

Report Highlights

Why DLA Performed This Audit

This audit of the State Travel Office was requested to determine whether centralizing travel procurement for the executive branch has resulted in efficiencies and lower travel costs, to evaluate the relevance and reliability of reported travel information, and to make recommendations to reduce travel costs. This audit also evaluates whether the State has appropriately received their contractual discounts in airfare rates, and reports the status of prior STO audit recommendations.

What DLA Recommends

1. DOA's Division of Finance (DOF) director should revise the savings rate calculation methodology for airfare to ensure expenditures and revenues are appropriately included in the savings rate.
2. DHSS' commissioner should revise procurement practices to reduce Medicaid travel costs.
3. DOA's DOF director should collect the \$3 million due from its travel contractor.
4. DOA's DOF director should revise State travel policies to encourage advance purchase of airfares.
5. DOA's DOF director should improve the reporting of travel activities.
6. DOA's DOF director should reconsider agency STO exemptions.

A Special Review of the Department of Administration (DOA), State Travel Office (STO)

May 5, 2016

Audit Control Number 02-30082-16

REPORT CONCLUSIONS

The audit concludes centralizing travel procurement has reduced non-Medicaid travel costs and increased the efficiency of the procurement process. Non-Medicaid air travel costs were reduced in FY 15 by almost \$700,000 through purchasing travel through the STO. Additionally, with minor exceptions, airfares tested as part of the audit reflected the correct contractual discount rates.

Improving travel practices can further reduce State travel costs. The audit recommends revising travel policies to clearly communicate the expectation for advance purchase, enhancing the reporting of travel information to help reduce the expiration of air tickets, and limiting the number of agencies exempt from using the STO.

The audit found discounted airfare rates reduced Medicaid airfare costs in FY 15, however the \$1.9 million in booking fees charged by the State's travel vendor significantly exceeded the savings of \$990,000.

It is the Department of Health and Social Services' (DHSS) standard practice to purchase one of the most expensive types of airfare, the fully refundable class of airfare, for its Medicaid recipients in need of travel. Furthermore, the audit found 75 percent of the FY 15 Medicaid airfares were purchased less than seven days in advance of travel. Both of these actions increased DHSS travel costs.

When evaluating Medicaid travel, the audit identified that \$3 million in Medicaid airfare refunds were due the State; however, because of problems with the Medicaid system, DHSS has not been able to process those refunds.

Report Highlights

REPORT CONCLUSIONS (Continued)

Improvements are needed to ensure the STO travel information is both relevant and reliable. The audit found important information was excluded from STO's saving rate calculation and in STO's monthly travel reports. Increasing the relevance and reliability of travel information may assist State agencies in actively managing travel costs.

Two of the previous STO audit recommendations were resolved or no longer apply to current processes. Two prior recommendations to improve reporting of travel activity for management purposes have not been resolved. One prior recommendation for a statutory change is being worked on but has not been fully addressed.

ALASKA STATE LEGISLATURE

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July 15, 2016

Members of the Legislative Budget
and Audit Committee:

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

DEPARTMENT OF ADMINISTRATION
STATE TRAVEL OFFICE

May 5, 2016

Audit Control Number
02-30082-16

The audit reports whether centralizing travel procurement within the State Travel Office has resulted in efficiencies, whether reported travel information is relevant and reliable, and whether improvements can be made to reduce travel costs. The audit also determines whether the State has appropriately received their contractual discounts in airfare rates, and provides a status of prior audit recommendations.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in black ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

ABBREVIATIONS

AAC	Alaska Administrative Code
ACN	Audit Control Number
ARRC	Alaska Railroad Corporation
AS	Alaska Statute
ASMI	Alaska Seafood Marketing Institute
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
CTM	Corporate Travel Management
DCBPL	Division of Corporations, Business, and Professional Licensing
DCCED	Department of Commerce, Community, and Economic Development
DGS	Division of General Services
DHSS	Department of Health and Social Services
DLA	Division of Legislative Audit
DOA	Department of Administration
DOF	Division of Finance
DOTPF	Department of Transportation and Public Facilities
FY	Fiscal Year
No.	Number
RFP	Request for Proposal
STO	State Travel Office
USDOT	United States Department of Transportation

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ORGANIZATION AND FUNCTION

State Travel Office

Department of Administration (DOA) provides centralized administrative services for finance, personnel related activities, and information and telecommunications support to state agencies. DOA also provides legal and advocacy service for indigent Alaskans, vehicle licensing and registration services, as well as administrative support to commissions assigned to the department. Within DOA, the Division of General Services (DGS) and the Division of Finance (DOF) are the primary agencies involved with the centralized travel office functions.

Among other functions, DGS provides procurement services and support for all state agencies. DGS is responsible for soliciting central services such as travel and negotiating terms and conditions. DGS has negotiated multiple travel-related contracts and is responsible along with the State Travel Office (STO) for monitoring contract compliance.

The mission of DOF is to provide accounting, payroll and travel services for state government. The STO is under the purview and management of the DOF director, and provides travel procurement services to all executive branch agencies including the Medicaid program.

In addition to procuring travel, the STO provides travel reporting, monitors and manages the travel contractor, and functions as a liaison between State agencies and the travel contractor. For FY 16, the STO had two full time staff positions, a State Travel Manager and an Accountant IV.

STO's FY 16 annual operating budget was approximately \$2.9 million. The services budget includes fees paid to the contractor.

Exhibit 1

State Travel Office FY 16 Operating Budget	
Personal Services	\$ 260,000
Travel	5,000
Services	2,571,000
Commodities	25,000
Total	\$ 2,861,000

Source: Legislative Finance Division Final Enacted Operating Budget Reports.

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BACKGROUND INFORMATION

State Travel Office was created to reduce travel costs.

In the early 2000s, the increased availability of travel vendor websites changed how the State procured travel. Travel began to be purchased directly by travelers rather than indirectly by travel planners. The decentralized purchasing reduced management oversight of travel and led to concerns regarding travel costs and practices. During the same time period, State revenues declined, making the containment of travel costs a priority.

As a cost containment measure, DOA staff worked to leverage the State's purchasing power to reduce airfare costs. In 2004, DOA staff identified Alaska Airlines as the State's largest airfare vendor, and negotiations began to reduce fares through a central State government contract for air travel.

During negotiations, Alaska Airlines stipulated that discounted rates for air travel transactions and communications must be handled through a central point of contact. Based on this requirement, DOA identified that two components were needed to successfully negotiate the contract: 1) a separate contract with a professional travel agency to act as a travel management contractor, and 2) a State central point of contact to act as liaison between State agencies and the travel contractor. The travel contractor was required to have industry access to the global distribution system, which is the internet portal to access airfare, hotel, and car rental rates.

DOA issued a travel management request for proposal (RFP), and the final contract was awarded to USTravel Alaska, LLC on November 5, 2004.¹ Since that time, a second RFP was awarded to USTravel to perform similar services. In 2014, USTravel was purchased by Corporate Travel Management (CTM), an international travel company, and continues to serve as the State's travel contractor.

While securing a travel contractor, DOA began developing a new business model to serve as the State's central point of contact for procuring travel. Substantial input from State agencies was considered when developing the State Travel Office's (STO) operating framework. In late 2004, the STO was established, and its operations and processes provided for continual oversight of departmental enforcement of travel policies. The STO is

¹Contract No. 2005-9900-4755, period of performance November 5, 2004, through November 4, 2008.

also responsible for monitoring and managing the travel management contractor, and acts as a liaison between State agencies and the travel contractor.

Once the State established the STO and secured a travel contractor, it finalized a contract with Alaska Airlines which provided discount rates based on specific fare classes, effective January 1, 2005. This initial contract has been renewed and modified with the most current contract effective January 1, 2016, through December 31, 2019. Provisions in the contract allow State travelers to accrue personal mileage, but do not allow purchased travel to be combined with other types of discounted airfares. In 2014, the State entered into a contract with Delta Airlines, which also offers discounted airfares.

Three factors significantly impact travel costs.

There are three key factors that materially impact travel costs for the State of Alaska. The State can influence the first two. The final factor is an economic condition over which the State has little to no influence.

- Factor 1: Advance planning and purchase reduces airfare costs.

Commonly, the price of air travel is highly impacted by the timing of purchase. Airlines' pricing structures typically give significant discounts on tickets purchased in advance of travel. The more in advance that travel is purchased, the larger the discount. While there is a need for immediate travel under certain situations, in many instances management has the ability to plan ahead and purchase air tickets at a significant discount. Currently, the State's administrative manual travel policy does not specifically require advance purchase of travel. The *Alaska Administrative Manual* 60.050, travel purchase policies only require the State *pay no more than the lowest ticket class fare for the most direct route.*

Airfare Discounts Are Based On The Class Of Fare

Airlines use fare classes to divide every seat on a plane into different categories, each with its own price and rules. Each seat on a plane is considered "inventory," and airlines assign various fare classes to quantities of seats to meet their business needs. For seats not yet purchased, airlines can change the class of fare at any time up until the flight occurs. Also, airlines may or may not offer that class of fare on the global distribution system, instead opting only to sell a specific fare class through their websites.

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- Factor 2: Management information is critical to controlling travel costs.

Departmental management oversight, including supervisors, administrators, and program managers, is a critical element in controlling travel costs. Management approves a request for travel prior to purchase, and reviews and approves travel-related payments after travel is completed. Relevant and reliable information is essential to this process. Information helps managers identify whether travel costs are reasonable and necessary to meet the department's missions and goals, and where opportunities to reduce travel costs exist.

STO provides departments monthly and quarterly travel information. Travel information includes unused tickets, cost savings, non-compliance,² and issue resolution. Additionally, policy alerts are issued on a daily basis to specific departments when first class tickets are purchased, a traveler did not check into a hotel as scheduled, or rental car purchases are made with non-State contracted vendors. All information is provided to the department's designated travel coordinator, who in turn disseminates the information to managers and program administrators.

The cost savings report is a monthly report providing an overview of travel information which is published on STO's website. Information contained in the report includes items such as contract savings on air travel, hotel, and car rentals, total of airfare purchased, savings on exchanged tickets, and total booking fees paid. The report is updated monthly, so department management has the accumulated fiscal year-to-date totals in each category. A key element on the report is the percentage rate of airfare savings, which compares the total procured travel to the amount of calculated savings through central contracts and managed travel. Departmental travel coordinators are alerted by the STO when the report has been updated.

- Factor 3: Limited supply of air carriers affects airfare rates.

There is a lack of competition between major air carriers on many segments of in-state air travel. This impacts State travel costs in two ways. First, the lack of competition generally leads to higher airfares,

²Non-compliance includes ticket information on airfares not purchased through the STO.

as travelers have few options and are forced to pay non-competitive prices. Secondly, the dominant in-state carriers have a strong bargaining position when negotiating airfare contracts with the State, which leads to less favorable terms and conditions for providing reduced airfares. The State's dominant in-state air carrier has historically been Alaska Airlines. The central contracts with both Alaska Airlines and Delta Airlines guarantee reduced airfares under certain terms and conditions.

