REPORT OF

THE

STATE AUDITOR

Statewide Travel Management Program
Department of Personnel & Administration

Performance Audit
December 2002

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December 20, 2002

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Statewide Travel Management Program within the Division of Central Services at the Department of Personnel & Administration. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Personnel & Administration.

Joanne Hill

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JOANNE HILL, CPA
State Auditor

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Department of Personnel & Administration
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Authority, Purpose, and Scope

This performance audit of the Statewide Travel Management Program was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted government auditing standards. Audit work was performed from January through September 2002.

This report contains findings and 13 recommendations for improvements that are needed in Statewide Travel Management Program operations related to air travel, car rentals, travel card usage, program funding, and statutory compliance. We would like to acknowledge the efforts and assistance extended by the management and staff of the Department of Personnel & Administration during the course of this audit. The following summary provides highlights of the comments contained in the report.

Overview

The Statewide Travel Management Program (Program), which is located in the Division of Central Services within the Department of Personnel & Administration, is required by statute (Section 24-30-1118, C.R.S.) to coordinate and oversee travel for all state agencies and higher education institutions. The Program currently has two FTE and annual operating expenditures of about $160,000. The Program fulfills its statutory mandate through several means, which include issuing rules, collecting data, and negotiating contracts with commercial travel vendors (e.g., credit card companies, travel agents, airlines, car rental companies, and lodging vendors). All executive branch employees, with the exception of elected officials, are required to follow Program rules and utilize Program agreements. Statutes do, however, allow certain exceptions to this requirement, primarily on the basis of cost considerations.

In Fiscal Year 2002 the State spent about $50.4 million on travel. About 73 percent of this amount ($36.7 million) was spent by higher education institutions. We believe that substantial cost savings, as well as modest revenue enhancements, can be realized from making certain improvements to the existing Statewide Travel Management Program. Specifically, if implemented, the recommendations contained in this report will result in an estimated annual cost savings of approximately $4.3 million and about $268,000 in increased revenues. The following sections provide a summary explanation of our major findings and recommendations.

For further information on this report, contact the Office of the State Auditor at (303) 869-2800.

Air Travel

The Program has negotiated price agreements for air travel with three airlines and over 70 travel agents across the State. Program rules require state travelers to use approved travel agents and airline price agreements unless certain statutory exemption criteria are met (e.g., travel services can be purchased at a lower cost using a non-approved vendor). In recent years, the travel industry has undergone substantial changes, which include the advent of Internet-based travel vendors. We found that state travelers can often purchase airline tickets less expensively on the Internet than if they purchased tickets through a state-approved travel agent. Specifically, our research showed that approximately $2.4 million could be saved each year by allowing state travelers the standing option of using the Internet to purchase airline tickets. As mentioned previously, statutes currently allow state agencies and higher education institutions to use non-approved vendors to purchase airfare if cost savings are apparent; however, Program rules do not delineate an approval and documentation process for state travelers to follow in these situations.

The Program's airline price agreements include provisions regarding unrestricted airfares. Unrestricted airfares provide more flexibility to travelers by allowing itinerary changes free-of-charge and by not requiring advance purchase. Unrestricted airfares are, however, substantially more expensive than restricted airfares and should not be purchased unless certain conditions exist (e.g., an employee must travel on short notice). During Fiscal Year 2001 the State purchased about 6,100 unrestricted airline tickets. We reviewed these purchases to identify how many were made within the advance purchase time limits required for restricted tickets (i.e., 7 or 21days prior to departure). We found that about 2,100 unrestricted tickets (34 percent of the total) were purchased more than 21 days prior to departure and another 2,200 unrestricted tickets (36 percent of the total) were purchased more than 7 days prior to departure. The excess cost associated with purchasing these tickets instead of advance restricted tickets was nearly $1.1 million. Program rules do not currently limit the purchase of unrestricted airfares, nor do they provide guidance regarding the situations in which buying these tickets may be appropriate.

The Program's contract with travel agents includes a $26 fee for each transaction an agent makes on behalf of the State (e.g., purchase, exchange, or refund of an airline ticket). In March 2002 the transaction fee was $11 but was raised as the result of a contract provision that allowed the increase should the airlines cut their commissions to travel agents. Using Fiscal Year 2002 data, we calculated that this fee increase will cost state agencies an additional $619,000 over the course of a fiscal year. Further, the $26 transaction fee is significantly higher than the transaction fees assessed by three popular Internet-based travel vendors (i.e., $0 or $5). As a result, even if an airfare offered through a state-approved travel agent and an Internet site were exactly the same, the lower transaction fee assessed through the Internet would make this airfare a better buy. State travelers need to be aware of the differences in transaction fees so that they can make informed decisions when booking air travel arrangements. Negotiating more competitive transaction fees in future contracts with travel agents is also needed to ensure the State's travel expenditures are minimized.

Car Rentals

The Program has negotiated contracts with three vendors to provide discounted car rentals to state travelers. Using these vendors is mandatory unless statutory exemption criteria are met. Using state-approved car rental vendors provides the State with several benefits, including lower costs, automatic liability insurance, and revenue sharing. We found that many state travelers are not using state-approved car rental vendors even though it is beneficial to do so. Using non-approved car rental vendors results in unnecessary expenditures of about $168,400 per year and loss of about $50,300 in incentive payments. Improved compliance with existing Program rules and vendor agreements is necessary to reduce costs and increase revenues in this area.

The State receives two types of automatic insurance protection when state travelers use their Diners Club card to rent cars from state-approved vendors. It is important that state travelers are aware of these existing benefits so that they do not purchase unnecessary insurance. We estimate that in Fiscal Year 2002 state travelers spent at least $16,700 on unnecessary insurance at approved vendors. Although circumstances may call for the purchase of insurance (e.g., a state traveler is compelled to use a non-approved vendor because no approved vendors are available), these situations should be the exception, not the rule. It is also important that state travelers are made aware of the situations in which purchasing insurance is prudent so that the State is not exposed to unnecessary risks. Further education, monitoring, and enforcement are needed to eliminate unnecessary insurance expenditures and ensure that the State is adequately covered when state travelers are renting cars on official business.

Travel Card Management

The Program has contracted with Diners Club cards to provide travel card services to the State. Three types of travel card accounts are currently available to state agencies and higher education institutions (i.e., centrally billed or "ghost card" accounts, group event accounts, and individual travel card accounts). Total charges to these accounts during the period August 2001 to July 2002 were approximately $31.6 million. The contract with Diners Club provides the State with revenue incentives for paying centrally billed accounts promptly and achieving certain levels of transaction volume on individual travel card accounts. We found that the early payment incentive agreement is not advantageous for the State. This is because the State currently earns more interest revenue from holding its payments to Diners Club, which has a 60-day billing cycle, than it would from paying early enough to earn maximum incentive payments (i.e., within five days of billing date). In Fiscal Year 2001, for example, the State lost about $115,800 in interest revenues from paying its centrally billed accounts early (i.e., within 18 days of billing date, on average). Better monitoring of interest rates and statewide travel card activity is needed so that state agencies and higher education institutions can time their payments to Diners Club to the State's best advantage.

We also found that the State is not maximizing the volume incentives it could receive from the Diners Club agreement. Volume incentive payments are calculated on the basis of charge volume to individual travel card accounts. We found that the State has not received a volume incentive payment since the Diners Club agreement was put into effect in 1996. Several problems contribute to this situation, including the need for improving compliance with Program participation rules (i.e., rules that govern who should be issued a travel card), increasing use of the travel card to pay for a greater portion of all official travel-related expenses, and eliminating personal use of the card. Although personal use of individual travel cards does not create a state liability, it is contributing to delinquencies on these accounts, which negatively affect the State's volume incentive payments. Improving enforcement and sanctioning employees who violate the personal use policy, as well as increasing travel card issuance and usage, is needed to address these issues.

Program Funding and Statutory Compliance Issues

The Program has several revenue sources it uses to offset its annual operating costs of approximately \$160,000. These include revenue sharing agreements with state-approved travel agents, car rental companies, and Diners Club. Despite these arrangements, the Program has consistently failed to cover its costs, resulting in a cumulative operating loss of \$94,300 since Fiscal Year 1995. Statutes require the Program to charge its users the full cost of providing services. Consequently, operating deficits are inconsistent with statutory mandates for self-sufficiency and, thus, should be eliminated. Abolishing the inefficient revenue sharing agreements with state-approved travel agents and replacing them with a direct billing system for user agencies would help the Program eliminate its operating deficits and the other inefficiencies that are inherent in the current funding arrangement. A direct billing system could be easily implemented using travel expenditure data that are already captured in the Colorado Financial Reporting System (COFRS).

The Program is required by law to monitor the travel patterns and practices of state employees in an effort to identify cost savings. Throughout the audit it became apparent that the Program needs to improve its monitoring activities to ensure that potential cost savings possibilities are identified in a timely and systematic manner. Our findings of nearly \$4.3 million in cost savings and about \$268,000 in revenue enhancements show that greater effort is needed in this area. The Program needs to take several steps—including making better use of existing data and instituting more proactive and innovative monitoring approaches—to ensure it meets its statutory mandate to continually identify cost savings. We also believe that the Department of Personnel & Administration should reevaluate the usefulness of the existing Statewide Travel Management Program as compared with alternative methods of managing travel-related expenses. Existing state fiscal and procurement systems could perform the functions needed to meet the expressed legislative intent for statewide oversight of travel-related expenses.

Our recommendations and the responses of the Department of Personnel & Administration can be found in the Recommendation Locator.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Personnel & Administration

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	18	Encourage the use of alternative purchasing methods for airfare.	Agree	March 31, 2003
2	20	Modify Statewide Travel Management Program rules to limit the purchase of unrestricted airfares.	Agree	April 30, 2003
3	22	Educate state travelers about transaction fees, and ensure that future agreements with state-approved travel agents include competitive fees or eliminate these agreements altogether.	Agree	Ongoing
4	27	Improve compliance with Statewide Travel Management Program requirements regarding rental cars.	Agree	Ongoing
5	29	Eliminate unnecessary insurance costs associated with car rentals.	Agree	Ongoing
6	33	Monitor interest rates and statewide payment activity to identify and communicate the optimal strategy for timing payments to centrally billed travel card accounts.	Agree	Ongoing
7	34	Work with state agencies and higher education institutions to increase issuance and usage of individual travel cards for official state business purposes.	Agree	Ongoing
8	37	Work with state agencies and higher education institutions to improve enforcement of the personal use policy regarding individual travel cards.	Agree	Ongoing
9	39	Work with state agencies and higher education institutions to improve enforcement of policies regarding cash advances on individual travel cards.	Agree	Ongoing

RECOMMENDATION LOCATOR
Agency Addressed: Department of Personnel & Administration

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
10	44	Modify existing funding approaches to comply with Section 24-30-1108, C.R.S., which requires full-cost pricing of Program services.	Agree	Ongoing
11	49	Ensure that the information contained in the Annual Report accurately represents the net cost savings accruing to the State from Program operations. Work with the General Assembly to determine if the Annual Report should be continued in its current form.	Agree	November 1, 2003
12	51	Improve monitoring of state employee travel patterns and practices to identify potential cost savings opportunities and to enforce Statewide Travel Management Program rules.	Agree	Ongoing
13	53	Evaluate alternatives to the Statewide Travel Management Program that achieve fiscal accountability and maximize the value of state travel expenditures without a separate, formal program.	Agree	January 2004

Description of the Statewide Travel Management Program

Overview

The Statewide Travel Management Program (Program), which was instituted in Fiscal Year 1994, is charged with coordinating and overseeing state employee travel for all state agencies and institutions of higher education. The General Assembly declared in 1993 that the creation of a statewide travel management program was needed to foster fiscal accountability and bring significant financial savings to the State. The Program is located in the Division of Central Services within the Department of Personnel & Administration and currently has two FTE.

