General Services (DGS) to assist with contractor monitoring and future contract negotiations.

- Additional travel activity should be reported to management

In addition to the cost savings report, the STO should add to the monthly travel activity reports the specific trips where lost savings occurred based on travel requests. Providing this additional information assists departments' in satisfying the requirements of AAM 60.050, as revised in July 2005, which states:

*Travelers and approvers are required to provide their department commissioner and the Division of Finance with a reason for declining savings where the lowest available airfare is not purchased.*

Additionally, the monthly activity reports should include all instances of travel where the approver is also the traveler. In Recommendation No. 2, we recommend that travel agents routinely provide this information to the STO manager.

The enhanced cost savings and activity reports will provide department management and other decision makers with useful information to manage travel costs and ensure that departmental policies and procedures are followed. Managers will be able to identify the optimal mix of advance purchase travel and using the government rate when advance purchase is not an option.

## Recommendation No. 2

The STO manager should work with department travel coordinators to enhance travel request processes.

As departments have started using the STO, there has been some procedural flexibility provided to ensure that necessary state travel will still occur while the travel procurement processes are being worked out. However, as the departments gain experience, the travel agents and the STO manager need to improve and enforce their portion of the travel procurement processes.

Three primary areas of STO processes need improvement: enforcement of the request process, procedures for cancellation of hotel reservations, and procedures regarding travel approvals. A coordinated effort between the STO and departments is necessary to ensure that improvements to the process occur.

- STO should enforce its travel request procedures

The electronic travel request form is often not used or is not completed properly. Except for emergency situations, STO procedures require a written travel request form be completed with specific information. Throughout a four-day period, we observed travel agents frequently contacting travel desks to clarify incomplete or confusing requests.

Travel agents were also receiving and handling calls which did not meet emergency criteria. STO's structured process is designed to achieve effective and efficient service. Deviations to this process increase response time and costs, greatly reducing efficiency and effectiveness.

The STO manager should ensure enforcement of the procedures by requiring that all nonemergency requests be in writing. Additionally, written requests must have the essential information: date of travel, destination, and necessary arrival and departure times to meet business purpose. Travel agents should be directed to forward all nonemergency verbal requests to the STO manager. All written requests, not providing the essential information, should also be forwarded to the STO manager.

Removing requests which deviate from the standard process allows the State to utilize travel agents' time more effectively in addressing all travel requests. The STO manager can review and provide direction to the travel desk as well as identify training needs. After follow-up is completed, the request can be returned to the standard request process for handling. This helps ensure that subsequent requests will proceed more efficiently. An added benefit is that the STO manager can identify enhancements to the standard process.

- Procedures for hotel cancellations must be improved

Travel desks do not always understand the hotel cancellation process. Hotel reservations must be made in advance by the travel agents. The STO was not being consistently notified about canceled travel plans, and hotel reservations remained outstanding. Outstanding hotel reservations, not canceled by their specific deadlines, result in a penalty normally equal to a one-night stay. As a result, when procedures for cancellations are not followed, unnecessary costs are incurred.

No method is in place to identify the requests with outstanding hotel reservations. The STO manager should work with USTravel to develop a process to routinely notify travel desks of outstanding requests. STO travel procedures will be more effective in avoiding unnecessary costs with this process.

- Individuals approving travel should be identified and in writing

Approvals for travel must be received by the STO prior to purchase. Currently, travel agents are permitted to accept nonemergency approval in writing and verbally. During August, based on a travel agents previous department experience of verbal approvals, the agent inadvertently purchased travel without proper approval. Verbal approvals, for nonemergency travel, lack sufficient assurance that expenditure of the department funds is authorized, and blurs the responsibility for use of state funds.

Additionally, documentation tested proved unclear if an approval for purchase was given and none indicated the person responsible for approving. Adequate documentation of approval should include the name of the person responsible for the final approval to purchase.

The STO travel request process should require all nonemergency purchases include written documentation of approval with specific identification of the approver before purchase. In the event of emergency travel situations, the travel agent's system should identify the individual providing the verbal approval. Deviations from these requirements should be forwarded to the STO manager for follow-up with the travel desks. Additionally, the travel agents should identify for the STO manager, all travel purchases where the approver is the same individual as the traveler. (See Recommendation No. 1)

Enhancements to the current procedures will result in a reduction of unnecessary costs and ensure that adequate documentation exists for authorized travel. Better enforcement of travel purchase processes, by the STO manager working with the travel agents and departmental travel coordinators will ensure that travel needs are met efficiently and are cost-effective. This leaves more funds available for programs that serve the public need.

### Recommendation No. 3

The directors of administrative services should work with travel coordinators to improve travel desk operations.

Further improvements are necessary at the departmental level to ensure travel requests are processed efficiently and cost-effective as possible. To accomplish this, departments share the responsibility with the STO to coordinate efforts and collaboratively find workable solutions. The primary areas of necessary improvement are sufficient training and a reduction in the number of travel desks.

### **Exhibit 6**

#### Examples of Travel Requests

##### Unrestricted vs. Restricted Fares

A request for out-of-state travel, several months in advance, indicated unrestricted coach in order to "ensure full refundability." However, the unrestricted fare exceeded a partially restricted fare for the same travel by more than \$1,000. The STO agent advised that the less expensive ticket could be fully exchanged for name, times, and itinerary for up to 12 months for a \$100 change fee. The travel desk rejected that option. Ostensibly, the less expensive ticket could have been exchanged up to ten times before equaling the cost of the purchased ticket.

##### Unnecessary Research by Travel Desk

A request for out-of-state travel to Salt Lake City identified specific carriers, flight numbers, and departure and arrival times. The travel desk also noted *I've already done a lot of leg work in trying to find the CHEAPEST flights...* The travel agent found a less expensive fare.

##### Fare Selection by Ability to Upgrade

In a request: *full fare coach only No coach seat assignments required... I will be upgrading him to first class.* The STO agent quoted the State's reduced government rate and the travel desk declined the less expensive fare because the traveler only traveled first class. According to the agent, the travel desk did not understand that the government rate could be upgraded. Provided that information, the travel desk approved the purchase. However, since the request was ten days in advance the agent had an even lesser fare available, which was refused.