The State has taken a different approach to procuring air travel with smaller in-state rural carriers. By responding to a solicitation for services, carriers agree to comply with specific terms and conditions,³ including pricing. The airfare rates for these rural carriers are based on the Intra-Alaska Bush Service Mail Rates issued by the United States Department of Transportation (USDOT). The Intra-Alaska Bush Mail Rates subsidize air carriers for the United States Postal Service in rural Alaska by helping to ensure carriers recover their cost of service. Carriers are required to submit financial information on a quarterly basis, and the fare rates are periodically updated after fuel adjustments are made to the mail rates by USDOT. Per the contract terms, no penalties for changes or cancellations to rural carrier reservations or tickets can be imposed.

There is a range of fees charged by CTM for booking travel depending on the type of service needed.

Contracting with CTM, the State's travel contractor, provides the State with twenty-four hours a day, seven days a week (24-7) access to purchase travel through the use of the online booking tool. In the event assistance is needed, the contractor has employees available 24-7 for assistance with travel. This provides continuous access by travel planners and travelers when there is a need to change travel plans.

According to CTM's contract, CTM charges a range of fees, depending on the travel service provided. Exhibit 2 shows the fees charged for non-Medicaid and Medicaid travel, effective FY 15 through FY 16. One dollar of each fee collected is remitted to the STO to offset the cost of STO operations. Each month, CTM provides the State a report of the total fees collected.

³Carriers must demonstrate they meet specific requirements; the information they must provide include items such as a valid operating certificate and evidence of participation in an aviation safety program.

Exhibit 2

CTM Travel Fees* FY 15 through FY 16			
Fee Amount Effective June 29, 2014 – August 2, 2015	Fee Amount Effective August 3, 2015	Service	Description
\$9.04	\$4.00	Unassisted Booking	Travel planner or traveler uses the online booking tool to purchase travel.
\$7.18	\$7.18	Unassisted Refund	Travel planner or traveler uses the online booking tool to process a refund.
\$10.58	\$10.58	Assisted Refund/Change/Void	Travel contractor assists with any portion of a change to a travel itinerary, or to book travel using an unused ticket. Assisted refund fees are charged when travel contractor assists with any portion of a refund on purchased travel including air, hotel, or car.
\$20.17	\$17.68	Assisted Booking	Travel contractor completely books travel including air, hotel, or car.
\$22.63	\$19.82	Medicaid Booking	Generally, all Medicaid airfare is booked by the travel contractor. DHSS policy dictates all air travel is purchased as fully refundable tickets. After initial booking, there is no fee for refunds or changes to the prior approved travel.

Source: CTM contract.

*All fees include \$1 for covering STO operating costs.

Based on a “pay for performance” provision in the contract, fee amounts were adjusted on a periodic basis. Specific measures of service were required to be met for the fee to increase. On a quarterly basis, CTM provides DOA’s Division of General Services with data on how they met the service measures. Prior to FY 15, the non-Medicaid fee was adjusted annually and the Medicaid fee was adjusted quarterly. In FY 15, no adjustments were made and in August 2015 the State agreed

The State’s online booking tool provides access to negotiated discount rates for airfare, lodging, and car rental.

to flat rates through the end of the contract with CTM for both Medicaid and non-Medicaid transactions in exchange for an overall 20 percent reduction of several of the rates; however, the performance provisions were still required to ensure service levels were maintained.

The travel contractor, CTM, provides and maintains the State’s online booking tool.⁴ The booking tool is a web-based application which allows State travel planners and authorized travelers to purchase, change, and cancel travel at anytime from anywhere with internet access. Except for contact with a CTM agent, the booking tool is the only way to access the negotiated discount travel rates. By logging onto the secure site, the application connects to a global distribution system, a reservation network that is a single point of access for reserving airline seats, hotel rooms, and rental cars with travel vendors.

The booking tool is customized to ensure travel purchased is compliant with State travel policies and is used for scheduling and purchasing travel. Based on department-established access and authorizations, it also allows standard travel templates to be set up based on business needs, provides listings of unused tickets, and retains traveler profiles for efficient purchasing.

Medicaid airfare is purchased through the travel contractor.

Generally, all Medicaid airfare is purchased through the travel contractor.⁵ Purchasing Medicaid airfare is more complex than purchasing non-Medicaid airfare. The State advances funds to CTM to allow the travel contractor to purchase Medicaid airfares. When the travel contractor receives a prior authorization for Medicaid travel, CTM agents schedule the trip and issue payments to the travel vendor(s). Based on Department of Health and Social Services (DHSS) policy, all Medicaid air travel purchased is a fully refundable class of airfare.

The federal government does not allow Medicaid program reimbursement until travel is completed. Once the travel is concluded, CTM submits a payment reimbursement request to DHSS’s fiscal agent

⁴The booking tool currently used is called “GetThere,” which is only available to the State through the contract with the travel contractor. GetThere uses SABRE, a global distribution system, to access travel vendor networks.

⁵CTM does not procure Medicaid lodging or ground transportation.

for processing. The Medicaid system then issues a reimbursement to CTM, who in turn returns the advanced funds, referred to as “credits,” to the State. If the Medicaid travel never occurs, CTM processes a refund for the air travel within 180 days after the date travel was supposed to begin.

Each week, the process of issuing funds to CTM and receiving credits occurs through a payment processing file between CTM and DHSS’ Finance and Management Services (FMS) section. Some weeks CTM owes the State a net credit, and some weeks the State owes CTM a net advance of funds. FMS tracks the amount of funds advanced to the travel contractor for Medicaid air travel.

There are two types of designated travel staff at each department.

There are two positions responsible for procuring non-Medicaid travel within each State department: travel coordinators and travel planners. Travel may also be purchased directly by a traveler as long as the traveler has been given authority.

- Travel coordinators are the primary position responsible for travel policy interpretation and enforcement. They are the designated liaison between their department and the STO to address department-specific issues and provide input for travel policy development. Travel coordinators analyze travel data for their department for policy compliance and identify the need for traveler or travel planner education. Each department has at least one travel coordinator and a backup.
- Travel planners are designated staff positions which are trained to use the booking tool, explain policies as needed to travelers, ensure appropriate approvals are obtained prior to purchase of travel, and schedule and purchase travel. Departments may also authorize travelers to schedule their own travel through the State’s booking tool. As of January 2016, the STO identified there were 2,299 travel arrangers throughout the executive branch, including travel planners and travelers authorized to purchase travel.

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REPORT CONCLUSIONS

This audit determines whether centralizing executive branch travel procurement within the State Travel Office (STO) has resulted in efficiencies and lower travel costs, whether reported travel information is relevant and reliable, and whether improvements can be made to reduce travel costs. The audit also evaluates whether the State has appropriately received their contractual discounts in airfare rates, and reports the status of prior STO audit recommendations.

The audit concludes that centralizing travel procurement has reduced non-Medicaid travel costs and increased the efficiency of the procurement process. Non-Medicaid air travel costs were reduced in FY 15 by almost \$700,000 through purchasing travel through the STO. Additionally, with minor exceptions, airfares tested as part of the audit reflected the correct contractual discount rates.

Improving travel practices can further reduce State travel costs. The audit recommends revising travel policies to clearly communicate the expectation for advance purchase, enhancing the reporting of travel information to help reduce the expiration of air tickets, and limiting the number of agencies exempt from using the STO. (See Recommendations 4, 5, and 6.)

The audit found discounted airfare rates reduced Medicaid airfare costs in FY 15, however the \$1.9 million in booking fees charged by the State's travel vendor significantly exceeded the savings of \$990,000.

It is Department of Health and Social Services' (DHSS) standard practice to purchase one of the most expensive types of airfare, the fully refundable class of airfare, for its Medicaid recipients in need of travel. Furthermore, the audit found 75 percent of the FY 15 Medicaid airfares were purchased less than seven days in advance of travel. Both of these actions increased DHSS travel costs. (See Recommendation 2.)

When evaluating Medicaid travel, the audit identified that \$3 million in Medicaid airfare refunds were due the State; however, because of problems with the Medicaid system, DHSS has not been able to process those refunds. (See Recommendation 3.)

Improvements are needed to ensure the STO travel information is both relevant and reliable. The audit found important information was excluded from STO's saving rate calculation and in STO's monthly travel reports. Increasing the relevance and reliability of travel information may assist State agencies in actively managing travel costs. (See Recommendations 1 and 5.)

Two of the previous STO audit recommendations were resolved or no longer apply to current processes. Two prior recommendations to improve reporting of travel activity for management purposes are still outstanding. One prior recommendation for a statutory change is being worked on but has not been fully addressed. (See Recommendation 5.)

Detailed report conclusions are presented below.

Rural air carriers account for 20 percent of non-Medicaid airfare costs and 62 percent of Medicaid airfare costs.

In FY 15, \$19.5 million was spent through the STO on non-Medicaid airfares, of which approximately 78 percent (\$15.3 million) was purchased using centralized contracts with Alaska Airlines and Delta Airlines. Rural air carriers⁶ accounted for 20 percent (\$3.8 million) of the airfare costs and the remaining two percent of purchases were on other large major airline carriers. Conversely, centralized discount contracts (Alaska Airlines and Delta) constitute only 38 percent (\$16.2 million) of total Medicaid airfare costs (\$42.3 million),⁷ while approximately 62 percent (\$26 million) of airfare was purchased through rural carriers, with 30 percent (\$12.6 million) purchased through Ravn Alaska.

Alaska Airlines and Delta refundable and non-refundable airfare tickets are subject to a discount based on the terms of the contract agreements. As discussed in the Background Information section, the State has elected to pay rural air carrier airfares based on the Intra-Alaska Bush Service Mail Rates issued by the United States Department of Transportation. Testing of airfares concluded the small rural carrier with the largest market share (Ravn Alaska) typically offered lower fares through its public website than was charged to the State based on its agreed upon contract.

⁶Ravn Alaska air travel purchases were 10 percent of the total rural carrier purchases.

⁷Other large major carriers account for approximately 0.20 percent of Medicaid airfare costs.

Airfares purchased through the STO materially received the correct discount rates.

To assess the travel procurement process and compliance with contract terms, the audit selected five departments with the highest air travel costs in FY 15 for testing. Testing consisted of observing 117 airfare bookings at the departments, while simultaneously capturing data from the public websites for comparison purposes, recalculating the airfare discount,⁸ and assessing the reliability of STO reporting. The airfares were purchased using the State's booking tool.⁹

Testing showed that overall the State received the appropriate discount rate from airline contracts for airfares purchased through the booking tool. The discount rate was applied upon purchase of a trip through the booking tool as specified in the State's airfare contracts. Of the 117 trips observed using the State's booking tool, 83 had at least one segment of the trip that was eligible for a discount.¹⁰ The discount rate was applied correctly in all but one of the 83 trips.

The one airfare not receiving the appropriate discount rate was due to an untimely update on the global distribution system. The audit found the new State airfare contract rates, effective January 1, 2016, were not updated in the global distribution system by Alaska Airlines until mid-January. STO staff were unaware the rates were not updated until it was brought to their attention during the audit. A further analysis of airfares purchased showed the discount was not applied to nine additional trips. The total effect for all errors identified was approximately \$106.

Access to discount airfares through the STO saved 3.57 percent for non-Medicaid travel cost.

The STO, the single point for purchasing travel, allows the State to obtain additional value beyond volume discount rates. The STO provides for consistency in reporting travel information for all State agencies, helps resolve disputes with vendors, and works with CTM, the travel contractor, to apply State policies on all travel procurement through the booking tool and agent-assisted bookings.