The Department of Personnel & Administration has several responsibilities under Section 24-30-1118, C.R.S., with respect to the Program. Among other duties, it is required to:

- Establish uniform reporting requirements and management controls for expenses incurred by state employees who travel in furtherance of their official state duties.
- Develop a method for evaluating commercial travel vendors to identify the most favorable rates and travel services for state employees.
- Establish a uniform credit card system for all direct billing and cash advances related to state employee travel.
- Monitor travel patterns and practices of state employees in an effort to identify opportunities for cost savings.
- Enter into contracts with commercial travel vendors and credit card companies as necessary to carry out the Program.
- Promulgate and enforce the rules and regulations necessary to carry out the Program.
- Submit a written annual report evaluating the progress of the Program.

Program Revenues and Expenditures

Section 24-30-1108, C.R.S., requires all programs operated by the Division of Central Services to cover their operating costs by charging appropriate fees. The Statewide Travel Management Program currently receives revenues from three sources: (1) a $3 surcharge on all transactions made by state-approved travel agencies on behalf of user agencies, (2) a revenue sharing agreement with selected car rental companies, and (3) a revenue sharing agreement with the State's travel card vendor, Diners Club. Annual Program expenditures have averaged about $132,000 since Fiscal Year 1995. The majority of the Program's annual expenditures are for personal services costs.

The following table shows revenue, expenditure, and profit/loss data for the Program since Fiscal Year 1995. We were unable to obtain profit/loss information for Fiscal Year 1994 because the Department did not separately account for Program operations until Fiscal Year 1995.

Statewide Travel Management Program
Revenues and Expenditures
Fiscal Years 1995–2002

	1995	1996	1997	1998	1999	2000	2001	2002
Revenues	$138,840	$110,876	$113,697	$92,892	$91,379	$124,960	$122,771	$168,794
Expenditures	$152,851	$122,621	$116,892	$102,364	$138,387	$128,058	$137,198	$160,122
Profit/(Loss)	($14,011)	($11,745)	($3,195)	($9,472)	($47,008)	($3,098)	($14,427)	$8,672

Source: Division of Central Services Annual Reports and COFRS data.

The table shows that the Program has generally operated at a deficit since its inception. This issue is discussed in more detail in Chapter 4.

Program Components

The Program has seven main elements designed to help manage state travel, gather information, and provide savings to the State. These include Program rules, the travel card system, the travel agent network, airline contracts, car rental contracts, hotel agreements, and an advisory board. All executive branch employees, except elected officials, are required to use the Program and its approved vendors. The Judicial and Legislative Branches also participate in the Program, although they are not required to do so. In addition, statutes provide certain exceptions to the requirement for compliance by executive branch employees. For example, non-approved commercial travel vendors can be used if they offer a lower price than an approved vendor or if using them would facilitate ease of access to the service required. In addition, mandatory program requirements may be suspended if the Department of Personnel & Administration determines that an emergency situation exists.

The State Fiscal Rules also establish controls over both the type and the amount of travel-related expenses for which state employees may be reimbursed. In general, the Fiscal Rules require all travel to be for the benefit of the State and to be accomplished using the most economical means available. The Fiscal Rules also provide more detailed guidance regarding travel authorization procedures, documentation requirements, use of travel cards, non-reimbursable expenses, and limits on certain types of expenses (e.g., meal allowances).

A more detailed explanation of the other components of the Statewide Travel Management Program follows.

Travel Cards

The Program currently contracts with Diners Club to fulfill its statutory responsibilities for establishing a uniform credit card system for use by state travelers. The Program reports that at the end of Fiscal Year 2002, there were approximately 15,000 Diners Club cards issued to state employees. There are three types of travel card accounts currently available for use by state agencies and employees:

- **Centrally Billed Accounts:** These accounts are not assigned to individuals, but rather to state agencies and higher education institutions. Centrally billed accounts are state-liable and have a 60-day billing cycle. Airfares are the primary type of travel-related purchases made through a centrally billed, or "ghost card," account. Other travel-related services, such as car rentals, may also be purchased through a centrally billed account, although this is less common. Over the period August 2001 to July 2002, which is the Diners Club program year, approximately $16.7 million was charged to these accounts.

- **Group Event Accounts:** These accounts are issued to state employees who are routinely responsible for making hotel, meeting, or other group reservations for events such as conferences. These accounts are also billed directly to the State and have a 60-day billing cycle. Over the period August 2001 to July 2002, approximately $1.9 million was charged to these accounts.

- **Individual Charge Card Accounts:** These accounts are assigned to individual state employees, who are personally liable for the balance charged to the card. According to Program rules, a state employee must obtain an individual travel card if he or she travels twice in-state, once out-of-state, or spends over $250 on travel in any one year. When these cards are used to pay for car rentals, Diners Club provides collision insurance at no extra cost to the State. Over the period August 2001 to July 2002, approximately $13 million was charged to these accounts.

Diners Club also tracks card usage information (e.g., transaction type, vendor, amount) that can be used in determining how state agencies and employees spend travel dollars. It should be noted that the contract with Diners Club is currently under review.

Travel Agents

Through a bid process, the State has contracted with over 70 travel agents statewide to provide services to state agencies and higher education institutions. These services include booking air travel through the centrally billed accounts and occasionally making hotel and car rental reservations. Currently travel agents are the primary vendor from which state travelers can purchase air transportation. During Fiscal Year 2002 the State purchased approximately 41,295 airline tickets through state-approved travel agents at a total cost of about $17.7 million.

Airlines

The State currently has contracts with United, Frontier, and Great Lakes Airlines to provide discounted airfares to state travelers. These contracts include price agreements for 181 city-pairs. A city-pair is defined as an origination and destination city, including all flight segments necessary to complete travel. The city-pair agreements were established through an evaluation process that assessed a number of factors, including the availability of nonstop routing and overnight stay requirements. United Airlines was the chosen vendor for 86 percent of current city-pair agreements. Using these price agreements is mandatory unless statutory exemption criteria are met.

Car Rental and Lodging Agreements

The Program has contracts with Avis, Alamo, and Enterprise for discounted car rental rates for state travelers. These are also mandatory price agreements unless a traveler meets the statutory exemption criteria. In addition to discounted rates, the car rental contracts provide state travelers with automatic primary liability insurance.

The Program has also negotiated over 220 lodging agreements in-state and nationally. The lodging agreements are permissive, meaning that state travelers are encouraged, but not required, to use these vendors when traveling on state business.

State Travel Council

The Program has appointed a State Travel Council to assist it in developing statewide travel policies. The Council is the Program's advisory board and comprises various stakeholders (e.g., representatives from state agencies, higher education institutions, travel agencies, and airlines, among others). The Council meets periodically to discuss recent trends in the travel industry and solutions to various problems. The Council is not created in statute.

Recent State Travel Spending Trends

Section 24-30-202(26), C.R.S., requires the State Controller's Office to prepare a report each February that itemizes the travel expenses of each state department and higher education institution. It should be noted that these reports include data on travel spending by state employees only; there is also a significant amount of travel-related spending each year by non-employees (e.g., student athletic teams). For example, non-employee travel spending for Fiscal Year 2002 was approximately $11.6 million. The following table shows travel-related expenditures by state employees over the period Fiscal Year 1997 to Fiscal Year 2001. The table further delineates between spending by state agencies and higher education institutions and by funding source.

State Employee Travel Spending by Funding Source
Higher Education Institutions and State Agencies
Fiscal Years 1997–2001 (In Millions)

Funding Source	1997		1998		1999		2000		2001	
	Higher Ed	State Agencies	Higher Ed	State Agencies	Higher Ed	State Agencies	Higher Ed	State Agencies	Higher Ed	State Agencies
General	$4.1	$3.7	$4.4	$4.3	$4.9	$5.3	$5.1	$5.2	$5.5	$5.1
Cash	$13.3	$4.5	$14.8	$5.0	$16.0	$4.4	$17.9	$5.8	$19.9	$5.8
Federal	$9.3	$3.0	$9.9	$3.0	$10.5	$3.0	$11.3	$3.2	$12.5	$3.0
*Subtotal**	*$26.7*	*$11.3*	*$29.1*	*$12.3*	*$31.4*	*$12.7*	*$34.3*	*$14.2*	*$37.9*	*$13.9*
Grand Total*	**$38.0**		**$41.4**		**$44.1**		**$48.5**		**$51.8**	

Source: State Controller's Office Travel Expense Reports.
* Totals may not add due to rounding.

The table shows that higher education spends far more on travel than state agencies. More specifically, higher education accounted for about 70 percent of total statewide travel spending during the period shown. Travel-related expenditures within the higher education system are also comparatively higher if total operating budgets are taken into account. For instance, higher education comprised about 13 percent of the State's total operating budget over the past five fiscal years but, as mentioned previously, accounted for about 70 percent of total statewide travel spending during that period. This may be the result of the heightened travel needs within the academic/research business environment in contrast to the travel needs of the rest of state government.

At the time this audit was completed, the State Controller's Office was still compiling data for the Fiscal Year 2002 Travel Expense Report. Preliminary Fiscal Year 2002 data show that statewide travel expenditures by state employees totaled nearly $51.2 million, which was a decrease of 1.2 percent from Fiscal Year 2001 spending. Of this total, about $37.6 million was spent by higher education institutions (73 percent) and the remaining $13.6 million was spent by state agencies (27 percent). The following table shows statewide Fiscal Year 2002 travel expenditures by type (i.e., in-state, out-of-state, international) and split between higher education institutions and state agencies:

State Employee Travel Spending by Type for Higher Education Institutions and State Agencies Fiscal Year 2002

Type	Higher Education	State Agencies	Total
In-State % of Total	$8,550,000 46%	$10,238,100 54%	$18,788,100 100%
Out-of-State % of Total	$23,881,900 88%	$3,327,000 12%	$27,208,900 100%
International % of Total	$5,118,600 99%	$58,000 1%	$5,176,600 100%
Total	**$37,550,500 73%**	**$13,623,100 27%**	**$51,173,600 100%**

Source: State Controller's Office and COFRS.

In February 2002 the Joint Budget Committee approved a common policy for Fiscal Year 2003 budget requests to reduce out-of-state travel by 25 percent over Fiscal Year 2001 figures. This policy applies to all state agencies and higher education institutions with the exception of those unable to reduce out-of-state travel due to specific business reasons (e.g., out-of-state travel is a necessary component of agency operations, such as the tax auditing function of the Department of Revenue). The policy also does not apply to travel expenses paid from nonappropriated sources (e.g., federal grants).

Air Travel

Chapter 1

Overview

The Program has negotiated price agreements with three airlines to meet the needs of state travelers. The current price agreements with United, Frontier, and Great Lakes Airlines were originally approved in 1999. The agreements with United and Great Lakes are effective through November 2003 and the agreement with Frontier is effective through May 2003. The agreements establish a series of airfares for travel comprising 181 different city-pairs in the United States and selected international destinations. One airline was chosen to provide service for each city-pair requested by the Program on the basis of overall value and other factors such as flight frequencies. United Airlines was awarded 86 percent (155) of the city-pairs. Great Lakes obtained 9 percent (17 city-pairs), and Frontier Airlines captured the remaining 5 percent (9 city-pairs). Four categories of fares are also outlined by the agreements: unrestricted fares and three categories of restricted fares, which are established on the basis of advance purchase requirements of 7, 14, and 21 days. Restricted airfares are typically less expensive than unrestricted airfares but require advance purchase. Further, the airlines may charge fees of up to $75 under the current contracts to cancel or make changes to restricted tickets. Changes made to unrestricted tickets are usually free of airline fees. The following table shows the basic contracted airfares currently offered by the State's three vendors:

Contracted Airfares Offered by State-Approved Vendors (as of September 2002)

Airline	Unrestricted	Restricted		
	No Minimum Advance Purchase	7-Day Advance Purchase	14-Day Advance Purchase	21-Day Advance Purchase
United	X	X*		X*
Frontier	X	X	X	
Great Lakes	X	X	X	

Source: Statewide Travel Management Program.
* Saturday night stay required.