- Additional training is necessary for travel desk staff

Frequently, travel desk staff are not following established STO travel request procedures. Each department's travel coordinator has the responsibility to ensure all travel desk staff receives training on STO's procedures, as well as department policies for travel purchases. While in any new endeavor there typically is an implementation period where errors are common; it appears that some travel desks may lack sufficient training on the overall travel process.

For example, the STO receives travel requests that contain specific flight information rather than destination and timing factors. (See Exhibit 1) Clearly, internet research had been performed to secure the information. Although the requestor identified the fare as least cost, the travel agent found a less expensive flight to the same destination. The internet does not always supply the best information reflecting lowest cost air travel available. As trained, certified professionals, travel agents have direct access to standard industry databases with the most current fare and seat availability on all airlines. In these instances, the travel desks have unnecessarily increased the cost of the travel purchases. When travel desks use the established travel request process, there is an increased likelihood of optimum savings.

The departmental director of administrative services should work with travel coordinators to ensure all travel desks within their department receive sufficient training. To secure the most cost-effective and efficient travel arrangements, travel desks must fully understand and follow the process.

- Improve efficiencies by reducing the number of travel desks

Some departments have more travel desks than necessary for business necessity. We identified approximately 320 travel desks when only three and one-half departments were utilizing STO services. Given the diverse missions of departments, it is unreasonable to expect all departments needing the same number of travel desks. However, this large number, in only a few departments, greatly increases the potential for increased costs of travel purchases. Further, the travel desk positions are predominantly entry-level with the highest employment turnover rates. This creates a perpetual training situation for the departments. Fewer desks with more responsibility for departmental travel may decrease the constant need for training.

Initially, a maximum of 39 travel desks<sup>24</sup> were determined necessary in all state departments combined. Subsequently, significant changes have occurred altering the model, but the basic concept of using as few as necessary still applies.

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<sup>24</sup> Analysis presented in STO's FAQ sheet provided to SFOA in early planning meetings.

The administrative services directors and travel coordinators should review and determine the least number of travel desks necessary to accomplish the department's operational goals and objectives.

- Cross train departmental travel coordinator prior to implementation

Clear coordination and cooperation between departments and the STO is critical to the success of the centralized procurement effort. Working together to solve documentation and approval issues, to address complaints, and provide accurate and meaningful management travel information is essential. While much has been learned from the five departments that have started working with STO, a majority of departments have not transitioned to using STO.

To assist in the transition, we recommend that the departmental travel coordinator from each department cross train with the STO manager for a period of seven to ten days. During that time the departmental travel coordinator will learn how to avoid or resolve common travel procurement problems. They will also be able to obtain a complete understanding of the STO and its role in the travel procurement process. Additionally, they will learn essential information necessary to assist in training staff at their departmental travel desks.

Overall, well-trained staff provides an opportunity to build strong working relationships which increase the travel agents' ability to serve the specific needs of departments. Effective use of travel desks can maximize the department's potential savings on travel costs.

#### Recommendation No. 4

The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes.

Revisions of statutes and the administrative manual are necessary to provide guidance on use of mileage and to change obsolete industry terminology.

- Guidance needed for the use of EasyBiz miles

The travel purchase policies in the administrative manual<sup>25</sup> provide no guidance on using accrued air mileage in lieu of purchasing a ticket. The manual states "*State agencies will direct the STO on use of EasyBiz miles that will ensure maximum value upon redemption.*" Clearly defining redemption of mileage is left to the interpretation of departments.

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<sup>25</sup> AAM 06.050 revised July 2005.

Interviews with departments and analysis of the EasyBiz mileage balances demonstrate that mileage tickets are not regularly factored into air travel purchase decisions at almost all departments. Although the departments uniformly indicated they were saving money through mileage, the large balances and relatively few mileage tickets redeemed during FY 05 did not support their statements. The exception is DHSS which has departmental policies and procedures to guide their routine use of mileage as available. Most departments were zealous in accruing airline mileage, but conversely seemed to be reluctant to redeem mileage tickets for various reasons.

The major disincentives given for not using mileage tickets were:

- Commissioner's office approval needed before use,
- Mileage balance information not available to managers,
- Ineligible to accrue personal miles on some mileage tickets.

The director of Finance should establish guidelines in the administrative manual for efficient and effective use of mileage tickets. The airlines have restrictions on the use of mileage tickets that must be considered when establishing guidelines for mileage use. The STO manager and DHSS should be valuable resources to the director of Finance in establishing good guidelines. Clear guidance will assist departments in overcoming the disincentives to use mileage and begin to realize the savings that mileage tickets offer.

- Outdated statutory language should be changed

AS 39.20.140(b) refers to reimbursement of "*tourist class fare*" which has not been used by the air travel industry for over a decade. There is no equivalent class of fare at this time. Consideration should be given to changing the statutory language from reference of a specific class fare to something more generic such as fare of least cost which meets the needs of the State. Language that indicates overall travel policy will remain relevant without being as susceptible to industry terminology modifications. The director of Finance should request the statutory language change to reflect the State's overall policy for prudent travel purchasing.

We recommend revising the statute language and clarifying the administrative manual directives for travel purchases. Clearer guidance on travel purchase policies will assist the State in obtaining the least cost on air travel.

#### Recommendation No. 5

The STO manager should refine the complaint process used by state employees.

The complaint process is not being used as originally intended. Initially, the complaint process was designed to communicate the departments' concerns and issues, providing

feedback on STO processes, and information on the contractor's performance. However, it has also become a conduit to correct problems with travel requests and in-travel status issues more appropriately directed to USTravel for immediate attention. Underlying issues of the complaint process include a lack of definition of what constitutes a complaint, a need for complaints to be in writing, and a need for prioritization.

- Clearer definitions needed to distinguish a “complaint” from a “problem”

Review of the August 2005 complaint log revealed that departments were not clear on how to resolve an issue. About half of the 134 recorded complaints logged in August, related to problems with eminent travel where immediate resolution was necessary. In cases such as those, a travel agent should be contacted directly. The STO manager should intervene in the process only when travel agents are not responding to problems. Better definition of what constitutes a problem will assist in avoiding delays which may increase costs or delay necessary travel if not immediately handled.