⁸The airfare discount is based on the airline contract terms as discussed in the Background section.

⁹The booking tool is an application used to schedule and procure travel. The State's booking tool connects to the travel global distribution system to obtain the airline airfare rates. The rates in the system are updated by the airlines.

¹⁰Thirty-one trips were not eligible for a discount due to exclusion from contract rate fares, and three additional trips had insufficient information available on public websites for recalculation purposes.

The ability to leverage the State's purchasing power through a central negotiated contract resulted in lower non-Medicaid travel costs, even on last minute travel. A review of STO data concluded non-Medicaid air travel costs were reduced by approximately \$697,700 during FY 15 through access to reduced airfare rates. Based on the travel contractor, CTM, FY 15 annual report, the average State ticket price of \$381 equates the dollar savings with 1,831 airfare tickets.

Similarly, a review of the STO Medicaid data concluded the airfare contract discount rates reduced Medicaid air travel by approximately \$990,000 for FY 15. However, the travel contractor fees of approximately \$1.9 million more than offset those savings, representing a negative savings rate of 2.03 percent. It should be noted that the State has historically contracted out the booking of Medicaid travel even before the STO was created. Although the Medicaid savings rate shows a negative 2.03 percent, under the central contracts for airfare, the cost of booking Medicaid travel is partially offset by the discounts received.

STO management reported a 10 percent airfare savings rate for non-Medicaid air travel in FY 15 and four percent for Medicaid; yet the audit calculated savings were 3.57 percent for non-Medicaid airfares and a loss of 2.03 percent for Medicaid airfares. The differences in the percentage rates were due to differences in STO's rate methodology when compared to the audit's analysis. STO's percentage rate methodology did not include expired tickets, contractor fees, and STO operating expenditures and revenues. Additionally, STO's methodology inappropriately included inflated savings from rural carriers. Airfare testing identified that rural carriers were charging the State higher airfares through the booking tool than available through their public websites. The final difference between methodologies was "avoided personnel costs." STO included avoided personnel costs when calculating Medicaid savings under the premise that if the travel contract was terminated, State employees would be needed to book travel. This premise is not reasonable, as the savings rate is intended to compare the costs of procuring travel under the current contract to the discount obtained. It is not intended to compare different procurement frameworks which would include different elements and analysis. (See Recommendation 1.)

Purchasing airfares in advance of travel reduces travel costs.

Further reductions in travel costs are possible by purchasing airfares in advance of travel. An analysis of travel costs found approximately 58 percent of State airfares in FY 15 were purchased within 13 days of travel, and 37 percent within six days of travel.

Exhibit 3 shows airfare purchasing behaviors for State non-Medicaid travel in FY 15.

Exhibit 3

State Non-Medicaid Travel FY 15 Airfare Cost by Days Purchased in Advance of Travel		
Days	Cost	Percentage
0-6	\$ 7,213,032	37%
7-13	4,131,617	21%
Over 13	8,173,027	42%
Total	\$ 19,517,676	100%

Source: STO travel data.

Last minute travel is essential for some State functions, particularly where public safety or protection of resources is necessary. However, the high percentage of purchases within six days of travel strongly suggests improvements in advance planning are possible.

Exhibit 4 shows the airfare cost by days purchased in advance of travel for the five departments with the highest air travel costs in FY 15. Additionally, Appendix A provides the same information for all departments from FY 13 through September 2015.

Exhibit 4

Five Departments with Highest FY 15 Airfare Costs
By Days Purchased in Advance of Travel

Department	0-6 Days		7-13 Days		Over 13 Days		Total	
Health and Social Services	\$ 2,011,035	42%	\$ 1,064,678	22%	\$ 1,755,303	36%	\$ 4,831,016	100%
Transportation and Public Facilities	1,113,150	38%	734,520	25%	1,070,940	37%	2,918,610	100%
Public Safety	667,539	43%	315,455	20%	588,419	37%	1,571,413	100%
Natural Resources	779,377	50%	246,421	16%	536,176	34%	1,561,974	100%
Fish and Game	476,408	30%	359,042	22%	760,547	48%	1,595,997	100%
Total	\$ 5,047,509	40%	\$ 2,720,116	22%	\$ 4,711,385	38%	\$ 12,479,010	100%

Source: STO travel data.

Audit testing found that although the departments generally try to purchase airfares 14 days in advance of travel, at times, either a traveler did not submit a request for approval sufficiently in advance or the approval was not timely. Improvement in the request and approval processes should allow for a higher level of advance purchases.

The State’s current policy is to “pay no more than the lowest ticket class fare for the most direct route.”¹¹ A survey of travel planners and coordinators identified that additional authoritative guidance encouraging the purchase of airfares in advance of travel may result in lower travel costs. Survey results can be found in Appendices E and F. (See Recommendation 4.)

\$216,060 in air tickets expired in FY 15.

In FY 15, \$216,060 in air tickets purchased through the STO expired.¹² Using CTM’s average ticket price of \$381 for FY 15, the \$216,060 equates to 567 round trip tickets. Exhibit 5 shows the FY 15 cost of expired tickets and the equivalent number of tickets by department. Appendix B provides the expired ticket costs, by department, from FY 13 through September 2015.

¹¹Alaska Administrative Manual 60.050 Travel Purchase Policies.

¹²The expired ticket total includes partial tickets and highly restrictive tickets which are more difficult to use.

Exhibit 5

Cost of Expired Tickets By Department FY 15		
Department	Total Expired Ticket Cost	Equivalent Ticket Count
Health and Social Services	\$ 72,737	191
Transportation and Public Facilities	45,486	119
Fish and Game	15,113	40
Corrections	14,189	37
Natural Resources	12,631	33
Public Safety	11,154	29
Education and Early Development	8,758	23
Administration	7,234	19
Military and Veterans Affairs	7,125	19
Revenue	6,488	17
Law	5,352	14
Environmental Conservation	4,946	13
Labor and Workforce Development	2,188	6
Commerce, Community, and Economic Development	1,619	4
Office of the Governor	1,040	3
Total	\$216,060	567

Source: STO travel data.

Survey responses from travel coordinators and planners identified unused tickets as a significant problem for their respective departments. Over 90 percent of the respondents indicated that they “sometimes” or “never apply” unused tickets when purchasing travel. Applying unused tickets occurs at the time of purchase, yet 471 travel planner survey respondents (45 percent) did not know where to locate unused tickets, when to reuse tickets, or how to apply unused tickets.

This indicates that department management is allowing tickets to expire at a higher rate than necessary. Tracking and monitoring unused tickets can be challenging with some ticket terms and conditions being restrictive. In some cases, if a trip is cancelled or changed, only the same

Although lower airfares may be available on public websites, the State contract discount rates provide lower travel costs overall.

traveler can reuse the ticket or the reused ticket must include the same route of travel. Including the value of expired tickets in STO's monthly travel cost savings reports may increase awareness and encourage the active monitoring of unused tickets. (See Recommendation 5.)

CTM, the travel contractor, is available to help State agencies effectively manage unused tickets. With STO's assistance, two agencies (DHSS and DOTPF Marine Highway) are working with the travel contractor to manage and apply unused tickets.¹³

STO has been criticized under the belief that lower airfares can be located through public travel websites. The audit found lower airfares were available on public websites for 21 out of the 117 bookings tested as part of this audit. Fourteen of the 21 airfares were related to one rural carrier (Ravn Alaska) that consistently offered lower airfares on its commercial website yet did not offer the same airfare rate through the STO's booking tool.

Excluding this rural carrier, there were seven bookings in which a public website offered lower airfares. It is a common practice for public travel/airline websites to offer competitive and lower rates to entice travelers or to promote specific market segments. Travel vendors do this by offering discounts through their own website and do not provide the savings through the travel global distribution system.

Audit testing found that searching public websites periodically resulted in lower airfares; however, searching multiple websites increases the personnel costs associated with procuring travel. For the 117 trips tested (excluding Ravn Alaska), the contractual discounts provided almost five times more savings (\$1,568.11) when compared to the fares available at the public websites (\$348.54). Based on the results of testing, the audit concludes that procuring travel through the STO yielded higher discounts and minimized the cost of booking travel.

¹³The travel contractor started managing DHSS unused tickets in July 2015 and DOTPF Marine Highway in March 2016. CTM charges a booking fee of \$17.68 to manage and apply an unused ticket.

DHSS’s purchasing practices contribute to high Medicaid travel costs.

Medicaid recipient airfares were not purchased at the lowest cost due to a lack of policies that encourage or require efficient travel procurement practices. DHSS management established a policy to purchase high cost refundable airfares for all Medicaid recipient air travel. This policy was established over a decade ago due to the significant rate of canceled and rebooked airfare tickets. Subsequent to establishing the policy, no in-depth program analysis has been done by DHSS management to confirm that purchasing refundable tickets is in the best interest of the State. Changing policy to purchase non-refundable airfares when practical may significantly reduce Medicaid air travel costs.

The audit also found 75 percent of Medicaid air travel in FY 15 was purchased within six days of travel, resulting in higher costs. Exhibit 6 shows the FY 15 Medicaid airfare cost by days purchased in advance of travel. Appendix C provides the same information from FY 13 through September 2015. Establishing a policy to purchase nonemergency airfare at least 14 days in advance of travel would reduce Medicaid travel costs.

Exhibit 6

Medicaid FY 15 Airfare Cost by Days Purchased in Advance of Travel		
Days	Cost	Percentage
0-6	\$ 31,599,470	75%
7-13	8,462,118	20%
Over 13	2,245,336	5%
Total	\$ 42,306,924	100%

Source: STO travel data.

DHSS management stated that there is no financial advantage to purchasing airfares in advance because most of Medicaid travel occurs on rural carriers, which do not offer advance purchase discounts. Audit results contradicted this statement. The audit found 68 percent of Medicaid airfare costs in FY 15 were purchased through air carriers¹⁴ that do offer advance purchase discounts.

In October 2014, the travel contractor, CTM, met with DHSS and STO management to present information regarding how savings could be obtained in the top Medicaid travel markets. Per the contractor, purchasing non-refundable tickets for the highest travel routes would

¹⁴The air carriers included Alaska Airlines, Delta Airlines, and Ravn Alaska.

reduce costs; however, changes would be necessary to the current contract. Subsequent to CTM's presentation, no significant action was taken by DHSS or STO management.

DHSS management's reluctance to consider alternatives to its long standing policy to pay the highest airfare class should be reconsidered. (See Recommendation 2.)

The State is owed approximately \$3 million in Medicaid airfare refunds from CTM.

As of May 2016, there was an outstanding balance of approximately \$3 million in airfare refunds that the Medicaid system could not process. The majority of refunds, \$2.8 million, were from the time period October 2012 through September 2013. Failure to obtain the refunds is mainly due to processing and conversion problems with the old and new Medicaid systems. No reasonable explanation has been given by DHSS and STO management as to why the problem has not been resolved. The travel contractor has attempted multiple times to return the outstanding refunds due the State. (See Recommendation 3.)

The STO should improve the reporting of travel information.

The STO does not report all available travel information that would allow managers to actively monitor travel. The monthly departmental cost savings report provides fiscal year-to-date information regarding airfare, hotel, and car rental costs and savings. However, the report does not include airfares purchased less than 14 days in advance of travel, the value of expired tickets, or the lowest offered airfare not purchased.