The State's agreements for restricted airfares are capacity-controlled, meaning that the airlines can limit the number of seats they offer for these fares. The unrestricted airfares under the agreements are not capacity-controlled. Overall, this means that a state traveler is not necessarily guaranteed a seat at the contracted fare unless an unrestricted ticket is purchased.

Currently statutes and Program rules require state travelers to purchase airfare through state-approved travel agents and charge related expenditures to a centrally billed Diners Club account. As with all travel-related services coordinated by the Program, however, state travelers may use non-approved vendors and/or pay for travel-related expenses through other means if certain criteria are met (e.g., a traveler can obtain an airfare available to the general public that is less expensive than the State's contracted airfare price). The Department reports that total statewide expenditures for air travel arranged through state-approved travel agents were approximately $17.7 million for Fiscal Year 2002. This figure includes the cost of airfare and various transaction fees (e.g., travel agent transaction fees and airline ticket change fees). In Fiscal Year 2002 the State purchased 41,295 airline tickets.

We estimate that the State could save more than $4.1 million annually from modifying program components related to the purchase of airline tickets. The following sections describe our findings in more detail.

Use of Non-Approved Travel Vendors

The purchase of travel services through the Internet has increased dramatically in recent years and has spawned a proliferation of travel-related Web sites. Several of the most popular sites operate in a similar fashion; i.e., allowing individuals to input desired travel dates and times into a search engine, which generates a series of flight options and prices. Travelers may search flight information using various criteria including cost, number of connections, time of day, length of flights, and specific carriers. When the traveler has found a suitable option, he or she may use a credit card to book the reservation online. Many Web sites also offer a passenger profiling feature that allows travelers to enter and save various data on their travel preferences (e.g., seat assignments, meal options, and personal billing information). Finally, some Web sites allow a traveler to electronically monitor the airfare for a particular itinerary so that he or she is automatically notified of fare sales or other offers as they arise.

During our audit we received comments from many state employees who wished to use the Internet to purchase airline tickets. Employees cited potential cost savings as their main reason for wanting this option, but believed that using the Internet to purchase airfare was prohibited by state law and Statewide Travel Management Program rules. In fact, however, both state statutes and Program rules *do* allow the use of the Internet to purchase airline tickets, *especially* in cases where cost savings are apparent. As noted previously, Section 24-30-1118(3)(e), C.R.S., directs state employees to utilize only those commercial travel vendors that have been approved by the Department of Personnel & Administration. Commercial travel vendor is defined in statute as "a commercial entity engaging in the provision of travel-related services," which would include state-approved travel agents and the State's contracted airline vendors. What appears to be largely unknown by state travelers is that this statute also allows the Department to authorize the use of non-approved commercial travel vendors (which would include travel-related Internet booking sites) should any of the following situations exist:

- A non-approved travel vendor offers a lower price for the service required than an approved vendor.

- Use of an approved vendor would result in additional cost to the State.

- The Department of Personnel & Administration determines that an emergency situation exists.

- Use of a non-approved commercial travel vendor would facilitate ease of access to the service required. (Statutes set forth specific reimbursement limitations for state travelers in this situation.)

Neither state statute nor Program rules clearly delineate a process for state travelers to follow should they wish to obtain authorization to use a non-approved travel vendor for any of the reasons cited above, including situations where purchasing airfare over the Internet would result in cost savings. What is clear, however, is that the State would benefit greatly from allowing state travelers more flexibility in this area.

Potential Cost Savings Resulting From Flexible Purchasing Methods

Our audit work showed that allowing state travelers the standing option of purchasing airfare through the Internet will result in significant cost savings for the State. We contacted 12 other states and found that some already routinely allow their employees to use the Internet to purchase airline tickets (e.g., Wyoming, Minnesota, and North Carolina). Further, Kansas recently made the statewide contract for travel agency management services optional for its employees in light of the competitive pricing now available from online booking tools and on a direct basis from some airlines. In addition, Illinois encourages state employees to use a variety of booking methods to ensure that the lowest possible airfare is obtained. This can include travel agencies, direct ticket purchases from an airline, or Internet ticket purchases.

We compared airfares available on three popular Internet Web sites with the airfares available through state-approved travel agents. Our analysis included about 400 comparison scenarios; was performed over a four-month period to account for price fluctuations; utilized the current top 10 air destinations for state travelers; matched travel dates and used consistent flight times; and included the cost of all appropriate taxes, surcharges, and fees. We also reviewed price differences with and without a Saturday night stay because state contract rates may vary according to this factor.

Overall, we found that the State could potentially save more than $2.4 million per year if it allowed state travelers the standing option of purchasing airfare through the Internet. This is because lower airfares can be found on the Internet about 62 percent of the time, according to our research. The largest part of this savings comes from using the Internet to purchase airfare when no Saturday night stay is involved. We found that, in these situations, an airline ticket purchased through a state-approved travel agent cost $377 on average, whereas a comparable airline ticket purchased via the Internet cost $302. We believe that encouraging use of the Internet to purchase airfare is further justified because of the investment that the State has already made in providing Internet technology to virtually all of state government. The results of our analysis are shown in the following table:

Cost Savings Resulting From Lower Internet Airfares Compared With Airfares Through State-Approved Travel Agents

Average Difference Between Travel Agent and Internet Ticket Price	$59
Number of Tickets Purchased (Fiscal Year 2002)	41,295
Annual Potential Savings	**$2,436,405**

Source: Office of the State Auditor analysis.

We are not recommending that state travelers use the Internet as their sole means of purchasing airline tickets, because the airfares available through state-approved travel agents are sometimes lower. For example, our research showed that in May 2002 a round-trip ticket to Grand Junction cost $176 through a state-approved travel agent, while the same flight cost $322 through a popular Internet site. We also found that airline tickets purchased through travel agents for trips that include a Saturday night stay are, on average, less expensive than the same ticket purchased on the Internet. Specifically, our research shows that state travelers can save an average of $17 per purchase if they buy these tickets through a travel agent instead of through the Internet. This is because the price agreement that the Program has negotiated with the airlines is advantageous when a Saturday night stay is *required* to conduct state business. Buying an airfare with a Saturday night stay requirement may still not be the most cost-effective approach for a state traveler if he or she stays an additional night merely to obtain a lower-priced airfare. State travelers may incur additional costs for hotel, per diem, and car rental charges as a result of the Saturday night stay requirement. Consequently, these added costs should be taken into account when state travelers are making travel arrangements.

Although the potential for cost savings is substantial, certain negative consequences could also result from allowing state travelers to deviate from the current practice of using only approved travel vendors for most airfare purchases. For example, changes in this area could result in revenue losses for state-approved travel agents and may weaken the State's bargaining position in negotiating future contracts with the airlines. In addition, state travelers cannot currently use a centrally billed Diners Club card to book air travel through an Internet site. Diners Club collects a variety of information from the transactions made on these accounts that the Statewide Travel Management Program can use to analyze state employee travel patterns. These data would not be as complete as they currently are if more state travelers used alternative purchasing methods. The Program could utilize other data collection methods, however, to compensate for the loss of data from Diners Club. For example, state agencies and higher education institutions could be encouraged to make better use of the object coding capabilities of COFRS or other stand-alone accounting systems to capture airfare expense information, or other types of travel-related expenditure data, in more detail. As noted in Chapter 2, COFRS data related to car rental expenses could also be improved, so enhancements in this area might be beneficial for other reasons. Alternate data collection methods certainly would not be prohibitively expensive compared with over $2.4 million in potential savings from encouraging state travelers to purchase the most cost-effective airfares available regardless of the vendor.

As stated previously, statutes give the Department of Personnel & Administration the authority to grant state agencies and higher education institutions permission to use non-approved travel vendors, but Program rules do not specify how this should be accomplished. In the past, the Program has granted "waivers" to use the Internet to purchase airline tickets if certain conditions exist. Waivers are currently in place for two higher education institutions (Fort Lewis College and the University of Colorado). Under the waivers, these institutions can purchase airline tickets via the Internet instead of through a state-approved travel agent if the Internet ticket price is lower by a certain amount (i.e., $100 for Fort Lewis College and $50 for the University of Colorado). The waivers also require the employee to provide the travel agent with the exact itinerary used on the Internet to determine if the agent can match the price.

We believe that the use of waivers, especially ones with variable and arbitrary cost savings thresholds, is not the most efficient and effective method for granting state agencies and higher education institutions permission to use non-approved travel vendors to purchase airfare. State agencies and higher education institutions should be able to use non-approved vendors at their own discretion if *any* documented cost savings are apparent. Documentation requirements should not be labor-intensive but should clearly evidence the cost savings achieved from using a particular purchase option (e.g., dated price quotes from the various vendors used in the comparison). The Department should also work with state agencies and higher education institutions to develop ways to accurately track airfare and other types of travel-related expenditures, regardless of the payment method involved. This will help ensure that quality travel expenditure data are maintained even if the State changes its purchasing methods. Finally, Department staff need to communicate with user agencies through training and other means so that state travelers are aware of any resulting Program changes.

Recommendation No. 1:

The Department of Personnel & Administration should reduce state expenditures for airfare by encouraging the use of alternative purchasing methods when cost savings are apparent. This should include:

a. Delineating a process in Statewide Travel Management Program rules for state travelers to follow when it appears that using a non-approved travel vendor will be more cost-effective than using an approved vendor. This process should ensure that state agencies and higher education institutions sufficiently document their cost-comparison activities.

b. Working with state agencies and higher education institutions to develop ways to better track airfare and other types of travel-related expenditures.

c. Communicating any resulting program changes to state agencies and higher education institutions through training and other appropriate means.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, working through the Statewide Travel Management Program, has set a new statewide policy that allows the purchase of Internet airfares. This policy outlines a process to follow in making Internet airfare purchases, details savings calculations, requires use of the state travel payment system, and establishes a tracking mechanism to assure the most economical airfare was secured, and the travel management data were captured.

In addition, the Department will supplement traditional travel agency services with Internet ticketing access through software such as FareQuest. The FareQuest software allows travel agencies to buy via the Internet on behalf of the traveler. Currently, half of all authorized agencies have FareQuest in place. The Statewide Travel Management Program will require all travel agencies to use FareQuest, a requirement that will provide for data collection from a central point since the software includes a corporate reporting tool.

Also, the Department will develop access to new Internet services from providers such as Orbitz and Expedia for state agencies and their travelers that offer cost-effective, Internet booking engines that integrate state contract airfares and that provide the Statewide Travel Management Program with extensive travel management data.

Implementation Date: March 31, 2003.