The remaining entries in the August complaint log were about various issues related to contractor performance or accounting issues. The complaints predominantly appeared to be due to a lack of understanding or acceptance of the process by departmental staff; especially travel desks. Additionally, whenever a department transitioned to the STO, the number of complaints increased quite substantially. This underscores our findings of lack of training on the STO processes by travel desks. (See Recommendation No. 3)

To improve the complaint process, the STO manager should provide clear guidelines to department travel coordinators on what constitutes a problem versus a complaint.

- Written complaints should be required.

Several complaints were received by phone contact with the STO manager. This method not only gives a sense of urgency to the complaint, but leaves the issue to be subjectively documented by the STO manager. It is important that the STO manager have a consistent and well-documented method for complaints as an aspect of monitoring contractor performance. Verbal complaints increase the risk that they may not be reviewed timely or at all and could potentially result in increased travel costs.

The STO manager should require all complaints be in writing. To avoid confusion the STO manager should develop a separate complaint form, rather than relying on the current satisfaction form on STO's website. The STO manager should work with travel coordinators to develop a complaint form that will meet department and STO needs.

- Complaints should be prioritized by urgency

Generally all complaints are handled in the order received as much as possible. The STO manager has been attempting to prioritize, but often information provided is insufficient

to rank priority effectively. Lack of consistent prioritization increases the risk that the travel manager will not respond in a timely manner. Further, failure to respond timely to complaints involving accounting issues could result in additional costs of travel, reducing the savings a department could achieve.

With the addition of more departments, some complaints may not receive appropriate attention by the STO manager. Departments already using the STO may have developed an unrealistic expectation of response time which could be detrimental to good working relationships with the STO manager as other departments are brought in. By refining the process, the STO manager can better manage complaints and departments will develop a more realistic timeframe for responses based on priority.

The STO manager should work with travel coordinators to develop a priority ranking for types of complaints. Once developed, the complaint category should be identified on the complaint form before it is submitted to the STO manager.

Overall, the current complaint process needs some refinement. Although the STO manager has handled the complaints adequately as of this writing, it has been extremely time-consuming. As additional departments are added to STO, complaint activity should be expected to increase. A more formal process will allow the STO manager to maintain their ability to respond effectively.

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## APPENDIX A

### State Travel Office Major Milestones

1996	Survey by Administrative Services Directors to identify total number of staff dealing with travel issues.
October 2000	DOA-DGS staff meets with Alaska Airlines to review possible use of EasyBiz program by the State. Declined at this time.
Summer 2002	Second request by DOA-DGS for review of State departments' use of EasyBiz program.
September 2002	Review by Alaska Airlines of State use of EasyBiz program. Governor's office authorized as pilot agency.
Early 2003	DGS starts initial negotiations with Alaska Airlines for reduced fares. Requirement of central point of contact is identified.
March 2003	Authorization given by Alaska Airlines for State departments to begin setting up EasyBiz accounts.
June 2003	Initial <i>Central Travel Office Considerations</i> analysis document developed by SFOA workgroup.
October 2003	Memo issued by DOA Commissioner clarifying for agencies State travel policies and intent is to " <i>purchase at the lowest available fare that meets our business need either directly from the travel provider or through a travel agent.</i> "
Fall 2003	DGS identifies the State of Utah as best central travel office business model.
January 2004	DGS' staff travels to Utah to observe STO operations.
March 2004	<i>Travel Office Business Case</i> study, developed by DOF and SFOA presented to OMB's Lean Enterprise Team.
Spring 2004	DOA determines centralized travel office business model is best solution for the State.
March 2004	Negotiations between the State and Alaska Airlines continue.
April 2004	Prospective vendors present various travel management software to working group of DOF and SFOA.
May 2004	OMB approval given to purchase travel management software.
June 2004	State travel management software (STMS) purchased.
August 2004	Request for Proposal issued for travel agency contractor.
September 2004	Meetings with DOA departmental staff to review preliminary design of the new travel request workflow and solicit feedback.

## APPENDIX A

### State Travel Office Major Milestones

Fall 2004	DOF developing necessary system requirements for implementing and interfacing the new STMS with other State MIS systems.
November 2004	Travel agency contract awarded to USTravel, LLC.
November 2004	Alaska Airlines offers State E-Cert discount for use with EasyBiz accounts on full fare coach, during departmental transition to STO.
December 2004	DOF submits STMS system requirements to vendor GEAC Software Company for configuration.
January 2005	STO begins operations handling DHSS nonemergency Medicaid travel as pilot agency – Alaska Airline negotiated rates first used.
February 2005	First detailed travel reports produced for DOA, by USTravel — initial savings on negotiated rates reported for January.
February 2005	Configured STMS software received, initial testing identified substantial problems which were reported to the vendor for correction.
April 2005	DOA first pilot department to move to STO.
April 2005	Updates to the Administrative Manual travel section go into affect. Historic travel rules still apply for departments not using the STO.
May 2005	Continued problems with portions of STMS software — DOF refocuses efforts on expense reporting and interface portions of software.
June 2005	Some of DHSS divisions begin move to STO.
July 2005	Remainder of DHSS divisions and DOC moved to STO.
August 2005	Civil and Administrative divisions of DOL moved to STO.
September 2005	DOA issues contract performance cure letters to USTravel.
September 2005	DOA suspends further phase-in of departments until USTravel performance and STO workflow issues are resolved.
September 2005	DOF continues working on implementation of the expense management portion of STMS and development of interfaces.
November 2005	DOR requests to move to STO based on original schedule, which is completed by month's end.
December 2005	First quarterly performance review by STO manager finds USTravel meets pay-for-performance terms to increase transaction fee.