As discussed earlier, the audit found 37 percent of State non-Medicaid airfares were purchased within six days and \$216,060 in air tickets expired in FY 15. Reporting the degree to which departments purchased airfare in advance of travel and the value of expired tickets would be helpful for managing airfare costs.

The STO captures data comparing the purchased airfare to the lowest offered airfare at the time of booking; however the information is not reliable and relevant due to the parameters used to obtain the data. CTM's data parameters electronically capture the lowest airfare cost occurring within two hours before departure and two hours after departure and for any route to the destination. These parameters may capture lower airfare costs yet at unreasonable times (leaving at 4 a.m.

versus requested time at 6 a.m.) or unreasonable routings (making three stops versus going direct). STO management indicated that the unreliable results is one of the reasons monthly cost reports do not contain lowest offered fares information. Adjusting the parameters so the lowest offered airfares were relevant and reliable would provide information to decision-makers when lower fares were available but not purchased.

According to *Alaska Administrative Manual* 60.050 travel purchase polices requires the “state pay no more than the lowest ticket class-fare for the most direct route.” Without complete information, management cannot determine compliance with State travel policies. (See Recommendation 5.)

Hotel and car rental savings information was overstated.

The audit evaluated and determined the relevance and reliability of STO’s reported information on airfare, hotel, and car rental costs. Airfare information was accurately supported by transaction data for the period of July 2012 through September 2015, including published fare, paid fare, and discount amount. Hotel and car rental data was not fully accurate.

The hotel and car rental data used to support the costs savings is captured when the initial purchase is made rather than after the travel is completed. Thus, if a trip is changed or canceled, the original savings reported is no longer accurate. When compared to actual data, the reported cost savings in FY 15 were overstated by \$34,604 and \$71,378 for hotel and car rental respectively. (See Recommendation 5.)

Ten executive branch agencies did not use the State’s central airfare contracts to reduce travel costs.

The audit found 10 State agencies did not use the STO in FY 15 to purchase airfares. Exhibit 7 lists those agencies along with their respective airfare costs for FY 15. Most of the agencies are exempt from the State’s procurement code and were not aware that all State travel contracts were available for their use even if an agency was exempt from the procurement code. As a result, except for the Alaska Railroad Corporation (ARRC), the agencies did not use a central contract to reduce travel costs. ARRC had a travel discount contract with a rural carrier for specific in-state travel.

Exhibit 7

Departments Not Using the STO FY 15 Airfare Costs (Unaudited)	
Department/Agency	Cost
Department of Commerce, Community, and Economic Development:	
Division of Corporations, Business and Professional Licensing – licensing boards and commissions	Undetermined*
Alaska Gasline Development Corporation	\$ 91,853
Alaska Seafood Marketing Institute	146,864
Alaska Industrial Development and Export Authority/ Alaska Energy Authority	352,166
Alaska Railroad Corporation	364,786
Department of Transportation and Public Facilities:	
Statewide Bridge Design Section	40,041
Military and Veterans Affairs:	
Alaska Aerospace Corporation	167,000
Department of Revenue:	
Alaska Permanent Fund Corporation	104,408
Alaska Housing Finance Corporation	257,468
Total	\$ 1,524,586

Source: Department/Agency Staff.

*Per DCCED management, airfare totals are not readily available by board/commission.

Excluding ARRC, \$1,159,800 was spent on airfares that were not purchased through STO; and therefore, not eligible for the State’s discounts. Based on the results of the audit, approximately \$41,405¹⁵ could have been saved in FY 15 had these agencies used the STO for booking airfares.

¹⁵The savings rate of 3.57 percent determined by the audit was multiplied by the agency airfare total.

Exemptions allow agencies to opt out of using STO.

As of September 2015, five State agencies continue to be exempt from using the STO. Two of the exemptions are no longer valid since the agencies transitioned to using the STO at some point after the exemptions were issued.

Two State agencies, the Division of Corporations, Business, and Professional Licensing (DCBPL); and Alaska Seafood Marketing Institute (ASMI) possess and want to retain the STO exemptions.¹⁶ DCBPL management wants to retain the exemption to ensure board/commission members can book their own travel. ASMI's exemption is only for international travel; however the exemption is being used for all travel. According to ASMI staff, the agency has an established travel purchase process and changing to the STO may not be efficient.

The third agency, DOTPF Bridge Design Section exemption was based on complex travel to rural Alaska and lack of access to the travel contractor after hours. DOTPF management is considering the use of STO given employees can now book their own travel using the State's booking tool which is available anytime through the internet and CTM assistance is available 24-7.

The audit concluded the basis for the STO exemptions no longer justify the forfeiture of the State discounts as the reasons for exemptions are no longer relevant under the booking tool's current capabilities and processes. (See Recommendation 6.)

Most State agencies have successfully used accumulated mileage to lower travel costs.

The previous State travel office audit¹⁷ identified a combined State agency balance of 18,801,386 miles as of December 2005. As agencies began using the STO, the ability to accrue mileage was no longer available¹⁸ and management directed agencies to use their mileage balances to reduce airfare costs. As of September 2015, approximately 24,000 miles remained and STO management anticipated the balance would be used by the end of FY 16.

¹⁶DCBPL's exemption is for professional licensing board and commission members.

¹⁷*Department of Administration, State Travel Procurement Process, January 3, 2006, ACN 02-30030-06.*

¹⁸State agencies cannot accrue mileage when purchasing airfares through the STO per the terms of the contract.

Of the 10 agencies not using the STO, six agencies have mileage accounts totaling 1.1 million miles as of September 2015. Exhibit 8 lists the agencies, and their respective mileage balances. Staff from the top three agencies report mileage will be used for emergency travel and conferences.

Exhibit 8

Mileage Balance As of September 2015 For State Agencies not Using STO	
Agency Name	Mileage Balance
Alaska Industrial and Export Authority and Alaska Energy Authority (shared balance)	474,111
Alaska Railroad Corporation	425,210
Alaska Seafood Marketing Institute	165,007
Alaska Housing Finance Corporation	44,002
Alaska Permanent Fund Corporation	29,276
Total	1,137,606

Source: Agency Staff.

Survey respondents identified opportunities to reduce travel costs.

A survey of travel planners and coordinators identified the following opportunities to reduce travel costs:

- Additional training should help users procure travel more efficiently. Training on travel planning and purchasing, using department specific examples should include: when refundable tickets should be purchased, when and how to apply unused tickets, and when to purchase out of policy tickets.¹⁹
- Access to better information should help reduce travel costs. Improvements to the booking tool are needed including more hotel listings with accurate pricing as well as better organization of information with applicable web links to reference information.

¹⁹Out of policy airfares are tickets purchased either on non-authorized airlines or a non-Alaska Airline air carrier with a lower cost for the same travel.

Three of five prior STO audit recommendations were not fully resolved.

- Understanding reported information²⁰ will help users better monitor and manage travel. A high percentage (78 percent) of travel coordinators indicated STO report information was somewhat or not at all useful. A need was identified for training on how to review and interpret STO reported information.

See Appendices E and F for a complete listing of survey questions and responses.

The previous State travel office audit²¹ identified five recommendations. Two of the five have either been resolved or are no longer applicable due to process enhancements and the use of a web-based booking tool. Two prior recommendations, both relating to STO information reported to departments for monitoring purposes, were partially addressed. The audit found improvements continue to be necessary for reporting travel activities. (See Recommendation 5.) One recommendation to change travel statutes and use mileage was partially resolved. Mileage balances have been used, and legislation to change the statute was considered but was not passed in 2016.

A status of the prior travel audit recommendations can be found as Appendix D.

²⁰Report information included the following reports: cost savings, non-compliance, unused tickets.

²¹*Department of Administration, State Travel Procurement Process, January 3, 2006, ACN 02-30030-06.*

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FINDINGS AND RECOMMENDATIONS

**Recommendation 1:
Department of
Administration's (DOA)
Division of Finance (DOF)
director should revise the
savings rate calculation
methodology for airfare to
ensure expenditures and
revenues are appropriately
included in the savings rate.**

The State Travel Office (STO) management inaccurately reported the airfare savings rate for both non-Medicaid and Medicaid travel due to missing or inappropriate components of the percentage rate calculation methodology. Components that should not have been omitted were STO's operating expenditures and revenues, travel contractor fees, and the value of expired tickets. Additionally, STO's methodology inappropriately included discounts from rural carriers that the audit determined were not supported and personnel costs that STO management believed were avoided through the contract. These components are further discussed below.

- Expenditures and revenues for FY 15 not included in the percentage rate calculation were: STO operating expenditures of approximately \$198,000, the value of expired tickets of \$216,060, and booking fees. STO's booking fee revenue of \$55,614 for non-Medicaid travel and \$86,132 for Medicaid travel were not included in the calculation. Additionally, the contractor's bookings fees of \$566,555 for non-Medicaid travel and \$1,855,377 for Medicaid travel were also missing from the percentage rate calculation. Management did not consider including the expenditures and revenues as the amounts were not included in the initial calculation. Not including all the expenditures overstates the rate and not including the revenues understates the rate.
- Discounts on rural carrier airfares were included in the STO's methodology. However, airfare testing showed that the main rural airline carrier (Ravn Alaska) consistently offered airfares on its website that were lower than rates available through STO's booking tool. Therefore, no true savings were realized. Management was aware that the lower fares were routinely offered through the rural carrier website, but did not adjust their savings methodology. Including unsupported rural carrier airfare discounts overstates the savings rate.
- The STO Medicaid airfare savings rate methodology includes the cost of 10 departmental staff positions that STO management believes is "avoided" through paying a travel contractor to book Medicaid airfares. The audit concludes that inclusion of the avoided personnel costs is inappropriate when calculating the savings rate. The savings rate represents the difference between costs associated

with centrally procuring travel and the discounts achieved. It is not intended to calculate the difference in savings between two different procurement frameworks (DHSS staff procuring travel versus the travel contractor). Including avoided personnel costs in the rate setting methodology overstates airfare savings.

STO management is responsible for ensuring that the State is receiving the greatest possible value for its travel expenditures and for reporting accurate information to users of the STO.

We recommend DOA's DOF director revise the airfare savings rate methodology to ensure all travel expenditures and revenues are appropriately included in the savings rate.

**Recommendation No. 2:
Department of Health
and Social Services'
(DHSS) commissioner
should revise
procurement practices
to reduce Medicaid
travel costs.**

DHSS procurement policies do not require or encourage the least expensive means of transportation. DHSS' policy is to purchase fully refundable airfare tickets for Medicaid travel. This policy was established over a decade ago to address the costs associated with the high rate of cancelled and rebooked trips. Although the travel contractor provided a proposal to DHSS management in October 2014 that showed non-refundable tickets purchased for the highest travel routes would reduce costs, DHSS management took no action. DHSS management was unable to provide reasonable justification for its continued practice to purchase fully refundable tickets.

DHSS travel procedures do not encourage the advance purchase of nonemergency travel to maximize available discounts. This results in higher travel costs. Over \$42 million in refundable air tickets for the Medicaid program was purchased through STO in FY 15, with 75 percent purchased within six days of travel. Purchasing refundable tickets less than seven days before travel is one of the most expensive classes of airfare.