Unrestricted Airfares

As mentioned previously, the Program has approved agreements with three airlines that include provisions regarding unrestricted airfares. Unrestricted airline tickets can be purchased at any time before travel, but are especially useful for short-notice trips (i.e., travel arrangements made less than seven days before departure). One benefit of purchasing an unrestricted ticket through the state price agreement is the ability to make itinerary changes without paying airline change fees, although making changes to an unrestricted ticket through a state-approved travel agent would still incur a $26 transaction fee. This fee is included in the Program's agreements with state-approved travel agents and is applicable to any transaction made through one of these agents (e.g., booking, changing, or cancelling air travel arrangements).

Fiscal Year 2002 data on unrestricted airfare purchases were unavailable at the time of our audit. In Fiscal Year 2001 the State purchased approximately 6,100 unrestricted tickets at an average cost of $532, for a total cost of about $3.2 million. Unrestricted ticket purchases represented about 15 percent of all tickets purchased through centrally billed Diners Club accounts in Fiscal Year 2001 (a total of approximately 41,500 tickets).

The State's agreements with the airlines for unrestricted airfares are advantageous in that they provide substantial discounts when compared with the unrestricted airfares available to the general public. Due to the increased cost associated with unrestricted airfares compared with restricted airfares, however, we believe that the purchase of unrestricted tickets should be limited. Further, it appears that many of the unrestricted airfares currently being purchased by state travelers are not the result of short-notice travel, leading us to question the necessity of purchasing these tickets instead of less costly restricted tickets. We reviewed the unrestricted airfares purchased in Fiscal Year 2001 and found that about 34 percent (2,100) were bought more than 21 days in advance of departure. The average difference between the price of an unrestricted ticket and a 21-day advance restricted ticket was $268 in Fiscal Year 2001. Therefore, the excess cost associated with purchasing these 2,100 unrestricted tickets when restricted tickets could have been purchased was about $562,800. Another 2,200 unrestricted tickets (36 percent of the total unrestricted ticket purchases in Fiscal Year 2001) were purchased more than seven days prior to departure. The price difference between a seven-day advance restricted ticket and an unrestricted ticket was $225 for Fiscal Year 2001. If the seven-day advance restricted tickets had been purchased in these cases instead of unrestricted tickets, the State would have saved another $495,000.

There are some situations where an unrestricted ticket may be the less expensive option for a state traveler. For example, state travelers may purchase unrestricted tickets if they have no choice but to purchase airfare less than seven days prior to departure or when they know their itinerary may change. In the latter case, buying an unrestricted ticket would eliminate the airline change fee (most airlines charge around $100 to change or cancel a restricted ticket). State travelers should be aware, however, that the price difference between a restricted and unrestricted ticket (over $200 in most cases) may still make the restricted ticket a more cost-effective choice even if itinerary changes are needed. Due to reporting and data inadequacies, we were unable to determine how many of the 6,100 unrestricted tickets purchased in Fiscal Year 2001 required an itinerary change or cancellation.

Program rules do not currently address the issue of unrestricted airfare purchases by state travelers. Modifying the rules to limit the cases in which these airfares may be purchased would result in significant cost savings for the State. For example, Utah prohibits its employees from buying unrestricted airfares unless it is the least expensive alternative. Colorado state government could adopt a similar policy, thereby reducing airfare costs statewide.

Recommendation No. 2:

The Department of Personnel & Administration should modify the Statewide Travel Management Program rules to limit the purchase of unrestricted airfares by state travelers. Rules should include detailed guidance regarding when purchasing unrestricted fares is appropriate (e.g., an unrestricted airfare is the most cost-effective choice).

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, through the Statewide Travel Management Program, will provide additional guidelines to state agencies on the appropriate use of restricted and unrestricted airfares. The Program will encourage state agencies to purchase restricted airfares to the greatest extent possible. At times it may be in the best interest of the state agency to purchase an unrestricted airfare. The travel management guidelines will assist state agencies in assessing the advantages of when to purchase restricted airfares. New limitations imposed by airlines make changes to the restricted airfares of major carriers far less flexible for travelers and the value of the restricted airfares now expires on the day of travel for these fares unless changed to specific dates in the future.

Implementation Date: April 30, 2003.

Agreements With Travel Agents

Section 24-30-1118(3)(c), C.R.S., directs the Department of Personnel & Administration to maintain and make available a current list of approved commercial travel vendors authorized for use by state travelers. To comply with this mandate, the Program enters into agreements with travel agents, airlines, and car rental companies, among other entities. As stated previously, the Program currently has agreements with three airlines and over 70 travel agents to provide services to state travelers.

As part of their agreement with the State, state-approved travel agents charge a $26 transaction fee each time they book, change, or cancel travel arrangements for state travelers. Of this amount, $3 is returned to the Statewide Travel Management Program to help offset its operating costs. (Program funding issues are discussed further in Chapter 4.) Until March 2002 the transaction fee was only $11, but increased to $26 as the result of a contract provision that allowed a fee increase in the event that the airlines reduced or cancelled their commissions to travel agents. Using Fiscal Year 2002 ticket volume (41,295 tickets), we estimated that this fee increase will result in more than $619,000 in additional travel costs to state agencies and higher education institutions over the course of a fiscal year. Further, this figure includes only the transaction fees associated with initially booking air travel, not the fees associated with changes or cancellations. If these transactions were included, costs would increase even further.

The $26 transaction fee that the State is currently paying travel agents is significantly higher than the transaction fee assessed through three popular travel-related Internet sites (i.e.,

$0 or $5). As a result, even if an airfare offered through a state-approved travel agent and an Internet site were exactly the same, the lower fees assessed through an Internet site would make it a better buy. Other states have also struggled with the issue of how to deal with high transaction fees at travel agencies. At least one state (Kansas) recently made the use of travel agents optional because their high transaction fees (i.e., $27-$30) meant that agents were not necessarily the most cost-effective means for purchasing airfare. As discussed previously in this chapter, we also believe that using state-approved travel agents should be optional in cases where using another vendor is more cost-effective. The Department should make state travelers aware of the differences in transaction fees among vendors so that employees can make informed decisions when booking air travel arrangements. In addition, when negotiating future contracts with travel agents, the Department should ensure that transaction fees are as competitive as possible or eliminate these agreements altogether.

Recommendation No. 3:

The Department of Personnel & Administration should educate state travelers about the differences in transaction fees among air travel vendors and ensure that future contracts with travel agents include the most competitive transaction fees possible or eliminate these agreements altogether.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, through the Statewide Travel Management Program, will continue efforts to ensure the State receives the most value for travel expenditures, including booking transaction fees. The Program believes that current transaction fees negotiated with travel agencies represent a good value for the State given the rich data provided by these vendors. These data are not available via Internet transactions.

The Statewide Travel Management Program will seek Internet-based travel agency services and will promote existing travel agency-mounted automated booking systems to reduce per transaction costs. Some state travel agencies now offer an Internet-based automated booking system. These systems offer reduced transaction costs and retain the benefit of rich travel data. The Statewide Travel Management Program will make every effort to promote these systems.

Implementation Date: Ongoing.

Car Rentals

Chapter 2

Overview

The Statewide Travel Management Program has entered into contracts with three car rental vendors to obtain favorable rates and service packages for state travelers. Statutes and Program rules require state travelers to use these vendors unless specific statutory exemption criteria are met. The Program contracted with Avis Rent-A-Car and Alamo Car Rental in July 2000 for coverage through June 2003. The Program also contracted with Enterprise Leasing Company as a secondary coverage vendor in the event that Alamo and Avis do not offer service at a specific location. The Enterprise contract was signed July 2001 for coverage through June 2003. Approved vendors are required to accept the State's travel credit card (i.e., Diners Club) for payment.

The main benefit of the current contracts with car rental companies is that state travelers can obtain lower rental prices with these vendors. Since Fiscal Year 2000, the average car rental transaction for state travelers who used Diners Club totaled $161 at approved vendors and $179 at non-approved vendors, for a savings of $18 (11 percent) per transaction. Approved car rental vendors also provide state travelers with two types of automatic liability insurance as part of each rental contract: (1) bodily injury or death coverage up to $150,000/person and $600,000/accident, and (2) property damage coverage up to $150,000/accident. In addition, if a state traveler uses Diners Club to pay for a car rental, Diners Club automatically provides collision insurance up to the full value of the vehicle.

As noted in the Description, most state employees are required to use the Diners Club card when traveling on official state business. One benefit of this requirement is that when a state traveler uses Diners Club to rent a car, data on the transaction are captured in a database. However, state travelers do not always use the Diners Club card when traveling or renting cars. This causes the Diners Club data on car rental expenditures to be incomplete. For example, the Program stated in its Fiscal Year 2001 Annual Report that car rental dollars charged to Diners Club totaled $1.5 million. Using various data including government-sector travel industry expenditure figures, however, the Program estimated that total car rental expenditures in Fiscal Year 2001 were probably closer to $3.25 million.

The State contracts for car rental services also include revenue sharing provisions. These provisions require approved vendors to pay the Program 4 percent of the total revenues they earn on state travel, minus certain costs like tax and insurance, on a quarterly basis. The revenue generated from this arrangement, which is currently lower than it could be, offsets some of the Program's operating costs (about $33,600 per year over the last three fiscal years).

During the audit we identified several areas for improvement regarding car rentals made by state travelers. These include opportunities for the Program to reduce state expenditures by enforcing requirements for state travelers to use approved car rental vendors and prohibiting the purchase of car rental insurance. Increasing the use of approved car rental vendors will also increase the funding that the Program receives through its revenue sharing agreements. Improving compliance with requirements for state travelers to use Diners Club when renting cars will provide certain additional benefits for the State. As explained in greater detail below, addressing these issues will result in approximately $185,000 per year in cost savings and an additional $50,300 in increased revenues.

Use of Approved Vendors

Unlike the area of air travel, we found that consistent use of approved car rental vendors results in cost savings for the State. As stated previously, our analysis showed that state travelers who use approved vendors actually save about 11 percent on each rental transaction. Further, when we compared the rental rates available from state-approved vendors with those available from various vendors on the Internet, we found that state contract rates were either lower or within a few dollars of Internet prices. This comparison comprised five commonly used rental locations within Colorado.

We commend the Program for negotiating a contract with car rental vendors that has been advantageous for the State. Currently, however, state travelers routinely use non-approved vendors to rent cars, which results in unnecessarily high travel expenditures and also reduces the funding that the Program receives from its revenue sharing agreements. In addition, we found that state travelers are not routinely using Diners Club to pay for their rental cars. Using other payment methods eliminates the automatic insurance benefits that travelers can receive and negatively affects volume incentives that the State gets from its agreement with Diners Club (discussed further in Chapter 3).

To determine how widespread noncompliance is regarding the use of approved car rental vendors, we analyzed Fiscal Year 2001 Diners Club data and found that state travelers using Diners Club to rent a car patronized non-approved vendors 22 percent of the time (i.e., in about 1,990 of 9,170 transactions). To identify additional cases of noncompliance when Diners Club may not have been used, we reviewed a sample of 25 Fiscal Year 2002 employee travel expense reimbursement requests that included car rentals. Our sample comprised seven state agencies and higher education institutions. This review approach was necessary because car rental charges are commonly paid as part of an employee travel expense reimbursement request rather than directly to a vendor. Further, COFRS does not separately track car rental expenditures, so summary-level data on car rental expenditures are not available. We found that state travelers used non-approved vendors in 13 of the 25 cases in our sample (52 percent).