**APPENDIX B**

**Accrued Alaska Airline Mileage  
as of December 31, 2005**

<b>State of Alaska EasyBiz Mileage Balances</b>	
<i>Department Name:</i>	<i>Mileage Balance</i>
Department of Public Safety	3,787,532
Department of Transportation & Public Facilities*	3,559,306
Department of Environmental Conservation	1,728,561
Department of Commerce, Community & Economic Development*	1,563,695
Department of Law	1,142,798
Department of Fish and Game*	1,079,503
Department of Military and Veterans Affairs	1,006,320
Department of Administration	897,440
Department of Health and Social Services*	824,428
Department of Corrections	810,389
Department of Labor and Workforce Development*	612,350
Department of Revenue*	453,786
Department of Education and Early Development*	396,082
Department of Natural Resources	374,016
Governor's Office	339,349
Lieutenant Governor's Office*	197,774
Alaska Court System	28,057
State Travel Office US Travel	**
<b>Totals</b>	<b>18,801,386</b>

\* Department has more than one EasyBiz account

\*\* Mileage reallocated within Department balances

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## Appendix C

### Department of Administration Travel Office Business Case March 2004

Summary Proposal: Establish a central travel office within the Department of Administration. The office will be staffed with professional travel agents working under a contract to be managed by the Division of Finance. All state travel, including Medicaid client travel, must be purchased through the central travel office. Automate the approval and reimbursement process using web-based software to be managed by the state.

Background: In 1996, the Administrative Services Directors conducted a survey of positions involved in processing travel within state government. With twelve of sixteen departments reporting, the results of this survey showed over 1,000 positions (86 FTEs) involved in either travel arrangements (71 FTEs) or travel accounting (15 FTEs).

At that time, the revenues supporting commercial travel agents were still largely commissions from airlines. Because no public funds were spent for these services, each state office was able to use the travel agent of their choice and strong loyalties developed. The economics of the travel agent industry changed dramatically between 1999 and 2002 when airline commissions were cut and ultimately eliminated. Travel agents instituted fees for travelers, and the issue of competitive procurement arose for state agencies.

Based on statewide purchase volume, formal solicitation was required, with the result of all state travel purchased from the successful bidder. This model did not fit the market, which was then comprised of many travel agencies, each with a slice of state business. Instead the state chose to use travel agents that waived their fees for state business and established mandatory use contracts in locations without travel agents willing to waive fees. The largest such contract with U.S. Travel is still in effect for Juneau.

As airline commissions dropped, the number of financially viable travel agencies also fell. By June 2002 when airlines eliminated the remaining 5% commission, the number of travel agents in Alaska, like the rest of the country, was greatly diminished. At the same time, HB 300 passed which exempted travel agency services from the state procurement code. After surveying the remaining travel agents in Fairbanks and Anchorage, the state set a fee threshold of \$33 per itinerary. Once again, state agencies in locations without mandatory contracts could use any travel agent charging a service fee of no more than this amount.

Recent Developments: The Murkowski administration made it clear from the beginning that state travel expenditures would be one focus for administrative reform. Specific examples include:

1. Rolled out Easybiz, Alaska Airlines' online service for booking, purchasing, and tracking air travel. All state departments have established these accounts and are

## Appendix C

### Department of Administration Travel Office Business Case March 2004

accumulating two miles for every dollar spent in the account; some have begun redeeming the miles for state travel on Alaska Airlines and its partners.

2. Improved airline purchase information by vendor and high-volume city pairs for use in negotiating with airlines.
3. Aggregated Medicaid travel expenditures with other state travel expenditures, doubling the impact for negotiating purposes. Negotiations with Alaska Airlines for lower fares for all state travel are ongoing.
4. Negotiated improved contract terms with the state's credit card provider, which resulted in the \$158,712 rebate received in January, the first under this contract.
5. Revised state travel policy and changed the state credit card program to corporate liability to take advantage of local ordinances exempting expenditures made directly by the state from local taxes. Estimated annual savings of \$500,000.

Last summer the Department of Administration requested the State Finance Officer Association to document procedures for moving travel processing from the current decentralized model to a central travel office. The product of the workgroup documented the inefficiencies of our current operations and made several recommendations for improvements. It also recommended organizing any centralized travel office to include both the arrangement and payment processes.

Current Situation: Administratively we are muddling through with email approvals and Excel travel authorization forms. The business rules for reimbursement, which are complicated by differing terms in bargaining unit contracts, must be applied by travelers themselves or their support staff. We have no automation to implement them or to monitor for compliance with state policies.

Travelers are making their own travel arrangements, using whatever method they choose. The only compliance monitoring for state travel policies is between the traveler and their administrative support staff at the time of reimbursement, causing friction between the service organization and its customer. Information about our travel expenditures is limited to our credit card data or pulling it manually from printed Excel travel authorization forms.

How to Make It Better: Good business practice puts the arranging for travel in the hands of travel professionals who enforce the policies of the organization. Accountability for state expenditures requires approvals of travel costs in advance of commitment. Efficient

## Appendix C

### Department of Administration Travel Office Business Case March 2004

operation of large organizations requires automation for approving, calculating, disbursing, and tracking travel expenditures.

Proposed Operational Model for Central Travel Office: Contracted travel agents working on our premises with state travel as their only service. This model is used successfully by the State of Utah, and review of their operations leads us to believe that it would work here. The individual travel agents are supervised by an employee of the contractor who works with a state employee responsible for managing the contract. Travel agent services are available for normal operations between 8:00 and 5:00 p.m. daily, and 24 / 7 for emergency travel arrangements. State Easybiz accounts are used as appropriate.

Travelers themselves do not contact the travel agents except for emergency arrangements. Normal operations require travelers to provide designated travel desks<sup>26</sup> within their department approved travel requests. The travel desks then route the approved request to the travel agents who make the arrangements and send the itinerary information back to the travel desk and to the traveler. After travel is complete, the traveler provides actual cost information with receipts to the travel desk where the payments are calculated, authorized, and initiated. This includes reconciliation in AutoPay for credit card payments related to the travel, as well as reimbursements to the traveler, which will be deposited directly into the traveler's bank account.

Concentrating all the administrative support, which the 1996 survey showed utilized over 100 FTEs, in a limited number of travel desks in each agency will be a large change in the state's business process for managing travel. Similar will be the mandatory requirement that all travel arrangements be made with the central travel office. Both of these changes will be much easier to implement with expense management automation (EMA) software. EMA software will provide the web-based communication links between the traveler, the approver, the travel desk, and the travel agent. It will accumulate the itinerary information about a trip, calculate the amount of expenditures based on the business rules for the traveler profile, and create the reimbursement payment transactions interfacing with AKSAS.

The EMA software is not a requirement to implement a central travel office. However it is a key element for the success of the initiative. It will address our current administrative inefficiencies in processing and tracking travel. A recent white paper published by the

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<sup>26</sup> Larger departments may have three or more designated travel desks; smaller departments may have only one. The travel desks for Medicaid travel will initially be the authorizing case workers at First Health, although this may change as the Medicaid payment system is replaced in the coming years.