Medicaid regulation, 7 AAC 120.410(c)(1) Prior authorization for nonemergency transportation services states:

*When reviewing a request for prior authorization, the department will consider the **least expensive means** of transportation and accommodation for a recipient and an authorized escort. [Emphasis added]*

DHSS management stated that there is no financial advantage to purchasing airfare in advance because most Medicaid travel occurs on rural carriers. Contrary to this statement, the audit found 68 percent of Medicaid airfare costs in FY 15 were purchased through air carriers (Alaska Airlines, Delta Airlines, and Ravn Alaska) who do offer advance purchase discounts.

We recommend DHSS' commissioner revise procurement practices to reduce Medicaid travel costs.

**Recommendation No. 3:
DOA's DOF director
should collect the
\$3 million due from its
travel contractor.**

As of May 2016, the travel contractor reportedly owed the State \$3 million in Medicaid airfare refunds.²² A significant portion of that amount (\$2.8 million) has been outstanding since FY 13. Due to processing and conversion problems with the Medicaid system, the amount owed from the travel contractor could not be processed. DHSS and DOF management have been unsuccessful in resolving this issue despite the travel contractor's repeated reporting of the problem and multiple attempts to process the payments. As of May 5, 2016, no method has been agreed upon to return the \$3 million to the State.

Prudent business practices require appropriate management of State resources including collecting outstanding funds. Additionally, the Alaska Administrative Manual 45.040 states:

... Control is a key factor in handling accounts receivable. Control of accounts receivable consists of determining amounts due from others, billing them, seeing to it that the bills are recorded and collecting the amounts billed... In addition, the state suffers a loss of interest on money that should be in the Treasury...

Failure to collect the amount owed the State reduces available general funds and reduces the amount of interest earnings.

We recommend DOA's DOF director collect the \$3 million due the State from the travel contractor.

²²Per CTM, substantially all Medicaid refunds are airfares purchased and later cancelled.

**Recommendation No. 4:
DOA’s DOF director
should revise State
travel policies to
encourage advance
purchase of airfares.**

Analysis of non-Medicaid travel identified 58 percent of FY 15 airfares were purchased within 13 days of travel. Through inquiry of travelers, planners, and coordinators during airfare testing, the audit found a lack of State policies contributed to the practice of purchasing tickets a minimal numbers of days prior to travel. Additionally, a survey of 1,117 travel planners and 32 department travel coordinators identified the need for clearer guidance encouraging advance purchase.

The *Alaska Administrative Manual* 60.050, Travel Purchase Policies requires the “state pay no more than the lowest ticket class fare for the most direct route.” However, no written guidance requires airfares be purchased at least 14 days in advance of travel when possible. Furthermore, there is no requirement for a written justification for travel purchased less than seven days in advance.

Generally, the greater the number of days airfare is purchased prior to travel, the lower the cost of that airfare. The high rate (37 percent) of travel purchased less than seven days in advance of travel strongly suggests the State is missing opportunities to reduce airfare costs. Improved policies may help reduce the cost of travel by encouraging travel requests and approvals be completed in advance when possible.

We recommend DOA’s DOF director revise State travel policies to encourage advance purchase of airfares.

**Recommendation No. 5:
DOA’s DOF director
should improve the
reporting of travel
activities.**

An analysis of travel reports found that improvements are needed to strengthen the relevance and reliability of reported airfare, hotel, and car rental information. The following deficiencies in reporting were identified.

- The number of days airfare is purchased in advance of travel is not reported. A majority of State airfares are purchased less than 14 days in advance of travel, resulting in increased costs. Although the information is available, STO management has not considered reporting it to departments. To help decision-makers manage travel and reduce costs, the advance purchase of travel information should be reported to departments monthly.

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- The value of expired tickets is not reported in the monthly cost savings report. Approximately \$216,000 of air tickets purchased through the STO expired in FY 15. Although STO management does provide departments with a listing of potential expirations, actual expired tickets are not reported due to an oversight. Therefore, management are not aware the extent their department is not successful in reusing available tickets. The monthly cost savings report should include the value of expired tickets.
 - Lowest offered fares are not reported. To help determine if the State is paying no more than the lowest ticket class fare for the most direct route, STO compares the purchased airfare to the lowest offered airfare at the time of booking. However, the data parameters may capture airfares indicating lower cost alternatives existed when the time or route are not a reasonable alternative. STO management ceased reporting lower airfare costs due, in part, to concerns over the reliability of the data. Revising data parameters could provide meaningful information when evaluating whether the State is prudently managing travel.
 - Reported hotel and car rental savings are not accurate. STO captures the savings rate at time of booking/reservation rather than using actual rates paid. This resulted in overstated savings by \$34,607 and \$71,378 for hotel and car rentals respectively for FY 15. Monthly reports should include actual rates paid.

STO management is responsible for ensuring that the State is receiving the greatest possible value for its travel expenditures and reporting accurate information to the users of STO. Insufficient or inaccurate reporting limits management's ability to effectively monitor travel and change policies and procedures to reduce travel costs.

We recommend DOA's DOF director improve the reporting of travel activities.

**Recommendation No. 6:
DOA's DOF director
should reconsider
agency STO exemptions.**

There are three agencies that are not using the STO due to approved exemptions. The exemptions were initially approved based on limitations in the travel procurement processes at the time of the approval, which have since been addressed. The audit determined staff from the three agencies generally lacked a current understanding of the booking tool and STO travel procurement processes, and/or could not reasonably justify the continuation of the exemptions.

The *Alaska Administrative Manual* 60.050, Travel Purchase Policies states:

Travelers are generally required to use State of Alaska contracted/preferred travel providers to ensure we obtain the best fares, rates, and insurance coverage. The Department of Administration, Division of General Services has negotiated travel contracts, some of which are mandatory.

As a result of the exemptions, the agencies are not accessing the State's contract discount rates and could be incurring higher travel costs.

We recommend DOA's DOF director reconsider agency STO exemptions.

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the State Travel Office (STO).

Objectives

The audit objectives were to:

- Determine whether centralizing executive branch travel procurement within the STO resulted in efficiencies and lower travel costs.
- Evaluate the relevance and reliability of reported travel information.
- Determine if airfare discount rates obtained through STO's booking tool complied with the negotiated contracts. Quantify the savings realized through airfare contracts.
- Determine if improvements can be made to reduce travel costs.
- Identify whether all state agencies use the STO and whether savings could be achieved by requiring these agencies to use the STO.
- Identify state agencies mileage account balances and evaluate whether mileage is used to offset travel costs.
- Determine the current status of prior travel audit recommendations.
- Analyze and compare the reported airfare savings to the lost savings reported.

Scope

The Scope is limited to executive branch travel and Medicaid airfares purchased through the State Travel Office. The audit reports on travel data for FY 13 through September 2015. The savings rate for FY 15 was analyzed. Additionally, FY 16 use of the STO booking tool was reviewed when testing bookings. Due to changes in the contractor's travel services system, FY 12 data is not presented in the report due to inconsistencies in the data.

Methodology

To address the objectives, the audit:

- Reviewed state travel statutes, policies and procedures, prior audit report,²³ STO reports, and conducted inquiries of departmental staff to gain an understanding of the scheduling and procuring of state travel.
- Reviewed state travel contracts to gain an understanding of the discounts and travel fees. Also inquired with DOA staff regarding the details of the contracts. Travel contracts reviewed include Corporate Travel Management, Alaska Airlines, Delta Airlines, and Rural Air Carrier Services.
- Reviewed STO's website for information about STO's mission and offered services; information provided to travel planners, travelers, and department staff and management; and to identify changes made to the travel program from FY 12 through FY 15.
- Reviewed various travel related websites for information about industry standard practices, commonly used travel terminology, and for general travel information.
- Reviewed travel contractor's FY 15 annual report and FY 16 quarterly reports to STO management on state travel for average ticket price, Medicaid airfare refunds, and for general information.
- Accessed STO's booking tool to understand how travel is scheduled and procured. Observed the use of the booking tool by departmental staff during the testing of airfares.
- Obtained and evaluated FY 12 through September 2015 travel data from the contractor, CTM. The detail data was traced to STO's monthly and yearly summary reports. The data was sorted by various data fields for analysis and reporting purposes. The data was also used to verify STO's airfare rate calculations. Inquired and obtained travel process information and travel code definitions from contractor and STO staff for understanding the travel data and reports. Also inquired with CTM to gain an understanding of the system's application and general controls.

²³Department of Administration, State Travel Procurement Process, January 3, 2006, ACN 02-30030-06.

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- Reviewed STO's quarterly reconciliation process to gain an understanding of the quarterly non-compliance reports provided to State departments.
 - Identified and obtained airfare costs from agencies not using STO for reporting purposes. Also, inquired with agency staff about the use of state travel contracts and potential use of STO.
 - Obtained mileage information from agencies for reporting purposes. Also, inquired with agency staff about use of mileage.
 - Obtained and evaluated STO exemptions for reasonableness. Also, inquired with agency staff regarding current justifications for exemptions.
 - Reviewed United States Department of Transportation website to gain an understanding of Intra-Alaska Bush Mail Rates. Also inquired with DOA staff to gain an understanding of the application of the rates to rural airfares with solicitation and contracts.
 - Inquired with Department of Health and Social Services staff to gain an understanding of Medicaid travel and the status of airfare refunds.

To assess the travel procurement process and compliance with contract terms, the audit selected five departments with the highest air travel costs in FY 15 for testing. Testing consisted of observing 117 airfare bookings at the departments, while simultaneously capturing data from the public websites for comparison purposes, recalculating the airfare discount, and assessing the reliability of STO reporting. Observations, comparisons, and inquiries of the use of the booking tool occurred at the agencies in November and December 2015, and January 2016.

A survey of travel planners and travel coordinators was conducted to gain an understanding of their satisfaction with STO and the booking tool, to determine if additional training is needed, and obtain feedback about reducing travel costs. The survey was issued to 2,299 travel planners in January 2016 and 1,541 responded resulting in a 67 percent response rate. Of the 1,541 respondents, 424 did not use the STO booking tool and therefore 1,117 respondents completed the survey. The survey was issued to 40 travel coordinators and 32 responded resulting in an 80 percent response rate.

To gain an understanding of the status of the prior audit recommendations, we inquired with STO staff and management, reviewed travel data, obtained air mileage information from agency staff and conducted inquiries with agency staff, and reviewed travel statutes.

APPENDICES

SUMMARY

Appendix A provides executive branch airfare cost by days purchased in advance of travel by department for FY 13 through September 2015.

Appendix B provides executive branch expired tickets total by department for FY 13 through September 2015.

Appendix C provides the Medicaid Program airfare costs by days purchased in advance of travel for FY 13 through September 2015.

Appendix D provides the status of STO's prior audit recommendations.

Appendix E provides the results of the travel planners' survey along with the questions. The survey was issued to 2,299 travel planners in January 2016 and 1,541 responded resulting in a 67 percent response rate. Of the 1,541 respondents, 424 did not use the STO booking tool and therefore 1,117 respondents completed the survey. The survey was conducted to gain an understanding of the planners' satisfaction with STO and the booking tool, to determine if additional training is needed, and to obtain feedback about reducing travel costs.