We also reviewed various information to determine how frequently state travelers use a payment method other than Diners Club to rent a car. As mentioned previously, when state travelers do not use Diners Club for their car rentals, they forgo automatic insurance coverage and negatively affect the incentives that the State receives from Diners Club transaction volume. We reviewed transaction data representing about 12 percent of the total car rentals made through one state-approved vendor (Alamo) over the period Fiscal Year 2000 through Fiscal Year 2002. Our review showed that state travelers used Diners Club to pay for their car rentals at that vendor an average of only 25 percent of the time. In addition, our review of 25 Fiscal Year 2002 employee travel expense reimbursement requests that included car rentals showed that Diners Club was used in only 11 of the 25 cases (44 percent). Because of the expenditure data gaps explained previously, we had to use various information (e.g., Program Annual Reports, actual Diners Club expense records, and the State Controller's Annual Travel Expense Report) to estimate total statewide car rental expenses not paid through Diners Club. Our analysis of this information for Fiscal Years 2000–2002 showed that about 50 percent of these expenses are paid through other means. Our analysis is shown in the following table:

Statewide Car Rental Expenditures Through Diners Club Compared With Estimated Total Car Rental Expenditures Fiscal Years 2000–2002			
	2000	**2001**	**2002**
Estimated Total Car Rental Expenses	$3,035,600	$3,251,500	$3,155,800
Actual Car Rental Expenditures Through Diners Club	$1,522,300	$1,537,400	$1,594,500
Difference	**$1,513,300**	**$1,714,100**	**$1,561,300**
Source: Office of the State Auditor analysis of data from the Statewide Travel Management Program, Diners Club, the State Controller's Office, and COFRS.			

In summary, our various analyses show that there is substantial noncompliance with the requirement for state travelers both to use approved car rental vendors and to utilize their Diners Club card when paying for these transactions. As a result of these findings, we estimated the cost associated with using non-approved car rental companies in terms of excess expenditures. This analysis takes into account the 11 percent savings that we found the State receives from using approved vendors. Overall, we estimated that the State pays almost $168,400 more than it should each year when state travelers do not utilize approved car rental vendors. Finally, we estimated the revenue that the State has lost from its revenue sharing agreements with car rental vendors because state travelers are using non-approved vendors. We determined that the State forgoes about $50,300 per year in lost revenue share payments when state travelers patronize non-approved car rental vendors.

The Program has negotiated agreements with both car rental companies and Diners Club that provide real benefits for the State in terms of cost savings, increased revenues, and enhanced insurance coverage. As a result, complying with these agreements is important. Low availability of approved vendors does not appear to be the main reason for noncompliance. Using Diners Club car rental data for Fiscal Year 2001, we reviewed approved vendor availability at 10 domestic state traveler destinations where a non-approved car rental vendor was used. We found that in each of these 10 destinations, there was at least one approved vendor available.

To determine why state travelers are not complying with program requirements regarding car rentals, the Department needs to improve its monitoring approaches to identify problem areas and then work with state agencies and higher education institutions to improve compliance. As mentioned previously, Diners Club maintains various data that staff can use to achieve this end. Further, as discussed in Chapter 1, Department staff, working with state agencies and higher education institutions, should improve travel-related expenditure tracking so that these data can also be used to identify problem areas regarding car rentals. Better communication is also needed to ensure that state travelers are informed of the benefits of using approved car rental vendors and utilizing Diners Club to pay for these services. Working with agency controllers, using email, placing recurring advertisements in *Stateline*, and utilizing similar approaches will help improve communication on these issues.

Recommendation No. 4:

The Department of Personnel & Administration should reduce statewide travel costs and increase funding generated from revenue sharing agreements by working with state agencies and higher education institutions to improve employee compliance with requirements to use approved vendors and Diners Club when renting cars. This should include improved data collection and monitoring to identify problem areas and increased communication with state travelers regarding program requirements.

Department of Personnel & Administration Response:

Agree. As recognized by the auditors, ultimate responsibility for enforcement of many of the travel management rules resides with the department controllers. Correspondingly, the Statewide Travel Management Program has directed educational outreach efforts to the department controllers as well as department travel management representatives to improve compliance with travel rules. The Program will adopt these recommendations and redouble its existing efforts to work with department controllers to gain greater compliance with rental car and travel card contract provisions and benefits.

Implementation Date: Ongoing.

Insurance Charges

As mentioned previously, two types of automatic insurance (i.e., liability and collision) are available to state travelers who use Diners Club to rent cars from approved vendors. It is important that state travelers are made aware of existing insurance benefits so that they do not purchase unnecessary insurance when renting a car. Conversely, it is also important that state travelers know when and what type of insurance to buy should circumstances dictate that such a purchase is warranted. The following table shows the various scenarios that a state traveler may encounter when renting a car for official state business:

State Traveler Car Rental Insurance Purchase Scenarios

Type of Insurance Coverage	**Scenario 1:** Approved Vendor & Diners Club	**Scenario 2:** Non-Approved Vendor & Diners Club	**Scenario 3:** Approved Vendor & Alternative Payment Method	**Scenario 4:** Non-Approved Vendor & Alternative Payment Method
Collision	no	no	yes	yes
Liability	no	yes	no	yes

Source: Office of the State Auditor Analysis.

Optimally, all state travelers should be faced with Scenario 1 (i.e., they are using both an approved vendor and Diners Club). In this case, the traveler automatically receives both collision and liability coverage for the rental car, and no additional insurance purchase is needed. Occasionally, however, a state traveler may be faced with one of the other scenarios (e.g., an approved vendor is not available and/or he or she has not been issued a Diners Club card). It should be noted that these scenarios can generally be avoided if state agencies and higher education institutions comply with Program rules regarding Diners Club card issuance, since vendor availability is not usually an issue and all state-approved car rental vendors must accept Diners Club.

We found that state travelers are routinely purchasing insurance that they already have by virtue of the State's car rental vendor agreements and/or the Diners Club contract. Specifically, our review of data provided by the three approved car rental vendors (about 9,600 rental transactions) showed that state travelers spent about $66,000 on insurance during Fiscal Year 2002. About 25 percent of this amount (i.e., $16,715) was spent on either duplicate liability and/or collision insurance or on unnecessary miscellaneous insurance such as personal affects coverage. Staff from the Department's Office of Risk Management report that the latter type of coverage is not needed because the State already has property insurance for items such as laptop computers or other property that an employee may need while in travel status.

Determining how often state travelers do not purchase insurance when they should is difficult because of inadequate data; however, we can estimate the size of the potential problem using information previously presented in this chapter. For example, we estimated that in Fiscal Year 2002 state travelers spent approximately $1,561,300 on car rentals when they did not use Diners Club, thereby forgoing automatic collision insurance. We do not know if these individuals subsequently purchased this insurance or unknowingly exposed the State to risk by opting not to buy it. We also estimated that in Fiscal Year 2002 up to half of the state travelers who rented a car did not use an approved vendor, thereby forgoing automatic liability insurance. Again, we cannot determine whether these individuals subsequently purchased this insurance or unwittingly exposed the State to risk by not buying it. What is certain is that the potential fiscal impact of not buying insurance when it is needed—particularly liability coverage—is significant.

The Department has negotiated favorable contracts with car rental providers and Diners Club that provide state travelers with adequate automatic insurance protection when traveling on official state business. The Department needs to further educate state travelers to ensure that they are not purchasing unnecessary insurance when renting a car. It is also important that state travelers are made aware of the situations in which buying insurance is prudent, as well as the type of insurance that should be purchased in these situations. This will help ensure that the State is not exposed to any unnecessary risks. The Department should also work with the state-approved rental car vendors to ensure that they are not encouraging state travelers to purchase unnecessary insurance coverage. Finally, agency and higher education controllers should also be cognizant of the need to carefully review employee travel expense reimbursement requests to ensure that the State is not paying for unnecessary insurance costs.

Recommendation No. 5:

The Department of Personnel & Administration should reduce overall state travel costs by educating state travelers about the automatic insurance benefits that are available when using Diners Club to rent a car through an approved vendor. The Department should also work with state-approved rental car vendors to ensure that they are not encouraging state travelers to buy unnecessary insurance. In addition, agency and higher education controllers should improve monitoring of employee travel expense reimbursement requests to ensure the State is not paying for unnecessary insurance costs.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, through the Statewide Travel Management Program, will continue existing efforts to make sure that travelers understand the free insurance benefits of the State's travel card and the liability insurance that is provided to the State. In addition, the Program will work with rental car vendors and department controllers as recommended to reduce state travel costs.

Implementation Date: Ongoing.

Travel Card Management

Chapter 3

Overview

The Statewide Travel Management Program has contracted with Diners Club since August 1996 to provide travel-related credit and charge card services to state agencies and higher education institutions. As discussed in the Description, there are three types of Diners Club cards, also known as travel cards, currently available for use by state employees (i.e., centrally billed, group event, and individual accounts). The contract with Diners Club is currently under review. Even if a new vendor is chosen, however, it is likely that similar travel card services will continue to be available to state travelers.

During the audit we identified several issues related to use of travel cards. These include improving the timing for paying centrally billed accounts, working to increase the revenue that the State receives from Diners Club volume incentives, and identifying and eliminating personal use of individual travel cards. In total, implementing the recommendations in this chapter will result in approximately $218,000 in additional revenue for the State.

Early Payment Incentives

The State's contract with Diners Club includes a 60-day billing cycle. This means that state agencies and higher education institutions, as well as individual cardholders, have 59 days to pay their account charges without incurring any fees. Waiting to the 59th day to pay these bills complies with state statutes (Section 24-30-202(24), C.R.S.) and State Fiscal Rules that direct state agencies and higher education institutions to pay their bills within 45 days of receipt of goods and services *or* in accordance with contract terms. For purposes of our discussion here, we are concerned with how the State pays the bills associated with only centrally billed Diners Club accounts. During Fiscal Year 2002 the State had 153 active centrally billed accounts, which are mainly used to purchase airfare from state-approved travel agents. Over the past three years, total charges to these accounts have averaged about $17.1 million per year.

The Diners Club contract includes a revenue sharing provision that is intended to generate funding to help defray the cost of administering the Statewide Travel Management

Program. One aspect of the revenue sharing agreement is that the State earns incentive revenue for early payment of the centrally billed accounts. The amount of revenue that the State can earn depends upon payment amounts and when these payments are received by Diners Club. Any payment received later than 21 days after the statement date, however, earns no incentive revenue for the State. The State has received $5,500 per year, on average, from the Diners Club early payment incentive since Fiscal Year 2000.

Our audit included an analysis of whether the State should try to maximize the revenue it can earn from the early payment incentive agreement with Diners Club. We found that it is not currently in the State's best interest to take advantage of this agreement because more money can be earned from holding these funds. This is because the interest earned from holding funds in the Treasury Investment Pool exceeds any early payment incentive revenue that the State could earn from Diners Club. We used the Treasury Investment Pool's interest rate in our analysis because most state funds are held in this pool or in accounts receiving similar returns. The interest rate earned on funds held in the Treasurer's Investment Pool has averaged just over 6 percent for the last seven fiscal years. Earnings through the first quarter of Fiscal Year 2003 were about 4.5 percent and, according to Treasury staff, are expected to stay above 4 percent through fiscal year-end. Using actual Fiscal Year 2001 Diners Club monthly balance data, we found that the State would have earned nearly $170,000 in interest revenue if it had waited until the 59th day to pay the balances on its centrally billed accounts, whereas, only about $80,000 would have been earned if these bills had been paid within five days to obtain the highest incentive payment possible. Our analysis further showed that the Treasury Investment Pool interest rate would need to fall to around 3 percent before the State would benefit from the early payment incentive agreement.