## Appendix C

### Department of Administration Travel Office Business Case March 2004

Aberdeen Group reported that many corporate organizations are turning to this software in response to the economic downturn to achieve efficiencies such as:

- Average time to enter expense report reduced by 60%;
- Average cost to process an expense report reduced by 80%; and
- Average time to settle an expense claim reduced by 90%.

The state will solicit the purchase of EMA software separate from the travel agency solicitation. The selected travel agent will be required to interface their travel arranging software with the state's EMA software.

Cost Analysis: The personal services costs in the customer agencies associated with this project are too unpredictable to include in the analysis. Because of the dispersion of travel-associated duties to over 1,000 positions it is likely that no individual positions would be eliminated. It is more likely that those resources will redeployed to the travel desks or other duties supporting the agency mission.

The cost analysis (Attachment A) is limited to the cost of the travel agency itself and estimated costs for acquiring and maintaining EMA software. These costs are compared to anticipated cost reductions associated with implementation of this initiative.

Proposed Funding Model: The operational cost of the central travel office and EMA software will be billed to customer agencies on a per transaction basis. The following table outlines estimated current airfare information by expenditure amount and legs.<sup>27</sup>

	Total Airfare		Alaska Airlines	
Medicaid travel	\$18.7 million	105,000 legs	\$5 million	15,000 legs
Other state travel	\$17.5 million	80,000 legs	\$13.1 million	72,000 legs
Totals	\$36.2 million	185,000 legs	\$18.1 million	87,000 legs

Assuming the 185,000 total legs translates into 60,000 trips, the cost per trip to support the estimated annual costs is about \$16 (\$955,500/60,000). Although the cost analysis may change as information improves, it seems clear that the price of the central travel office will be less than the \$33 fee threshold the state established for travel agent services.

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<sup>27</sup> Legs are defined as one-way segments of travel. A round trip consists of at least two legs.

## Appendix C

### Department of Administration Travel Office Business Case March 2004

Like all centralization initiatives, the central travel office will impact agency budgets. Instead of paying fees to travel agents when they choose to use them, agencies will be required to pay for the central travel office whenever state travel is purchased.

This change in business model will require approval in the statewide cost allocation plan as a billed service to agencies to ensure these costs are allowable charges to federal programs.

Timelines: The FY 2005 Health Care Services operating budget is predicated on achieving savings in travel costs for clients. For that reason, this program will be the first to start realizing savings from using the central travel office. The planned timeline:

1. By June 30<sup>th</sup> – Contract with travel agent signed and EMA software ordered.
2. August – Health Care Services begins using central travel office for Medicaid client travel.
3. October through December – Roll out central travel office and EMA software to state agencies.
4. January – Add EMA software for use by Health Care Services for Medicaid clients.

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# STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

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February 28, 2006

RECEIVED  
FEB 28 2006  
LEGISLATIVE AUDIT

Pat Davidson, CPA  
Legislative Auditor  
Division of Legislative Audit  
P. O. Box 113300  
Juneau, Alaska 99811-3300

Dear Ms. Davidson:

Thank you for the opportunity to respond to the findings and recommendations contained in the audit of the Department of Administration, State Travel Procurement Process.

The audit makes many good recommendations for improving the State Travel Office (STO). Our responses to findings and recommendations follow.

Preliminary STO benefits do not appear to offset implementation costs in the short term but are anticipated in the long term.

The audit points out that during the implementation period costs are at least as much as the benefits achieved. The department recognizes that while significant savings for state agencies are not yet realized, Medicaid travel has already seen sizeable savings. We have calculated over \$750,000 in net savings to the Medicaid program attributable to the STO during its first year of operation.

### STO manager monitors USTravel performance

In June 2005, the Divisions of Finance and General Services conferred with the Administrative Solutions Team on methods for measuring the STO contractor's performance. The contract was amended in October to incorporate these performance measures. The audit reflects the efforts of the STO manager in monitoring contractor performance. These performance measures affect the amount of fees paid to the contractor. The initial measurement period included four measures:

1. Respond to properly completed booking request within two hours.

2. Purchase timely approved itinerary within 24 hours of initial booking.
3. Respond to all emergency travel requests immediately.
4. Final itinerary accurate to booking request.

The contractor met all but the first measurement objectives in the initial measurement period. As a result, the fee for the February – April 2006 time period will be increased 10%. The STO manager continues to monitor these measures, and the results from this quarter will adjust the \$14 base fee for the next three-month period. This information will be communicated to the Division of General Services.

During this quarter, we will add a 5<sup>th</sup> measure: customer satisfaction as measured in a survey. This measure will be added to the calculation of fee adjustment beginning in the May – July period this year.

#### Recommendation No. 1

The director of Finance, working with the STO manager, should summarize and report travel activities to commissioners on a monthly basis.

We concur. Information about state travel is one of the primary benefits of this initiative. Agencies need information in order to manage their travel activities. As the audit states, we have been striving to develop reports that are useful and salient from the plethora of data that is available. Currently both the directors of administrative services and the designated travel coordinators in customer departments receive or have access to the following reports each week or month:

#### **Weekly Reports**

Air, hotel, and car activity  
 Invoices  
 Executive Summary  
 Fees by transactions (DOA only)  
 Customer Activity by CC# with voids (DOA only)  
 Traveler and Generic Profiles (STO Web Site)

#### **Monthly Reports**

Fare Savings  
 Executive Summary  
 Executive Summary by Cost Center  
 Easybiz & Apollo Unused Tickets  
 Mileage earned, used, and available

#### **Quarterly Reports**

Calculated Medicaid Savings  
 Statewide STO Cost Savings

Department commissioners have been added to receive the monthly Fare Savings and Executive Summary reports.

#### **Lost savings should be reported**

At our request, USTravel began capturing lost savings on purchased itineraries in December. This information is included in the monthly Fare Savings reports listed above. The audit points out one area where we are not identifying lost savings: instances where the state contract fares were not available for purchase from Alaska Airlines

inventory. This information would be useful in our contract relationship with the airline, so the category was added to the lost savings data beginning in February.