Appendix F provides the results of the travel coordinators' survey along with the questions. The survey was issued to 40 travel coordinators and 32 responded resulting in an 80 percent response rate. The survey was conducted to gain an understanding of the coordinators' satisfaction with STO and the booking tool, to determine if additional training is needed, and to obtain feedback about reducing travel costs and STO's travel reporting.

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APPENDIX A

Executive Branch Airfare Cost By Days Purchased in Advance of Travel

Department	FY 13			Total
	0-6 Days	7-13 Days	Over 13 Days	
Health and Social Services	\$1,476,627	\$1,054,349	\$1,960,533	\$4,491,509
Public Safety	965,756	478,447	985,710	2,429,913
Corrections	765,765	215,926	487,951	1,469,642
Natural Resources	708,756	307,739	595,598	1,612,093
Transportation and Public Facilities	588,819	524,086	817,495	1,930,400
Fish and Game	506,556	416,642	892,336	1,815,534
Administration	235,223	190,887	492,203	918,313
Environmental Conservation	209,829	239,614	527,485	976,928
Military and Veterans Affairs	149,908	128,636	226,480	505,024
Office of the Governor	113,828	101,313	225,104	440,245
Education and Early Development	95,173	246,600	788,187	1,129,960
Law	87,364	81,322	190,147	358,833
Commerce, Community, and Economic Development	80,468	125,450	293,749	499,667
Revenue	59,406	102,943	268,838	431,187
Labor and Workforce Development	28,687	105,673	602,683	737,043
Total	\$6,072,165	\$4,319,627	\$9,354,499	\$19,746,291

Executive Branch Airfare Cost By Days Purchased in Advance of Travel

Department	FY 14			Total
	0-6 Days	7-13 Days	Over 13 Days	
Health and Social Services	\$1,685,668	\$1,145,797	\$2,076,594	\$4,908,059
Transportation and Public Facilities	1,271,102	717,117	1,164,275	3,152,494
Natural Resources	838,587	312,368	556,819	1,707,774
Corrections	826,070	223,686	329,983	1,379,739
Public Safety	758,664	393,225	830,793	1,982,682
Fish and Game	509,968	401,298	829,873	1,741,139
Administration	306,409	232,055	479,730	1,018,194
Military and Veterans Affairs	252,448	202,396	242,354	697,198
Environmental Conservation	205,886	211,061	452,540	869,487
Office of the Governor	127,299	106,868	174,844	409,011
Law	119,268	137,158	217,052	473,478
Education and Early Development	105,065	284,856	702,474	1,092,395
Commerce, Community, and Economic Development	78,064	104,392	397,304	579,760
Revenue	44,409	64,004	274,016	382,429
Labor and Workforce Development	29,142	94,036	505,689	628,867
Total	\$7,158,049	\$4,630,317	\$9,234,340	\$21,022,706

APPENDIX A

(continued)

Executive Branch Airfare Cost By Days Purchased in Advance of Travel

Department	FY 15			Total
	0-6 Days	7-13 Days	Over 13 Days	
Health and Social Services	\$2,011,035	\$1,064,678	\$1,755,303	\$4,831,016
Transportation and Public Facilities	1,113,150	734,520	1,070,940	2,918,610
Natural Resources	779,377	246,421	536,176	1,561,974
Corrections	735,590	218,944	292,734	1,247,268
Public Safety	667,539	315,455	588,419	1,571,413
Fish and Game	476,408	359,042	760,547	1,595,997
Education and Early Development	447,929	288,103	680,192	1,416,224
Administration	294,611	213,680	474,523	982,814
Environmental Conservation	158,821	177,222	325,663	661,706
Law	149,071	93,123	185,713	427,907
Office of the Governor	138,048	69,706	111,296	319,050
Military and Veterans Affairs	104,830	112,850	194,885	412,565
Commerce, Community, and Economic Development	77,816	89,085	385,352	552,253
Revenue	62,973	68,636	220,506	352,115
Labor and Workforce Development	(4,166)	80,152	590,778	666,764
Total	\$7,213,032	\$4,131,617	\$8,173,027	\$19,517,676

Executive Branch Airfare Cost By Days Purchased in Advance of Travel July through September 2015

Department	0-6 Days	7-13 Days	Over 13 Days	Total
Natural Resources	\$967,689	\$77,802	\$108,303	\$1,153,794
Health and Social Services	535,387	200,247	357,306	1,092,940
Transportation and Public Facilities	341,622	182,318	288,913	812,853
Corrections	162,382	46,030	73,194	281,606
Education and Early Development	141,394	33,416	218,509	393,319
Public Safety	122,603	40,220	128,872	291,695
Fish and Game	84,987	75,878	162,476	323,341
Administration	68,206	42,938	108,443	219,587
Military and Veterans Affairs	48,839	38,435	38,877	126,151
Environmental Conservation	47,265	48,086	89,581	184,932
Law	36,848	16,576	43,849	97,273
Office of the Governor	35,144	17,970	39,696	92,810
Commerce, Community, and Economic Development	8,350	16,457	105,036	129,843
Revenue	8,057	23,615	52,117	83,789
Labor and Workforce Development	(10,402)	20,860	157,105	167,563
Total	\$2,598,371	\$880,848	\$1,972,277	\$5,451,496

APPENDIX B

Executive Branch Expired Tickets Total By Department FY 13 through September 2015

Department	FY 13	FY 14	FY 15	July-September 2015
Health and Social Services	\$ 65,162	\$ 71,206	\$ 72,737	\$ 4,781
Transportation and Public Facilities	15,961	20,200	45,486	6,429
Fish and Game	18,454	21,397	15,113	3,184
Corrections	2,566	4,045	14,189	2,416
Natural Resources	10,267	19,195	12,631	12,710
Public Safety	20,721	17,187	11,154	4,371
Education and Early Development	3,038	4,823	8,758	2,309
Administration	4,832	6,226	7,234	1,096
Military and Veterans Affairs	10,635	2,917	7,125	401
Revenue	2,470	7,093	6,488	207
Law	3,502	4,817	5,352	4,794
Environmental Conservation	2,832	5,075	4,946	945
Labor and Workforce Development	3,285	6,789	2,188	1,820
Commerce, Community, and Economic Development	6,577	7,213	1,619	243
Office of the Governor	2,099		1,040	997
Total	\$ 172,401	\$ 198,183	\$ 216,060	\$ 46,703

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APPENDIX C

Medicaid Program Airfare Cost By Days Purchased in Advance of Travel FY 13 through September 2015

Fiscal Year	0-6 Days	7-13 Days	Over 13 Days	Total
2013	\$ 27,584,517	\$ 7,522,073	\$ 2,437,786	\$ 37,544,376
2014	\$ 29,333,626	\$ 7,651,185	\$ 2,032,012	\$ 39,016,823
2015	\$ 31,599,470	\$ 8,462,118	\$ 2,245,336	\$ 42,306,924
July-September 2015	\$ 8,629,260	\$ 2,071,609	\$ 536,239	\$ 11,237,108

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APPENDIX D

The status of the prior audit recommendations is described as follows:

- **Progress** – recommendation has been partially implemented; and
- **Closed** – recommendation is no longer applicable.

Status of Prior STO Audit Recommendations		
Quick Status	Recommendation	Status Detail
Progress	The director of Finance, working with the STO manager, should summarize and report travel activities to commissioners on a monthly basis.	Monthly and quarterly travel reports are provided to departmental travel coordinators. Current year testing identified multiple issues where improvements are needed. See current audit Recommendation 5.
Closed	The STO manager should work with department travel coordinators to enhance travel request processes.	The STO developed written procedures on how to purchase travel and has subsequently implemented an on-line booking tool available to state personnel authorized to purchase travel. The previous process no longer applies. Recommendation is not reiterated.
Progress	The directors of administrative services should work with travel coordinators to improve travel desk operations.	The reduction of travel planners and the cross training of coordinators moving to the STO are no longer valid. All departments have moved to the STO, and with the STO booking tool efficiencies, a reduction is no longer necessary. However, improvements are necessary in the reporting and monitoring of travel activities. See current audit Recommendation 5.
Progress	The director of Finance should develop guidance for the use of mileage and seek revision of travel statutes.	As of 9/30/15 the state accumulated mileage balance was approximately 24,000 miles, or the equivalent of one round trip ticket. Mileage has effectively all been used. Statutory language for changing “tourist class fare” to “lowest class fare” was considered and not passed in FY 16. Recommendation is not reiterated.
Closed	The STO manager should refine the complaint process used by state employees.	The STO developed an electronic complaint process where any traveler or travel planner can issue a complaint. Recommendation is not reiterated.

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APPENDIX E: TRAVEL PLANNERS SURVEY

Question 1: Are you aware of the State Travel Office (STO) that is located within the Department of Administration’s Division of Finance?

	Number of Responses	Percentage of Responses
Yes	1,254	81%
No	287	19%
Total Respondents	1,541	100%

Question 2: Have you booked State air travel using the STO Booking Tool?

	Number of Responses	Percentage of Responses
Yes	1,117	72%
No	424	28%
Total Respondents	1,541	100%

Question 3: Based on your experience using the Booking Tool, how easy is it to use when booking airfares?

	Number of Responses	Percentage of Responses
Very Easy	482	43%
Somewhat Easy	544	49%
Not At All Easy	91	8%
Total Respondents	1,117	100%

Question 3a: Of the following options please select THREE that you believe represent the greatest challenge when booking airfares?

	Number of Responses	Percentage of Responses
Not all flights available are listed	507	27%
Applying unused tickets is difficult	307	16%
Where to enter information is confusing	280	15%
The booking tool times out too fast	249	13%
The booking tool is too slow	229	12%
Not user friendly	75	4%
None/Not sure	48	2%
Other (specify)	212	11%
Total Respondents	1,907	100%

Responses for "Other"	
Doesn't offer the lowest fare	36
Travel itineraries are difficult to find, navigate or keep in compliance	30
Rural travel is difficult to book or not available	27
Lack of control over ticket changes, seat selection, upgrades, etc.	23
Easier to book myself or directly	20
Can't save your research	11
Unnecessary Service	9
Don't want to pay processing fee	8
Hotels are not easy to book	6
Approval process is too long	6
Other	36
Total	212

Question 4: When booking air travel, how often do you apply unused tickets?

	Number of Responses	Percentage of Responses
Always	69	6%
Sometimes	606	54%
Never	442	40%
Total Respondents	1,117	100%

Question 4a: Which statement BEST describes the reason you would not apply unused tickets when booking air travel? (select one)

	Number of Responses	Percentage of Responses
None available at the time of booking	325	31%
The cost of the air travel is less than the value of the unused ticket	252	24%
Didn't realize I was supposed to look for unused tickets	220	21%
Didn't know how to apply unused tickets	139	13%
Don't know where to find unused tickets	112	11%
Total Respondents	1,048	100%

Question 5: If you select air travel that is "out of policy", how satisfied are you with the number of non-compliance reasons listed in the Booking Tool?

	Number of Responses	Percentage of Responses
Very satisfied	44	4%
Satisfied	218	20%
Neither satisfied nor dissatisfied	695	62%
Dissatisfied	113	10%
Very dissatisfied	47	4%
Total Respondents	1,117	100%

Question 6: Based on your experience using the Booking Tool, how easy is it to use when booking hotels?