Using actual payment data from a sample of state agencies and higher education institutions, we estimated that during Fiscal Year 2001 the State paid its centrally billed accounts an average of 18 days after receiving a statement. We calculated that the State lost about $115,800 in interest revenues from paying these accounts early. Continually monitoring interest rates and statewide payment activity to determine the most advantageous strategy for timing travel card payments and then communicating this information to all state agencies and higher education institutions with centrally billed accounts would eliminate this problem. Agencies and institutions could then use the payment-timing capabilities of COFRS or other stand-alone accounting systems to generate their Diners Club payments at the optimal time. The Department should also consider these issues when negotiating future travel card contracts.

Recommendation No. 6:

The Department of Personnel & Administration should monitor interest rates and statewide payment activity to identify and communicate the optimal strategy for timing payments to centrally billed travel card accounts so that state agencies and higher education institutions can act accordingly. The Department should also consider these factors when negotiating future travel card contracts.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, through the combined efforts of the Statewide Travel Management Program and the State Controller's Office, can assist the Department of Treasury in the analysis of timing payments and will communicate with department controllers on the optimal strategy for timing payments.

Implementation Date: Ongoing.

Volume Incentives

The Diners Club contract and the current Request For Proposal for travel card services include volume incentive provisions for individual travel card usage. This means that if the volume charged to individual travel cards meets specific thresholds, the State will receive an incentive payment from Diners Club. Volume incentives are maximized when charge volume exceeds $10 million and also depend upon other factors, such as how promptly individuals pay their accounts. The State routinely reaches the $10 million threshold, thereby making it eligible to obtain maximum potential incentive payments, adjusted for the timing of customer payments.

As mentioned previously, state travelers do not always use their Diners Club to pay for all their travel-related expenses, even though Program rules require it, where possible. In addition, not all state employees who meet program participation requirements (i.e., traveling twice in-state or once out-of-state, or spending more than $250 a year on travel) actually obtain an individual travel card, even though they should according to Program rules. Due to inadequate data, we could not estimate the prevalence of this problem. The following table shows total statewide travel expenditures and total charges to individual travel cards over the period 1999-2002. The table also shows that approximately 35 percent of the State’s total travel-related expenses (excluding personal mileage reimbursements) are not being charged to Diners Club.

Statewide Travel Expenses Not Charged to Diners Club Forgone Volume Incentive From Individual Credit Cards Program Years 1999–2002*				
	1999	**2000**	**2001**	**2002**
Total Travel Expenditures**	$40,166,100	$43,366,000	$46,446,300	$45,083,300
Diners Club Charges	$26,609,100	$27,396,700	$28,825,700	$31,583,100
Credit Card Volume Not on DCC	*$13,557,000*	*$15,969,300*	*$17,620,600*	*$13,500,200*
Potential Additional Volume Incentive	**$54,200**	**$63,900**	**$70,500**	**$54,000**

Source: Office of the State Auditor Analysis of State Controller's Office and Diners Club data.
* August through July in the years shown.
** Excludes personal mileage reimbursements, which have averaged around $4.8 million in recent years.

If a greater amount of these expenses were charged to Diners Club, the State's volume incentives would increase significantly (i.e., by an average amount of $60,650 per year).

Encouraging state travelers to use their Diners Club card for as many of their travel expenses as possible (e.g., meals, lodging) would increase the revenues that the State receives from the volume incentive agreement. These funds could be used to offset the Program's operating costs, be returned to state agencies and higher education institutions as a reward for encouraging use of the Diners Club card, or some combination of the two. In addition, raising the number of state employees who are issued a Diners Club card would also potentially increase volume incentive payments. Increasing card issuance and usage will not result in heightened financial risk to the State, because charges to travel cards are the responsibility of individual cardholders.

Recommendation No. 7:

The Department of Personnel & Administration should maximize the benefits of the State's travel card agreement by working with state agencies and higher education institutions to increase the issuance and usage of travel cards for official state business purposes.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration, through the Statewide Travel Management Program, will continue to work with travel officers and department controllers, as it has in the past, to gain greater issuance and use of the travel card and will rely on this audit recommendation to further its long-standing efforts in this area.

Implementation Date: Ongoing.

Personal Use

The State is unable to maximize potential volume incentives because employees are not paying their individual travel card account balances in a timely manner. Although charges to these travel cards are the responsibility of individual cardholders and not the State, payment problems on these accounts negatively affect the State. This is because the State's volume incentive revenues are reduced by the amount of credit loss Diners Club suffers on individual travel cards. Credit loss represents the value of individual credit card balances that have become delinquent because of employee nonpayment for more than 180 days. After 180 days, Diners Club writes off the outstanding balance and places the account with a collection agency. If total credit loss exceeds the amount the State would otherwise earn from the volume incentive, the State receives nothing. As the following table shows, the State has received no volume incentive since 1999. If credit loss had been $0 during this period, however, incentive earnings would have averaged around $41,600 a year.

Diners Club Travel Card Volume Incentives
(Credit Loss Offsets Potential Volume Incentives)
Program Years 1999–2002*

	1999	2000	2001	2002
Credit Card Volume	$10,409,000	$9,718,600	$10,715,100	$10,760,400
Potential Incentive	$41,600	$38,900	$42,900	$43,000
Credit Loss	$243,900	$129,900	$114,100	$70,300
Actual Incentive	**$0**	**$0**	**$0**	**$0**

Source: Office of the State Auditor Analysis of Diners Club data.
***** August through July in the years shown.

The table shows that even though credit loss has been decreasing in recent years, it still is high enough to eliminate any volume incentives due the State. Program staff informed us that this problem has been ongoing since the Diners Club contract was signed in 1996—that is, the State has never received a volume incentive because of the credit loss problem.

It appears that personal use of individual travel cards is contributing to the credit loss problem. If state employees were using their travel cards for only bona fide official travel expenses (i.e., only those expenses that are fully reimbursable), no payment problems or delinquencies on these accounts should ever occur. During the period August 2000 to July 2001, however, 48 individual travel card accounts totaling $114,000 were still written off by Diners Club for delinquency. To determine if personal use was a factor in these cases, we selected a judgmental sample of 8 of the 48 employees (17 percent of the total) and reviewed their travel reimbursements and travel card activity. We found that three of eight delinquent employees in our sample had been reimbursed for expenses charged to their travel card but did not subsequently make a payment to Diners Club in time to avoid delinquency. The remaining five employees had total charges that exceeded their travel-related reimbursements, indicating personal use.

In July 1999 the Department of Personnel & Administration issued a policy memorandum to all cardholders prohibiting personal use of individual travel cards. The policy states that personal use of the state travel card for either purchases or cash advances will result in card cancellation and may result in disciplinary action. The policy also states that travel cards are a benefit of state employment and that all charges made to them are a matter of public record. The policy was developed in an effort to eliminate any perception that state employees were misusing their travel cards. Policy enforcement is the responsibility of the executive directors of the principal departments.

Because personal use of travel cards may lead to delinquencies that negatively affect the State's volume incentives, the Department needs to work with state agencies and higher education institutions to improve enforcement of the existing personal use policy. Improved enforcement could take many forms. For example, the Department could periodically monitor travel card activity reports to identify individuals with unusually high usage and alert agency management staff if problems are suspected. Agency controllers also need to more closely review the travel card activity and delinquency reports that are currently available to them. Comparing the information on these reports against employee travel expense reimbursement requests will help identify any instances of inappropriate card use. If card usage problems are found, state agencies and higher education institutions should initiate appropriate actions (e.g., card cancellation and/or disciplinary measures) to ensure that further misuse does not occur.

Recommendation No. 8:

The Department of Personnel & Administration should work with state agencies and higher education institutions to improve enforcement of the personal use policy regarding individual travel cards. This should include routine monitoring of travel card activity at both the state and agency levels to identify inappropriate card use. If problems are found, state agencies and higher education institutions should initiate appropriate actions so that further misuse is prevented.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration supports all efforts to suppress personal use of state travel cards. For many years the Statewide Travel Management Program has provided activity and aging reports to all agencies in order to identify misuse. If problems of personal use are found, the Statewide Travel Management Program endorses the position that state agencies and higher education institutions should initiate appropriate actions so that further misuse is prevented. The Department will continue efforts to improve compliance in this area through the combined efforts of the Statewide Travel Management Program and the State Controller's Office.

Implementation Date: Ongoing.

Cash Advances

Diners Club allows state travelers to obtain cash advances on their individual travel cards. State travelers can use cash advances to pay for out-of-pocket travel expenses (e.g., meals, tolls, telephone calls, taxi fare) when Diners Club is not accepted. Because all charges on individual travel cards are the liability of the state traveler, preauthorization is not required to obtain a cash advance. Diners Club charges a $6 fee for each cash advance. Additional fees of $1 to $2 may be incurred if the cash advance is received through an automatic teller machine. Both State Fiscal Rules and Program rules allow state travelers to be reimbursed for transaction fees associated with cash advances if they are necessary for official business purposes. Cash advances on individual travel cards have remained relatively consistent in recent years, as shown in the following table:

Diners Club Card Cash Advance Volume Fiscal Years 2000–2002			
	2000	**2001**	**2002**
Transaction Volume	11,085	11,425	11,190
Dollar Volume	$2,055,800	$2,161,400	$2,144,000

Source: Office of the State Auditor Analysis of Diners Club data.

The policy that prohibits the personal use of individual travel cards also places limits on cash advances (i.e., $100 minimum per cash advance transaction and $500 maximum in any one day or week). The policy further states that no employee may have more than $1,500 in outstanding cash advances at any time and that fees associated with cash advances for less than $100 will not be reimbursed.

During the audit we found several cases where state employees are violating the cash advance policy, including the following:

- Approximately 90 state employees got cash advances exceeding the $500 limit within a seven-day period in Fiscal Year 2002.

- An average of 2,800 cash advance transactions for less than $100 were made by state employees each year over the past three fiscal years.

We also found instances where state employees appeared to be using cash advances for personal reasons. Specifically, we noted two cases where employees requested less than $400 each in travel reimbursements during Fiscal Years 2001 and 2002 but received about $37,000 each in cash advances over the same period.

Although state travelers may need to obtain a cash advance in certain situations (e.g., Diners Club is not accepted), cash advances should be the exception, not the rule. As a result, the Department should work with state agencies and higher education institutions to better enforce policies regarding cash advances on individual travel cards. Among other problems, excessive cash advance activity may lead to delinquencies, thereby lowering the State's volume incentive payments discussed previously. As noted in the previous section, the Department and state agencies and higher education institutions need to increase monitoring to identify problems related to travel card usage, including inappropriate cash advance activity. This could include reviewing travel card activity reports to identify instances of noncompliance with Program rules (e.g., cash advance transactions for less than $100) and/or excessive or suspicious activity. If problems are found, state agencies and higher education institutions should initiate appropriate actions (e.g., card cancellation and/or disciplinary measures) to ensure that further misuse does not occur.

Recommendation No. 9:

The Department of Personnel & Administration should work with state agencies and higher education institutions to improve enforcement of existing policies regarding cash advances on individual travel cards. This should include routine monitoring of cash advance activity at both the state and the agency levels to identify inappropriate card use. If problems are found, state agencies and higher education institutions should initiate appropriate actions so that further misuse is prevented.

Department of Personnel & Administration Response:

Agree. The misuse of cash advances undermines the State's contract. Diners Club provides a monthly report of all cash advance activity on the travel card to all state agencies. It is only at the agency level that meaningful monitoring and guidance can be done. The Statewide Travel Management Program, in conjunction with the State Controller's Office, will continue efforts to work with travel officers and department controllers to improve enforcement and will look at more stringent control measures in the future.

Implementation Date: Ongoing.