Additional travel activity should be reported to management

The audit recommends the STO should provide monthly travel activity reports identifying the specific trips where lost savings occurred based on travel requests. Now that this data is captured for the Fare Savings report, it is available for reporting by reason and organizational unit. The STO manager will set up these exception reports to run monthly and ensure they are sent to the administrative services director and commissioner of each department.

Additionally, the audit recommends that we report travel purchases where the approver is also the traveler. Some travelers have been authorized by their department to approve their own travel. This is documented in the Business Account Record for each department. We will direct the contractor to report all itineraries where travelers approved their own travel to the STO manager, who will review the authorizations in the Business Account Record. In those instances where travelers have not been authorized to approve their own travel, the STO manager will forward the information to the travel coordinator and administrative services director of the traveler's department.

Recommendation No. 2

The STO manager should work with department travel coordinators to enhance travel request processes.

Improving the operation of STO will be an ongoing effort for some time. This initiative completely reengineers a business process that was previously handled inconsistently across state offices.

STO should enforce its travel request procedures

We concur with the recommendation to enforce written booking requests for all nonemergency travel, but we do not want to insert the STO manager into this time-critical process. Instead the contractor staff has been directed to cease making arrangements for nonemergency travel without a properly completed booking request. We have directed the contractor to hold incomplete or incorrect booking requests and contact the sender about the problem, with a copy to the department's travel coordinator. This feedback has improved the rate of correctly completed booking request forms.

Procedures for hotel cancellations must be improved

We have implemented a process where the contractor staff notify travel desks to take action for itineraries that have been requested, but not approved for purchase. This new procedure should help prevent state agencies from incurring unnecessary hotel cancellation fees.

Individuals approving travel should be identified and in writing

Section 60.040 of the Alaska Administrative Manual contains policy on travel approvals. It requires, at a minimum, written approval from the traveler's supervisor prior to purchase. State agencies are responsible to ensure this is occurring before the travel desk approves a preliminary itinerary for payment. But as stated in the recommendation, this approval is not evident during the purchase process.

To correct this deficiency, we will establish a procedure that requires the travel desks to include their name and the name of the approving official in the email when approving an itinerary for purchase. This new requirement will be enforced beginning March 1, 2006 and will improve the accountability for purchases of travel.

For emergency travel handled over the phone, the travel desks will identify themselves and the approving official. The contractor will be directed to capture this information in the passenger name records.

Recommendation No. 3

The directors of administrative services should work with travel coordinators to improve travel desk operations.

This recommendation is directed at our customer agencies, but as the service provider, the STO strongly endorses this effort. Training and support provided to the travel coordinators and travel desks will help customer agencies transition to smoother operations in the new managed travel environment.

Cross train departmental travel coordinator prior to implementation

The STO roll out process currently includes four weeks of lead time during which the STO manager and others work directly with the department travel coordinator and other departmental staff. In addition, we are willing to provide cross training within the STO to new departmental travel coordinators as the audit recommends. We believe this effort will greatly benefit departments as they begin using the state travel office.

Recommendation No. 4

The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes.

Guidance needed for the use of EasyBiz miles

We concur with the recommendation to develop guidance on the use of EasyBiz miles. About 60 EasyBiz accounts have been established by agencies since they became available in early 2003. As agencies begin using the State Travel Office, the mileage in their existing individual EasyBiz accounts is accessible to STO for use as directed by the agency. All new mileage earned is credited to a single statewide EasyBiz account, with USTravel tracking the balances for use by agency. This single “mutual fund” of mileage brings visibility to the number of miles credited to the state overall, as well as the number credited to each state agency.

We will update the Alaska Administrative Manual to require that an agency must use its credited mileage within one year of it being earned, or the mileage will revert to a statewide pool. The statewide pool will be available for use by other departments with a business need for travel supported by mileage credit.

Recognizing the efficient use of EasyBiz by the Department of Health and Social Services, we will review their policy on this topic for possible statewide adaptation in the Alaska Administrative Manual. In our travel policy, we will address recommendations on mileage redemption options including guidelines for use of the 15,000 miles AS50 Ticket, the 20,000 miles Saver Ticket, and the 40,000 miles Peak Ticket. A draft of these policy changes will be submitted for comment to the administrative services directors and finance officers by March 1, 2006.

#### Outdated statutory language should be changed

We will pursue an update to AS 39.20.140(b) that replaces the outdated “*tourist class fare*” with language that requires the purchase of the “least cost fare that meets the business needs of the state.”

#### Recommendation No. 5

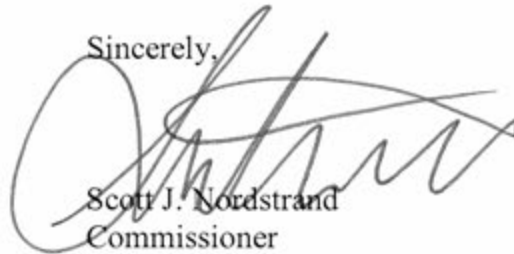
##### The STO manager should refine the complaint process used by state employees.

This has been implemented as recommended. The new complaint process, which is outlined on the Division of Finance travel web site, and presented at the semi-monthly process improvement meetings for travel desks, distinguishes “complaints” – which are directed to the STO manager, from “problems” – which are directed to the contractor. All complaints must be written, and the complaint form is currently available on the web site. It will soon be replaced with an on-line complaint reporting process that routes complaints through department travel coordinators to the STO manager, captures all complaints in a database, and categorizes them for reporting purposes.

It is helpful to have an objective review of the managed travel initiative early in the implementation process. We are proud of what has been accomplished thus far, but as the audit states, there are areas that still need improvement. It is our intention to make

these improvements, complete the implementation, and stabilize the STO during the current year.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott J. Nordstrand". The signature is fluid and cursive, with a large initial "S" and "N".