	Number of Responses	Percentage of Responses
Very Easy	418	37%
Somewhat Easy	571	51%
Not At All Easy	128	12%
Total Respondents	1,117	100%

Question 6a: Of the following options please select THREE that you believe most represent a challenge when booking hotels:

	Number of Responses	Percentage of Responses
Not all hotels available are listed	601	29%
The correct cost for hotel is not always listed	471	23%
Where to enter information is confusing	265	13%
The booking tool is too slow	201	10%
The booking tool times out too fast	195	10%
Have to contact the hotel or do your own research regardless (to get special/ conference rates or actual availability)	70	3%
Other (specify)	242	12%
Total Respondents	2,045	100%

Responses for "Other"	
None/Not sure	40
Not user friendly	31
Rural travel is difficult to book or not available	26
I have not used the booking tool for hotels	26
Easier to book myself or directly	23
No map or idea of hotel location	21
Can get a lower rate by booking directly	20
Hotels are not easy to book	11
Unnecessary service	7
Other	37
Total	242

Question 7: In your opinion, how helpful is the reference information listed within the Booking Tool?

	Number of Responses	Percentage of Responses
Very Helpful	194	17%
Somewhat Helpful	748	67%
Not At All Helpful	175	16%
Total Respondents	1,117	100%

Question 7a: In your opinion, what changes could be made to improve the reference information within the Booking Tool? (select all that apply)

	Number of Responses	Percentage of Responses
Better organization of information	450	36%
Provide additional links to reference information	331	27%
More reference information	203	17%
Don't know what the reference information/tool is	82	7%
Less reference information	28	2%
Other (See Below)	141	11%
Total Respondents	1,235	100%

Responses for "Other"	
Don't use	42
No response	24
Travel system is an unnecessary service	23
No changes needed	6
Other	46
Total	141

Question 8: Are you aware of the online complaint process with the State Travel Office?

	Number of Responses	Percentage of Responses
Yes	293	26%
No	824	74%
Total Respondents	1,117	100%

Question 8a: Have you filed an online complaint with the State Travel Office?

	Number of Responses	Percentage of Responses
Yes	60	20%
No	233	80%
Total Respondents	293	100%

Question 8b: In your opinion, how effective is STO staff at resolving complaints?

	Number of Responses	Percentage of Responses
Very Effective	15	25%
Somewhat Effective	29	48%
Not At All Effective	16	27%
Total Respondents	60	100%

Question 9: In your opinion, for the State to achieve additional savings on travel is more guidance needed for:

	Yes	Percentage of Responses	No	Percentage of Responses	Total
Travelers	710	64%	407	36%	1,117
Travel Planners	621	56%	496	44%	1,117
Travel Coordinators	586	52%	531	48%	1,117

Question 10: In your opinion, would the following specific travel topics help achieve additional cost savings for the state if implemented?

	Yes	Percentage of Responses	No	Percentage of Responses	Unsure	Percentage of Responses	Total
Provide additional written guidance on when to book directly on public airline's websites rather than using the booking tool	738	66%	158	14%	221	20%	1,117
Provide additional written guidance on when a ticket should be purchased as non-refundable vs. refundable	741	66%	194	18%	182	16%	1,117
Require all travel planners to take basic training on air travel booking	592	53%	309	28%	216	19%	1,117
Provide a FAQ document or link in the booking tool that provides real examples on how to look for savings when booking travel	843	76%	127	11%	147	13%	1,117
Provide additional written guidance specifying a standard advance purchase time frame prior to travel	622	56%	250	22%	245	22%	1,117

Question 11: When booking an approved travel request, how often do you review it for cost savings?

	Number of Responses	Percentage of Responses
Always	653	58%
Sometimes	318	29%
Never	146	13%
Total Respondents	1,117	100%

Question 12: Based on your experience with your Department’s specific travel needs, please select THREE of the following options that you believe have the greatest opportunity to improve efficiency, cost savings and the overall process:

	Number of Responses	Percentage of Responses
Provide specific travel examples where additional savings could be obtained	702	21%
Improve the use of unused tickets	639	19%
Improve internal tracking of unused tickets	499	15%
Provide training for travelers	490	15%
Provide additional training to travel planners	293	9%
Provide additional training for travel coordinators	202	6%
Improve the Departmental enforcement over non-compliance travel	180	5%
Allow to book directly or flexibility when booking	107	3%
Other (See below)	231	7%
Total Respondents	3,343	100%

Responses for “Other”	
Eliminate STO	62
None/Not sure	25
The TA and Approval process are a waste of time	13
Streamline the process	13
Nothing I’m happy with the system	10
Improve the ease of applying unused tickets	10
Restrict travel	9
Require advanced booking of travel	8
Video/Teleconferencing	8
Negotiate better rates with vendors	6
Other	67
Total	231

Question 13: In your opinion, is there more the STO staff could be doing to help obtain additional cost savings?

	Number of Responses	Percentage of Responses
Yes	248	22%
No	163	15%
Unsure	701	63%
No response	5	0%
Total Respondents	1,117	100%

Question 13a: Please briefly explain what more the STO could be doing to obtain additional cost savings:

	Number of Responses	Percentage of Responses
Don't know/Not sure	144	23%
Allow to book directly or flexibility when booking	123	19%
Eliminate STO	64	10%
Negotiate better rates with vendors	38	6%
Provide additional training	38	6%
Improve the ease of applying unused tickets	35	5%
Other (See below)	195	31%
Total Respondents	637	100%

Responses for "Other"	
Reduce STO fees	21
The TA and Approval need to be revised or streamlined	14
Make sure STO tool has updated price, airline, and hotel information	14
Rural travel is difficult or impossible to book through the STO	13
Nothing STO is fine	12
Video/Teleconference instead of travel	7
Other	114
Total	195

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APPENDIX F: TRAVEL COORDINATORS SURVEY

Question 1: Are you aware of the State Travel Office (STO) that is located within the Department of Administration’s Division of Finance?

	Number of Responses	Percentage of Responses
Yes	32	100%
No	0	0%
Total Respondents	32	100%

Question 2: Have you booked state air travel using the STO Booking Tool?

	Number of Responses	Percentage of Responses
Yes	20	62%
No	12	38%
Total Respondents	32	100%

Question 3: Based on your experience using the Booking Tool, how easy is it to use when booking airfares?

	Number of Responses	Percentage of Responses
Very Easy	13	65%
Somewhat Easy	6	30%
Not At All Easy	1	5%
Total Respondents	20	100%

Question 3a: Of the following options please select THREE that you believe represent the greatest challenge when booking airfares?

	Number of Responses	Percentage of Responses
Not all flights available are listed	5	24%
The booking tool times out too fast	5	24%
Where to enter information is confusing	4	19%
Applying unused tickets is difficult	3	14%
The booking tool is too slow	2	9%
Other (specify)	2	10%
Total Respondents	21	100%

Question 4: When booking air travel, how often do you apply unused tickets?

	Number of Responses	Percentage of Responses
Always	2	10%
Sometimes	16	80%
Never	2	10%
Total Respondents	20	100%

Question 4a: Which statement BEST describes the reason you would not apply unused tickets when booking air travel? (select one)

	Number of Responses	Percentage of Responses
The cost of the air travel is less than the value of the unused ticket	11	61%
Don't know where to find unused tickets	4	22%
None available at the time of booking	3	17%
Didn't realize I was supposed to look for unused tickets	0	0%
Didn't know how to apply unused tickets	0	0%
Total Respondents	18	100%

Question 5: If you select air travel that is “out of policy”, how satisfied are you with the number of non-compliance reasons listed in the Booking Tool?

	Number of Responses	Percentage of Responses
Very satisfied	1	5%
Satisfied	7	35%
Neither satisfied nor dissatisfied	8	40%
Dissatisfied	3	15%
Very dissatisfied	1	5%
Total Respondents	20	100%

Question 6: Based on your experience using the Booking Tool, how easy is it to use when booking hotels?

	Number of Responses	Percentage of Responses
Very Easy	11	55%
Somewhat Easy	8	40%
Not At All Easy	1	5%
Total Respondents	20	100%

Question 6a: Of the following options please select THREE that you believe most represent a challenge when booking hotels:

	Number of Responses	Percentage of Responses
Not all hotels available are listed	9	33%
The correct cost for hotel is not always listed	8	30%
The booking tool is too slow	3	11%
Where to enter information is confusing	2	8%
The booking tool times out too fast	2	7%
Other (specify)	3	11%
Total Respondents	27	100%

Question 7: In your opinion, how helpful is the reference information listed within the Booking Tool?

	Number of Responses	Percentage of Responses
Very Helpful	7	35%
Somewhat Helpful	12	60%
Not At All Helpful	1	5%
Total Respondents	20	100%

Question 7a: In your opinion, what changes could be made to improve the reference information within the Booking Tool? (select all that apply)

	Number of Responses	Percentage of Responses
Provide additional links to reference information	6	34%
Better organization of information	6	33%
More reference information	4	22%
Less reference information	0	0%
(Other) specify	2	11%
Total Respondents	18	100%

Question 8: When booking an approved travel request, how often do you review it for cost savings?

	Number of Responses	Percentage of Responses
Always	13	65%
Sometimes	6	30%
Never	1	5%
Total Respondents	20	100%

Question 9: Are you aware of the online complaint process with the State Travel Office?

	Number of Responses	Percentage of Responses
Yes	19	59%
No	13	41%
Total Respondents	32	100%

Question 9a: Have you filed an online complaint with the State Travel Office?

	Number of Responses	Percentage of Responses
Yes	4	21%
No	15	79%
Total Respondents	19	100%

Question 9b: In your opinion, how effective is STO staff at resolving complaints?

	Number of Responses	Percentage of Responses
Very Effective	3	75%
Somewhat Effective	1	25%
Not At All Effective	0	0%
Total Respondents	4	100%

Question 10: In your opinion, for the State to achieve additional savings on travel is more guidance needed for:

	Yes	Percentage of Responses	No	Percentage of Responses	Total
Travelers	27	84%	5	16%	32
Travel Planners	29	91%	3	9%	32
Travel Coordinators	22	69%	10	31%	32

Question 11: In your opinion, would the following specific travel topics help achieve additional cost savings for the state if implemented?

	Yes	Percentage of Responses	No	Percentage of Responses	Unsure	Percentage of Responses	Total
Provide additional written guidance on when to book directly on public airline's websites rather than using the booking tool	23	72%	2	6%	7	22%	32
Provide additional written guidance on when a ticket should be purchased as non-refundable vs. refundable	25	78%	3	9%	4	13%	32
Require all travel planners to take basic training on air travel booking	31	97%	0	0%	1	3%	32
Provide a FAQ document or link in the booking tool that provides real examples on how to look for savings when booking travel	28	88%	0	0%	4	12%	32
Provide additional written guidance specifying a standard advance purchase time frame prior to travel	24	75%	2	6%	6	19%	32

Question 12: Based on your experience with your Department’s specific travel needs, please select THREE of the following options that you believe have the greatest opportunity to improve efficiency, cost savings and the overall process:

	Number of Responses	Percentage of Responses
Provide training for travelers	18	19%
Provide additional training to travel planners	17	18%
Improve the use of unused tickets	16	17%
Provide specific travel examples where additional savings could be obtained	12	13%
Improve the Departmental enforcement over non-compliance travel	12	12%
Improve internal tracking of unused tickets	11	11%
Provide additional training for travel coordinators	7	7%
Other (specify)	3	3%
Total Respondents	96	100%

Question 13: In your opinion, is there more the STO staff could be doing to help obtain additional cost savings?