Program Funding and Statutory Compliance Issues

Chapter 4

This chapter first discusses the Program's current approach for funding its operating costs. We then examine how the Program complies with statutory requirements to prepare an annual program evaluation report and to monitor employee travel for possible cost savings opportunities. Lastly, we review alternatives to the system currently in place for managing statewide travel expenditures.

Program Funding

Section 24-30-1108, C.R.S., requires the Division of Central Services to charge its users the full cost of providing a particular service. This requirement includes services provided by the Statewide Travel Management Program. Full cost is defined in statute as including the cost of all material, labor, and overhead to provide a service. In Fiscal Year 2002 the Program's total expenses were about $160,000.

The Program does not charge user fees, but instead receives revenue as part of its agreements with travel agents, car rental companies, and Diners Club. These revenue sources are explained below:

- **Revenue sharing with state-approved travel agents:** The Program receives $3 for each airline ticket transaction (i.e., purchases, refunds, and changes) made through a state-approved travel agent. This $3 is included in the $26 transaction fee discussed previously. When a state agency makes air travel arrangements through a state-approved travel agent, the cost of that airfare, including the $26 fee, is charged to the agency's centrally billed Diners Club account. Then, on a quarterly basis, state-approved travel agents tally the number of transactions made on behalf of state agencies and "refund" $3 per transaction to the Statewide Travel Management Program. Each of the state-approved travel agents accomplishes this by sending the Program a check if it did business with the State in the previous quarter. The Program received approximately $115,200 in Fiscal Year 2002 from this arrangement.

- **Revenue sharing with car rental companies:** As explained in Chapter 2, the State's contracts with car rental companies include a requirement for the companies to pay the Program a share of the revenue they earn from state travelers (4 percent of total revenues minus certain costs like tax and insurance). These payments are made on a quarterly basis and totaled approximately $53,600 in Fiscal Year 2002.

- **Revenue sharing with Diners Club:** As discussed in Chapter 3, the State's contract with Diners Club includes various revenue sharing provisions, which are based on cardholder usage and payment timing, among other factors. Monies generated through this agreement are due to the Program by October 31 each year. The October 2002 payment was $5,300.

Operating Deficits and Inefficiencies

Even though the Statewide Travel Management Program is statutorily required to bring in enough revenue to cover its costs, since it was instituted in Fiscal Year 1994, the Program has operated at a loss in every year but the most recent one. Annual operating deficits have ranged from around $3,100 to $47,000, with a cumulative loss of $94,300 over the period Fiscal Year 1995 through Fiscal Year 2002. (See Description of the Statewide Travel Management Program for more detailed information on annual revenues and expenditures.)

Operating deficits are inconsistent with the statutory mandate for self-sufficiency, and the Program needs to take steps to eliminate them. Further, although the revenue sharing agreements with the car rental companies and Diners Club are fairly straightforward and easy to administer, the arrangement with the state-approved travel agents is not. Essentially, state agencies are paying a $3 user fee to the Program each time they make air travel arrangements through a state-approved travel agent. The current method for handling this fee is for the state agency to pay the travel agency via its Diners Club account. The travel agent then takes this same $3 and sends it back to the Program via check on a quarterly basis. This is a cumbersome and inefficient process for collecting revenue to offset Program operating costs.

The current revenue sharing process is also inefficient and burdensome for travel agents. The time and effort it takes for travel agents to track state-related activity and then authorize, process, and mail a check back to the Program seems excessive given the insignificant amounts of revenue that may be involved. For example, through a review of recent revenue sharing records, we found several cases where a travel agent sent the Program a $3 check, indicating that particular travel agent performed only one transaction for the State during the preceding quarter.

Alternative Funding Strategy

The funding generated from the revenue sharing agreement with travel agents currently offsets about 72 percent of the Program's annual operating costs. Increased use of Internet travel vendors, however, will result in fewer airline tickets' being handled through state-approved travel agents. This will reduce the revenue coming from this source. For this reason and the others mentioned previously, it is important for the Program to investigate alternative funding sources. Any alternative funding strategy should also be designed to eliminate the Program's operating deficits, thereby bringing it into compliance with statutory full-cost-recovery pricing requirements.

One approach for funding the Program's operating costs would be to retain the existing revenue sharing agreements with the car rental companies and Diners Club (or a subsequent credit card vendor), but to eliminate the revenue sharing agreement with state-approved travel agents. To replace the revenue that is generated by the latter arrangement, the Program could devise a direct billing method that uses agency travel expenditure data as its basis. That is, the Program would determine the amount of annual funding it needs each year in excess of the funding generated through its agreements with Diners Club and the car rental companies. This amount could then be allocated among all state agencies and higher education institutions using the Program on the basis of their overall travel expenditures. Using travel-related expenditure data is an expedient and fair way to assess user fees, because agencies with higher travel expenditures derive proportionally more benefits from the Program and, consequently, could pay proportionally higher fees.

To illustrate the impact of this suggested arrangement on individual agencies, we used Fiscal Year 2001 travel expenditure data to estimate that annual user fees would vary from about $13 (State Treasury) to $39,700 (University of Colorado). It should be noted that this scenario takes into account current revenue sharing payment levels, which can and should be increased as noted in Chapters 2 and 3. If revenue sharing payments were maximized, user fees might not even be necessary. In fact, Program revenues could exceed operating expenses, providing an opportunity for the Program to return money to its user agencies as an added incentive for complying with existing travel card and car rental usage agreements.

This funding strategy would not require substantial analysis or any new data collection on behalf of state agencies or the Program, because agency-level travel expenditure data are already collected and compiled by the State Controller's Office. Specifically, as we mentioned previously, Section 24-30-202(26), C.R.S., directs the State Controller's Office to produce an annual report of the travel expenses incurred by state employees. This information is categorized in a number of ways, including by agency/higher education institution, funding source, and type. The travel expenditure report is produced each year in February but could be produced more frequently. Moreover, Program staff could be taught to retrieve most of the information contained in the travel expenditure report from COFRS as often as needed through the State's Financial Data Warehouse. The Program's operating costs are relatively stable throughout the course of the fiscal year and from one fiscal year to the next. Consequently, it would be simple to determine how much revenue would need to be generated through user fees each year. Adjustments could be made at year-end should the Program's other revenue sources fluctuate unexpectedly.

Recommendation No. 10:

The Department of Personnel & Administration should modify the existing funding approach for the Statewide Travel Management Program to comply with Section 24-30-1108, C.R.S., which requires charging users the full cost of providing services. Any funding strategy that the Department adopts should be equitable to user agencies and simple to administer.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration has recently implemented improvements in financial management activities departmentwide. As a result, as noted in the audit report, Statewide Travel Management Program revenues covered operating expenses in Fiscal Year 2002, as required by statute. To date, it appears travel management revenues are on track to cover expenses in Fiscal Year 2003 as well.

The Department believes that it is most appropriate for the Statewide Travel Management Program to be generally funded, since the Program provides statewide oversight. However, we realize this is not realistic under the current budget constraints. The Department will work through the Office of State Planning and Budgeting to identify changes in funding mechanisms if necessary.

Implementation Date: Ongoing.

Annual Program Evaluation Report

Section 24-30-1118(3)(j), C.R.S., requires the Department of Personnel & Administration to prepare a written annual report evaluating the progress of the Statewide Travel

Management Program. The report is supposed to be included in the Department's annual budget request and must contain detailed information on the following:

- Cost savings achieved by the Program
- Program utilization by state employees
- Policy changes that have resulted from Program implementation
- Any other information deemed appropriate

We reviewed the Program's most recent Annual Report (2001) to determine whether this reporting requirement was being met. We noted several concerns regarding the report's cost savings information. Overall, we believe that the Program is significantly overstating the cost savings that have resulted from its operations. Upon recalculation, we found that the Program overstated its cost savings for Fiscal Year 2001 by about $3.7 million (i.e., actual cost savings was about 28 percent of what the Program reported). The following table shows the cost savings/avoidance information presented in the Program's 2001 Annual Report and our alternative analysis:

Cost Savings/Avoidance From Statewide Travel Management Program Department Annual Report Versus OSA Analysis Fiscal Year 2001		
Program Estimate	**OSA Estimate**	**Item**
$2,572,876	$1,251,000	Savings—Airline Price Agreements
129,209	0	Revenue Share With Travel Agencies
37,058	0	Rental Car/Diners Club Revenue Share
336,243	247,700	Savings on Rental Car Price Agreements
603,625	see note below	Savings on Hotel Price Agreements
430,908	see note below	No-Cost Diners Club Collision Damage Waiver at $10/day
217,864	0	Diners Common Carrier Insurance for $350,000 at $5.25/ trip
41,498	0	$1,250/$2,000 Diners Club Baggage Insurance at $1/trip
452,890	see note below	No-Cost Liability Insurance on Rental Cars at $10/day
201,188	50,500	Float on Diners Club Centrally Billed Charges @ 8% for 59 days
144,720	0	Float on Diners Club Charges/Cash Advances @ 8% for 59 days
$5,168,079	**$1,549,200** **$100,140** **$1,449,060**	**Total Cost Savings/Avoidance** **— Program Operating Costs Less Revenue Generated ($137,198-$37,058)** **Net Cost Savings/Avoidance**
Source: Statewide Travel Management Program data and Office of the State Auditor analysis.		

The differences between the Program's estimates and ours are explained in more detail below as are suggestions for improving the accuracy of the Program's cost savings estimates in the future.

Savings—Airline Price Agreements: This figure represents the dollars the State saves from its price agreements with certain airlines. The Program calculated its savings figure by comparing the average cost of all tickets purchased by state travelers ($404) with the average ticket cost of $466 for domestic travel from Denver International Airport for a difference of $62 per ticket. The Program then multiplied this figure by the total number of tickets purchased (about 41,500) to arrive at $2,572,876.

Our estimated savings is about half the amount the Program reports. During Fiscal Year 2001 state travelers purchased a total of 41,500 airline tickets. Of this total, 17,615 tickets were purchased under the price agreement at an average ticket price of $363. Travelers also bought 23,883 tickets that were not covered by the price agreements at an average ticket price of $434. We believe that a more accurate method of calculating air travel cost savings resulting from the Program is to multiply the number of tickets purchased under the fare agreement by the average savings resulting from the fare agreements (i.e., $434 - $363, or $71), as shown below:

Number of Tickets Purchased Under the Agreement		Average Difference Between Fares Purchased Under and Outside the Price Agreement		Estimated Savings From Airfare Price Agreements
17,615	X	$71	=	$1,251,000

Revenue Share With Travel Agencies: As discussed previously, the State pays a $26 fee to travel agents when employees make air travel arrangements. Part of this fee, $3, is returned to the Program to offset its operating costs. The Program includes the total revenue generated from this arrangement in its cost savings estimate, even though this figure represents *expenditures* made by state agencies and higher education institutions to support the Program, not cost savings to the State. This figure should not be included in the Program's cost savings estimate at all.

Rental Cars/Diners Club Revenue Share: The Program includes $37,058 generated from its revenue sharing agreements with car rental companies and Diners Club as part of its cost savings estimate. As discussed previously, this is revenue generated by the Program, not cost savings. It is best dealt with as an offset to program operating costs, as we have shown in the preceding table.

Savings Resulting From Car Rental and Hotel Price Agreements: The Program estimates savings from these items using various data and assumptions including average industrywide cost figures, federal lodging per diem rates, and Diners Club data. Our car rental cost savings estimate, which uses actual cost data from approved and non-approved vendors, is about 74 percent of the amount reported by the Program (i.e., $247,700 versus $336,243). We also noted that the data used to calculate the estimated savings resulting from hotel price agreements are about five years old and, therefore, of questionable accuracy. We could not accurately recalculate savings related to this item due to inadequate data.