Scott J. Nordstrand  
Commissioner

cc: Kevin Brooks, Deputy Commissioner  
Department of Administration

Kim Garner, Director  
Division of Finance

Vern Jones, Chief Procurement Officer  
Division of General Services

Sunny Israelson, State Travel Manager  
Division of Finance

*Frank H. Murkowski, Governor*

**DEPARTMENT OF LAW**

*OFFICE OF THE ATTORNEY GENERAL*

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RECEIVED

MAR 06 2006

LEGISLATIVE AUDIT

March 6, 2006

Pat Davidson, CPA  
Legislative Auditor  
Alaska State Legislature  
Legislative Budget and Audit Committee  
P.O. Box 113300  
Juneau AK 99811-3300

Dear Ms. Davidson:

RE: Preliminary Audit, Department of Administration Travel Procurement Process

This is to respond to your December 23, 2006 Preliminary Audit.

Law supports Recommendation No. 1 regarding reporting to Commissioners and would like to add that regular reporting to Administrative Directors needs to continue so that we can help monitor costs and work with the divisions to try to save money where possible. Law agrees that reporting should include lost and declined savings. The first department reports received were in hard copy format. Since that time, the STO has begun sending URLs requiring the client agency to click to open and print pdf type files. So far the links to reports have been difficult to access and print.

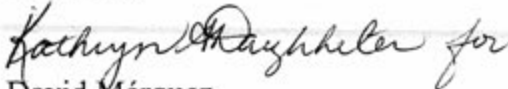
Law supports Recommendation No. 2 regarding the need for the STO to enhance travel request processes. We are still experiencing some problems particular to lost hotel reservations.

Law also supports Recommendation No. 3 regarding work Administrative Directors may need to do to improve travel desk operations, and agrees to specifically look at the issue of reducing the number of travel desks. Law will assess whether we have a high turnover in travel desk staff that is overly burdensome from the standpoint of the frequency of needing to train, as the audit suggests. Law believes the initial estimate of thirty-nine travel desks statewide (if all departments were deployed) was significantly off the mark, but agrees that three hundred twenty desks for the three and one-half departments currently deployed might also need reexamination.

The deployment of the State Travel Office, by necessity, took place across the Department's existing organizational structure. There are thirteen sections in the Civil Division. Most sections having offices in the three largest cities. One section has offices in five locations. Within each section's geographical location, travel was typically handled by the most senior Law Office Assistant. When the STO was implemented in the Civil Division, those same positions – in keeping with the organizational structure – became the designated travel desks. We have discussed a more streamlined model, but in the sections with high-volume travel, that will not work unless additional resources could be identified to staff a small, centralized group that only does travel. Only one employee works on travel full-time, that individual is in Administrative Services. Thus to try to centralize the function would be detrimental to the sections because of loss of administrative and/or legal support. We are considering some consolidation for sections that rarely travel.

Law still needs to finalize implementation by bringing the Criminal Division into the State Travel Office process. Once the state has some agreements with rural carriers, Law will be in a much better position to do so. We continue to have concerns about non-employee travel in rural locations, which is a significant aspect of criminal division travel.

Sincerely,

  
David Márquez  
Attorney General

Cc: Kathryn Daughhete, Director, Administrative Services Division  
Craig Tillery, Deputy Attorney General, Civil Division  
Susan Parkes, Deputy Attorney General, Criminal Division  
Dean Guaneli, Chief, Assistant Attorney General, Criminal Division  
Nancy Gordon, Chief, Assistant Attorney General, Civil Division  
Sandra Landis, Statewide Office Manager, Criminal Division  
Melanie Ferguson, Statewide Office Manager, Civil Division  
Bob Meiners, Administrative Manager, Administrative Services Division  
Doug Hanon, Finance Officer, Administrative Services Division



# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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Pat Davidson  
Legislative Auditor  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

February 27, 2006

Re: Preliminary Audit Report  
Department of Administration  
State Travel Procurement Process

RECEIVED

FEB 28 2006

LEGISLATIVE AUDIT

Dear Ms. Davidson:

Thank you for the opportunity to respond to the preliminary audit report on the state travel procurement process.

### Recommendation No. 1

The director of Finance, working with the State Travel Office (STO) manager, should summarize and report travel activities to commissioners on a monthly basis (report lost savings and travel activity to management).

We concur with this recommendation. Information regarding travel activities and lost savings will help the department better manage travel costs. The department is currently receiving weekly and monthly travel activity reports which are distributed at the division director level. Additional information regarding lost savings has recently been received and is already proving to be useful in identifying problem areas where savings are not being realized.

### Recommendation No. 2

The STO manager should work with department travel coordinators to enhance travel request processes (enforce travel request procedures; improve hotel cancellation procedures; and identify individuals approving travel).

We concur with the recommendation that travel request procedures should be enforced. Although procedures currently exist for state employees to request travel through the STO, improvements by the STO regarding consistent enforcement of those procedures would reinforce efforts by the department's travel coordinator to ensure that the procedures are being followed. We also concur that a method should be established to

notify travel desks of outstanding travel requests so that hotel cancellations can be made if the travel is not going to occur.

Regarding the recommendation that individuals approving travel should be identified and in writing, we believe that existing policies and procedures are already in place to ensure that this occurs, and that the responsibility more appropriately rests with the department rather than with the state's contract travel agency.

#### Recommendation No. 3

The directors of administrative services should work with travel coordinators to improve travel desk operations (additional training for travel desk staff; reduce number of travel desks; cross train departmental travel coordinators).

We concur with the recommendation that additional training is needed for travel desk staff. The Department of Revenue had the benefit of other departments' experience in implementing the STO, and as a result developed a training plan (with the assistance of the state travel manager) for travel desks and travelers that was presented in advance of the STO start date. Because of the training that we provided, this department has had relatively few problems in making the transition to the STO. Training will continue to be an issue, however, since the travel desks are generally lower level positions with frequent turnover. An ongoing training plan will be essential for both travel desks and new employees.

We concur with the recommendation that the number of travel desks should be kept to a minimum, and believe that we have complied in this area. The Department of Revenue currently has twelve travel desks to cover eight divisions (one in each division plus additional support in critical or high volume areas). This provides an adequate level of coverage. Each position that is now assigned travel desk duties existed prior to implementation of the STO, and each continues to have other duties in addition to travel.

We concur with the idea that the departmental travel coordinator needs more extensive training in order to gain a complete understanding of the STO and the travel procurement process. However, in reality the travel coordinator must also perform the duties that were assigned to the position prior to implementation of the STO. Having the travel coordinator dedicate seven to ten days to STO training would be beneficial to the processing of travel, but is not realistic in a minimally staffed work environment.

#### Recommendation No. 4

The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes (guidance needed for use of EasyBiz miles; outdated statutory language).

Ms. Pat Davidson  
February 27, 2006  
Page 3 of 3

We concur with this recommendation. The Department of Revenue had approximately 350,000 EasyBiz miles when the accounts were audited on July 29, 2005. While this is fairly low compared to other departments, we welcome guidance by the Division of Finance in ensuring that miles are used appropriately and in a timely manner.

Recommendation No. 5

The STO manager should refine the complaint process used by state employees (define complaint vs. problem; require written complaints; prioritize complaints).

We concur with this recommendation. The Division of Finance has instituted a new complaint process, and we have established internal guidelines to resolve problems within the department whenever possible, especially when they are caused by lack of training or an inadequate understanding of the new travel procurement process.

Thank you for the opportunity to address your recommendations. The Department of Revenue welcomes your efforts in improving the state travel procurement process.

Sincerely,



William A. Corbus  
Commissioner

cc: Jerry Burnett  
Administrative Services Director  
Department of Revenue

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# STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

## DEPT. OF HEALTH AND SOCIAL SERVICES

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February 6, 2006

RECEIVED  
FEB - 8 2006  
LEGISLATIVE AUDIT

Pat Davidson  
Legislative Auditor  
Division of Legislative Audit  
PO Box 113300  
Juneau, AK 99811-3300

RE: State Travel Procurement Process, Department of Health & Social Services

Dear Ms. Davidson:

Thank you for allowing us the opportunity to respond to the Management Letter regarding the State Travel Office (STO).

### Recommendation No 3

The directors of Administrative Services should work with travel coordinators to improve travel desk operations.

### Additional training for travel desks staff is needed

The Department of Health and Social Services (DHSS) concurs with this recommendation. During the implementation phase of the STO, DHSS in conjunction with the STO Manager provided training to travelers and travel desk staff on STO policies and procedures. The STO also provides training to all travel desks twice a month. DHSS is designing a more comprehensive PowerPoint presentation to offer to new travelers and travel desks. We will also be creating a training schedule for all employees, which will include classes throughout the year.

Improve efficiencies by reducing the number of travel desk

DHSS does not concur with this recommendation. It appears the audit recommendation did not consider program travel required for its clients and board members. DHSS employs approximately 3,300 employees, of which, approximately half (1,650) travel for business purposes. Travel arrangements must also be made for the department's non-employees, consisting of approximately 100 board and commission members, over 1,900 foster care clients, and 1600 trips for clients in juvenile facilities requiring an escort (many of which require emergency travel). Travel arrangements for programmatic purposes in our 35 field offices and 9 juvenile facilities require an increased number of travel desks. In addition we require sufficient backup travel desk staff in part because of the high volume of emergency travel requests. We currently have 166 department employees trained in travel desks duties. This total constitutes employees designated as primary, secondary, and backup travel desks.

Division	Travel Desk Staff	% of Department
DPH	52 (1)	31%
AKPH	3	2%
OCS	20 (2)	12%
HCS	3	2%
FMS	14 (1)	8%
DPA	21 (1)	13%
DBH	11	7%
DSDS	7	4%
DJJ	35 (2)	21%
	<u>166</u>	

(1) Division's include secondary and backup ATD's  
(2) Division's with high client travel


Recommendation No. 4

The director of Finance should develop guidance for the use of mileage and seek revision of travel status

Guidance needed for the use of EasyBiz miles

As noted in the management letter, DHSS is actively utilizing the miles accumulated through this program, thus saving general fund dollars. DHSS is available to assist Division of Finance and the State Travel Office manager on developing a statewide policy for using EasyBiz miles.

If you have any questions concerning this letter, please feel free to contact Michelle Grose at 465-1690 or by email [Michelle\\_Grose@health.state.ak.us](mailto:Michelle_Grose@health.state.ak.us)

Sincerely,  
  
Karleen K. Jackson, Ph.D.  
Commissioner

# STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

## DEPARTMENT OF CORRECTIONS Commissioner's Office

PO Box 112000  
Juneau, AK 99811  
PHONE: (907) 465-4652  
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LEGISLATIVE AUDIT

February 23, 2006

To: Pat Davidson  
Legislative Auditor  
Division of Legislative Audit  
P. O. Box 113300  
Juneau, AK 99811-3300

Re: Preliminary audit report on DOA, State Travel Procurement Process

Dear Ms. Davidson,

Thank you for the opportunity to respond to the Department of Administration, State Travel Procurement Process. Overall the department concurs with the audit recommendations.

### Recommendation No. 1

The director of finance, working with the STO manager, should summarize and report travel activities to commissioners on a monthly basis.

The department agrees that the cost savings report does not, but should, identify where savings were not obtained (lost savings). We have experienced in many instances that the cost of department travel was much higher going through the STO than had the department booked directly with the airline carrier. Additional training and personnel costs have also been incurred during the implementation phase of the STO which are also not being reported. However, the department looks forward to receiving more concise information and reports on travel costs as well as to the adherence or deviation of department prescribed policies.

### Recommendation No. 2

The STO manager should work with department travel coordinators to enhance travel request processes.

The department realizes the enormous need to streamline the travel request process between department employees as well as with STO staff. Unfortunately, several instances have occurred during the last six months involving employees traveling where all airline segments were not booked, where some airline carriers did not show traveler or ticket information on their system, and most frequently when emergency travel was not arranged timely and ultimately delayed. Coordination of these efforts will help insure our travel needs are met in an expeditious and cost effective manner.

Recommendation No. 3

The director of administrative services should work with the travel coordinators to improve travel desk operations.

Continued strong efforts are being made to improve and enhance the skills of our travel coordinators in order to accommodate, simplify and abridge department travel needs.

Recommendation No. 4

The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes.

The department agrees with this recommendation.

Recommendation No. 5

The STO manager should refine the complaint process used by state employees.

The department recognizes the necessity to distinguish the difference between complaints and problems when communicating with the STO. As previously mentioned, travel problems have occurred which required immediate assistance and comprehensible communication with the STO. All efforts made to improve this process are greatly appreciated by department management.

Sincerely,



**Marc Antrim**  
Commissioner, Department of Corrections