Insurance-Related Items: The Program cites four insurance-related items in its cost savings estimates. As discussed previously in the report, the Program's agreements with

Diners Club and the car rental companies include certain insurance-related benefits. The Program estimates the cost savings accruing from these agreements by multiplying the estimated cost to purchase either collision or liability insurance (i.e., $10 per day) by the number of rental days. As discussed in Chapter 2, there are numerous problems with the way state travelers are currently utilizing the insurance arrangements, including making unnecessary insurance purchases. In addition, the insurance provided through the car rental vendors cannot be accurately portrayed as "no cost" as the Program asserts. This is because the vendors take the cost of providing this insurance into account when establishing their rental rates for state travelers. These factors made it impossible for us to accurately calculate the savings accruing to the State from the insurance agreements.

The two remaining items (i.e., common carrier and baggage insurance) should not be included in the cost savings estimate because these costs are not reimbursable according to the State Fiscal Rules.

Float on Centrally Billed and Individual Diners Club Accounts: The Program lists $201,188 in cost savings resulting from the interest earned by state agencies due to Diners Club's 60-day billing cycle. This figure is calculated using two erroneous assumptions. First, the Program uses an 8 percent interest rate in its calculation, even though the interest rate earned on most funds held by state agencies (i.e., the State Treasurer's Investment Pool) has been about 6 percent for the last seven fiscal years. Second, most state agencies do not wait the full 59 days before paying their Diners Club bills. Specifically, we estimated that during Fiscal Year 2001 state agencies and higher education institutions paid their Diners Club bill an average of 18 days after receiving their statement. Our calculation takes both of these factors into account and results in a 75 percent reduction in the estimated cost savings figure. With regard to the second item (i.e., individual Diners Club accounts), the State receives no benefit from the 60-day billing cycle for these accounts because the State is not liable for charges to them. This item should be excluded from the Program's cost savings estimate.

We also note that the Program did not subtract its operating costs from its estimate. In order to ensure the most accurate portrayal of the net financial benefit accruing to the State from the Program, Program operating costs, as well as any offsetting revenue enhancements (e.g., revenue generated from the Diners Club and car rental agreements), must be taken into account. Offsetting revenue should be handled separately, however, to avoid confusion.

Statutes emphasize the importance of preparing the Annual Report, and further declare that the Program was created to "foster fiscal accountability and result in significant financial savings to the State" (Section 24-30-1118(1), C.R.S.). If the information contained in the Annual Report is inaccurate or misleading, the General Assembly and other policymakers will not have a firm basis for determining whether this statutory mandate is being achieved and, ultimately, if the Program should be continued. In addition, the Annual Report could be an important management tool for identifying possible cost savings opportunities and developing trends. If the data it contains are not reliable, opportunities for improvement will be missed.

Department staff should review the Program's Annual Report to ensure the necessary improvements are made. Furthermore, we question the value added from publishing the report as a separate document, thereby incurring additional design and printing costs. Including this report in the Department of Personnel & Administration's budget request, as required by statute, would reduce production costs. Lastly, as it should with any statutory reporting requirement, the Department should work with the General Assembly to determine the ongoing usefulness of this report and seek the appropriate statutory changes, if needed.

Recommendation No. 11:

The Department of Personnel & Administration should ensure that the information contained in the Statewide Travel Management Program's Annual Report accurately represents the net cost savings accruing to the State from program operations. Furthermore, the Department should work with the General Assembly to determine if the Annual Report shall continue to be issued in its current form or modified or eliminated to reduce costs.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration will review procedures used by the Statewide Travel Management Program to calculate cost savings to ensure they are accurate. In particular, the Department will separate revenue from costs savings and avoidance. The Department will be guided by the General Assembly in how to produce the statutory report.

Implementation Date: November 1, 2003.

Ongoing Monitoring and Enforcement

The statutes governing the Statewide Travel Management Program include a requirement for the Department to "monitor travel patterns and practices of state employees in an effort to identify opportunities for cost savings" (Section 24-30-1118(3)(f), C.R.S.). Throughout the audit it became apparent that the Program needs to improve its monitoring activities in order to ensure that potential cost savings possibilities are identified and implemented in a timely and systematic manner. We also believe that the Department has both the authority and the responsibility to increase enforcement of existing Program rules and regulations when other methods fail to achieve compliance. Specifically, Section 24-30-1118 (3)(h)&(i), C.R.S., states that the Department shall consult with the State Controller to promulgate and enforce such rules and regulations as are necessary to administer the Statewide Travel Management Program. It is essential for the Department to actively and consistently enforce these rules if the Program is to be successful in meeting its statutory responsibilities to coordinate and oversee state employee travel in an effort to foster fiscal accountability and save taxpayers' money. The fact that we identified nearly $4.3 million in potential cost savings and about $268,000 in revenue enhancements indicates that greater effort is needed in these areas.

Currently the monitoring conducted by the Program is unsystematic. Further, when potential cost savings are identified, staff do not always take the next step to effectively educate state travelers, modify Program rules or policies, or take actions to enforce standing rules and regulations. For example, Program staff knew that state travelers were not always using approved car rental vendors, even though cost savings and revenue enhancements result from these arrangements. The Program failed to remedy this problem by working to increase compliance with the negotiated agreements. This is demonstrated by the fact that the dollar volume of car rentals made at non-approved vendors where state travelers used their Diners Club card has remained relatively stable over the past three fiscal years. If effective actions had been taken in this area, the dollar volume of these transactions should be showing a noticeable decrease. In the past, the Department has been hesitant to adopt an enforcement role for this program. We believe that such a role is both appropriate and warranted given the fiscal impact of noncompliance. Without proper enforcement, the potential positive impact of the Statewide Travel Management Program is seriously lessened.

Comprehensive and continual monitoring and enforcement are essential given that the State spends over $50 million a year on official travel. The Program should undertake activities similar to the ones we used in conducting this audit to improve its oversight. For example, the Program could institute a systematic process for monitoring Internet airfares to ensure that state travelers are aware of cost savings possibilities in this area. In addition, the Program could periodically monitor actual car rental expenditures to identify areas of noncompliance with approved vendor lists. The Program also needs to be more proactive in developing program advancements, such as using the Internet to achieve savings on airfare purchases and developing alternatives to costly revenue sharing arrangements with travel agents. When potential cost savings and/or compliance issues are identified, Program staff should work with affected parties and the State Controller's Office, if appropriate, to ensure that prompt enforcement actions are taken.

Recommendation No. 12:

The Department of Personnel & Administration should improve its approaches for monitoring travel patterns and practices of state employees to identify potential cost savings opportunities. When potential cost savings and/or compliance issues are identified, Department staff should work with affected parties to ensure that proper enforcement actions are taken.

Department of Personnel & Administration Response:

Agree. The Department of Personnel & Administration will improve monitoring of travel patterns and expenditures by the Statewide Travel Management Program. In addition, the Department will identify appropriate enforcement mechanisms through the Program and the State Controller's Office. The Program has always made compliance issues and cost savings opportunities a centerpiece in presentations to department travel officers and controllers, monthly training sessions, monthly procurement training sessions, and events such as Colorado Fiscal Managers' Association and Colorado State Managers Association training conferences and the Procurement Advisory Council. As indicated above, department travel officers and controllers are responsible for enforcement of many of the travel management policies. Therefore, the Department will continue efforts to gain greater compliance with travel rules.

Implementation Date: Ongoing.

Program Alternatives

The General Assembly created the Statewide Travel Management Program in an effort to enhance oversight of the State's travel-related expenditures and maximize the value of aggregating demand for travel-related services. Our findings demonstrate that the Program is not currently meeting all of its statutory mandates. We also believe that there are alternative approaches for managing travel that would fulfill the legislative intent for this program. For example, the Department could replace the Program with various enhancements to the State's existing fiscal accountability and procurement systems. The state purchasing and state controller functions within the Department of Personnel &

Administration, as well as their respective networks of delegates, already play a significant role in the approval and acquisition of travel-related services and could perform the necessary duties if the current program structure was eliminated or modified. The functions necessary to the fulfill legislative intent for this program include:

- **Negotiating Vendor Agreements and Establishing Program Rules:** Most of the existing agreements with commercial travel vendors provide a benefit to the State in the form of cost savings and increased revenues and should be maintained. These agreements could be negotiated and executed by the Department's Division of Finance and Procurement, and appropriate usage data collected, consistent with other mandatory statewide price agreements. Program rules already exist in the form of regulations, State Fiscal Rules, and statewide policies. The State Controller's Office could assume responsibility for modifying and updating this guidance as needed.

- **Enforcing Vendor Agreements and Program Rules:** The State Controller's statute (Section 24-30-202, C.R.S.) mandates the promulgation of rules establishing fiscal controls over state expenditures. Further, agency controllers are responsible for verifying that travel expenses are necessary and appropriate and that travel is completed using the most economical means available. In addition, agency controllers already have access to detailed travel card transaction data and should be monitoring this information to ensure that state travelers are complying with program rules and vendor agreements. Similar arrangements could be made to provide agencies with data (e.g., transaction data from car rental vendors) that they do not already receive that would be useful for monitoring purposes.

- **Collecting Data:** The State Controller's Office already compiles an annual report detailing the travel expenses of state agencies and higher education institutions. In addition, as noted previously, COFRS object codes could be expanded to provide a framework for collecting more detailed travel-related expenditure information (e.g., car rental data). This would provide the Department with better and more complete travel data that could be used in future service agreements and for enhanced expenditure monitoring.

- **Educating State Travelers:** The State Controller's Office currently provides yearly, statewide training on the Fiscal Rules and other subjects of interest to state agencies and higher education institutions. These presentations could be expanded to include the travel management information that the Program now provides through various avenues. The Department has other existing tools at its disposal (e.g., *Stateline*) that could also be used to disseminate travel-related information as needed.

The procurement of travel-related services is similar in many respects to the procurement of other commodities and services that the State purchases. Statutes include general language covering the procurement of goods and services that provide overarching public policy direction. In fact, the Procurement Code (Section 24-101-102, C.R.S.) states that the purpose of the Code is:

- To provide increased public confidence in the procedures followed in public procurement.

- To provide increased economy in state procurement activities.

- To maximize to the fullest extent practicable the purchasing value of public funds.

This language and the State Controller's statutory fiscal authority are consistent with the expressed intent of the General Assembly in creating the Statewide Travel Management Program. Therefore, we believe that in addition to implementing the recommendations in this report, the Department should simultaneously explore the feasibility of establishing effective travel management oversight through the existing fiscal accountability and procurement systems instead of having a separate program. Regardless of the system ultimately utilized, the Department should ensure that controls are in place to maximize accountability and the value the State derives from its travel-related expenditures.

Recommendation No. 13:

The Department of Personnel & Administration should evaluate alternatives to the Statewide Travel Management Program that achieve fiscal accountability and maximize the value of state travel expenditures within the existing fiscal and procurement oversight systems and report its findings to the General Assembly.

Department of Personnel & Administration Response:

Agree. The audit of the Statewide Travel Management Program raised several important issues related to the management of the Program and enforcement of travel rules and policies. The above audit findings raised questions regarding the value of a formal Statewide Travel Management Program office. The Department is committed to addressing the audit recommendations and improving the operation of the Program. However, the value of a centralized program remains to be determined even with these improvements. Therefore, the Department will review the Program and propose legislation to the General Assembly regarding whether the Program should be modified, continued, or discontinued. This action would allow the Department sufficient time to rectify the weaknesses identified by the audit, which may demonstrate the value of the Program.

Implementation Date: January 2004.

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