	Number of Responses	Percentage of Responses
Yes	10	31%
No	2	6%
Unsure	20	63%
Total Respondents	32	100%

Question 14: Are the monthly STO cost savings, unused tickets, and potential non-compliance reports distributed to your decision makers (directors/managers/supervisors)?

	Number of Responses	Percentage of Responses
Yes	27	84%
No	5	16%
Total Respondents	32	100%

Question 15: Based on your experience how useful is the Cost Savings Report?

	Number of Responses	Percentage of Responses
Very Useful	7	22%
Somewhat Useful	18	56%
Not At All Useful	7	22%
Total Respondents	32	100%

Question 15a: Based on your experience, select TWO options that have the greatest opportunity to improve the usefulness of the Cost Savings Report?

	Number of Responses	Percentage of Responses
Training on how to review and interpret report detail	19	38%
More specific detail	11	22%
Timeliness of report distribution by the department	8	16%
Increased frequency of reporting by the STO	5	10%
Less specific detail	2	4%
Other (specify)	5	10%
Total Respondents	50	100%

Question 16: Based on your experience how useful is the Unused Tickets Report?

	Number of Responses	Percentage of Responses
Very Useful	22	69%
Somewhat Useful	10	31%
Not At All Useful	0	0%
Total Respondents	32	100%

Question 16a: Based on your experience, select TWO options that have the greatest opportunity to improve the usefulness of the Unused Ticket Report?

	Number of Responses	Percentage of Responses
Training on how to review and interpret report detail	6	30%
Increased frequency of reporting by the STO	4	20%
Timeliness of report distribution by the department	4	20%
More specific detail	3	15%
Less specific detail	1	5%
Other (specify)	2	10%
Total Respondents	20	100%

Question 17: Based on your experience how useful is the Potential Non-Compliance Report?

	Number of Responses	Percentage of Responses
Very Useful	15	47%
Somewhat Useful	13	41%
Not At All Useful	4	12%
Total Respondents	32	100%

Question 17a: Based on your experience, select TWO options that have the greatest opportunity to improve the usefulness of the Potential Non-Compliance Report?

	Number of Responses	Percentage of Responses
Training on how to review and interpret report detail	11	32%
Timeliness of report distribution by the department	6	18%
Increased frequency of reporting by the STO	4	12%
More specific detail	4	12%
Less specific detail	1	3%
Other (specify)	8	23%
Total Respondents	34	100%

Question 18: Does your department have a procedure for review and follow-up for potential non-compliance of air travel?

	Number of Responses	Percentage of Responses
Yes	17	53%
No	6	19%
Unsure	9	28%
Total Respondents	32	100%

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Agency Response from the Department of Administration



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Administration

OFFICE OF THE COMMISSIONER

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September 7, 2016

Kris Curtis, CPA, CISA
Legislative Auditor
Division of Legislative Audit
PO Box 113300
Juneau, AK 99811-3300

RECEIVED

SEP 07 2016

LEGISLATIVE AUDIT

Dear Ms. Curtis:

RE: Department of Administration, State Travel Office, Confidential Preliminary Report dated May 5, 2016

The Department of Administration reviewed the confidential preliminary audit report dated May 5, 2016 and will respond to recommendations No. 1 and No. 3 through 6. The Department of Health and Social Services will respond directly to Recommendation No. 2.

Each recommendation response includes a clear statement of agreement or disagreement, the anticipated method that will be used to implement the recommendation, and a scheduled completion date.

Recommendation No. 1

Department of Administration's (DOA) Division of Finance (DOF) director should revise the savings rate calculation methodology for airfare to ensure expenditures and revenues are appropriately included in the savings rate.

DOF concurs that the methodology for the savings rate calculation must be updated to include State Travel Office (STO) operating expenditures and revenue, value of expired air tickets, and establishing a supported methodology to calculate savings for rural carrier airfares. The savings rate calculation to include operating expenditures/revenue and the value of expired air tickets will be accomplished immediately and reflected in future savings calculations. However, calculating savings for rural carrier airfares is a bit more difficult as most rural carriers do not use the Global Distribution System (GDS), or consistently do not include non-refundable fares in the GDS. As part of a current Request for Proposal (RFP) regarding rural carriers a mechanism for carriers to submit all fare classes (refundable and non-refundable) directly to Corporate Travel Management (CTM), the State's travel contractor, will be available to those rural carriers

that respond to the RFP. The resulting inventory of flights and all fare types would then be available through the State's online booking tool, in essence creating an Alaska specific GDS for rural carriers. The incentive for rural carriers is that this service does not include a fee and is simpler for small rural carriers to administer while readily making their services available for State travel purchase. A more accurate savings calculation can then be performed for those rural carriers that participate. Timing of full implementation is anticipated to be early 2017. Additionally, the avoidance cost associated with including ten departmental staff positions that would be required to replace CTM staffing for booking Medicaid travel itineraries will be removed from future savings calculations.

Recommendation No. 2

Department of Health and Social Services' (DHSS) commissioner should revise procurement practices to reduce Medicaid travel costs.

The Department of Health and Social Services will respond directly to this recommendation.

Recommendation No. 3

DOA's DOF director should collect the \$3 million due from its travel contractor.

DOF concurs that the outstanding credit for Medicaid airfare refunds should be collected from CTM since efforts to match the individual travel refund credit to the original Medicaid authorization transaction have been exhausted. A credit was processed by CTM to DHSS during June 2016.

Recommendation No. 4

DOA's DOF director should revise State travel policies to encourage advance purchase of airfares.

DOF concurs with this recommendation as *overall* airfare costs will be reduced. In general, advance airfare purchase results in a lower cost however, it is important to realize that occasionally 0-2 day advance airfare purchase may be available at a lower cost than a 14-day advance purchase as airline inventory availability drives the published cost for a specific flight as the departure date/time approaches. The Alaska Administrative Manual (AAM) and FAQs will be updated during the AAM update effective January 1, 2017 to include guidance that encourages 14-day advance purchases.

Recommendation No. 5

DOA's DOF director should improve the reporting of travel activities.

DOF concurs that reporting on travel activity is an important tool for actively managing travel costs.

A review of reporting provided to agency management will be performed to include various advance purchases categories (e.g. 21+ days, 14-20 days, 7-13 days, 3-6 days, and 0-2 days) and aging of unused tickets. Enhanced management reports will be provided to each agency on a monthly basis starting no later than January 1, 2017. Additionally, the monthly report will include the actual cost of expired tickets for that month.

In an effort not to inflate the stated cost savings the parameters for capturing the lowest offered fare included travel alternatives that were not the most direct route. In order to address the concern of this recommendation, the lowest offered fare will be determined by using the published airfare for the exact itinerary being purchased. This recommendation can be implemented immediately.

The calculated savings rate for hotel and car rental will be adjusted to include cancellations and rebooking for different dates of service. Current cost savings calculation includes a savings for services not rendered (cancellation) or double states the savings (rebooking). This is an interim adjustment to reporting to better reflect actual costs. The long-term reporting will leverage the use of the Integrated Resource Information System (IRIS).

Recommendation No. 6

DOA's DOF director should reconsider agency STO exemptions.

DOF concurs with the recommendation that all existing agency exemptions for not using the STO should be reviewed. A review with each of the STO non-participants will be performed prior to the end of calendar year 2016 and exemption will either be approved, with stated justification and effective date, or efforts to include the agency into the STO will be undertaken.

If you have any questions or need clarification regarding this response, please contact Scot Arehart at (907) 465-3435. Thank you for the opportunity to respond.

Sincerely,



Sheldon Fisher
Commissioner

cc: Scot Arehart, Director
Division of Finance

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Agency Response from the Department of Health and Social Services



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Health and Social Services

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LEGISLATIVE AUDIT

September 26, 2016

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811-3300

Dear Ms. Curtis:

RE: Response to confidential preliminary audit report, Department of Administration (DOA), State Travel Office (STO) dated May 5, 2016

The Department of Health and Social Services (DHSS) appreciates the opportunity review the preliminary audit report and is limiting its responses to recommendation number two that is specific to this agency.

Recommendation No. 2

The Department of Health and Social Services' (DHSS) commissioner should revise procurement practices to reduce Medicaid travel costs.

DHSS partially concurs with the recommendation. The department continuously seeks ways to contain travel costs while maintaining strict compliance with federal Medicaid travel requirements (7 AAC 105; 7 AAC 120). The following is a sample of recent cost containment efforts:

- At the Department's request in 2014, the MTO contractor conducted a cost benefit analysis of the 33 most frequently traveled markets to establish the most cost effective method for the Medicaid program to purchase air tickets. The MTO determined that purchasing refundable fares results in savings for purchases from Alaska Airlines and this also resulted in a refund to the state for cancelled tickets during SFY2015.
- The State has identified high costs travel routes and has been pursuing cost containment solutions through contract options.
- The Division of Health Care Services (DHCS) issued:

Ms. Kris Curtis, CPA, CISA
September 26, 2016
Page 2 of 2

- Formal guidance and clarification dated May 1, 2015, concerning all aspects of local and out-of-area non-emergent travel for screening, preventive, diagnostic, treatment, and therapy (EPSDT) services. The clarification addresses both recipient and escort travel and includes examples to assist the referring provider with making the most appropriate and most cost-effective authorization requests.
- Clarification dated June 16, 2015, requiring signature of the licensed treating provider and documentation of the need and frequency of travel on all treatment plans or plans of care.
- Clarification dated July 18, 2016, on limitations regarding carrier changes due to flight cancellations. Because air travel reservations are made on the most cost effective carrier, requests for carrier changes based on personal reasons or preference are not approved.

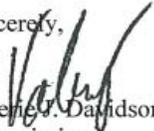
The Medicaid regulation, 7 AAC 120.410 Prior authorization for nonemergency transportation services also requires the department to consider 3 other criteria, in addition to, seeking the least cost of transportation. The Medicaid regulation 7 AAC 120.410 (c) (2-4) requires the department to also consider:

- the recipient's medical condition
- distance to the place of treatment
- availability of transportation providers

The department is required to satisfy all four requirements of this regulation and while some Medicaid recipients may be able to delay treatment with a lower non-refundable ticket through advance purchase, other recipients may require medical services outside the advance purchase window and/or non-refundable tickets may go unused because a delay in treatment may result in higher cost emergency travel or worse, a death due to a recipient not having access to the appropriate medically necessary services.

Please contact Sana P. Efird or Linnea Osborne if you have any questions or require additional information.

Sincerely,


Valerie J. Davidson
Commissioner

Cc: Sana P. Efird, Assistant Commissioner
Jon Sherwood, Deputy Commissioner
Margaret Brodie, Director of Health Care Services
James Farley, Accountant V
Linnea Osborne, Accountant V

Legislative Auditor's Additional Comments

ALASKA STATE LEGISLATURE LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Audit

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October 10, 2016

Members of the Legislative Budget
and Audit Committee:

We have reviewed the Department of Administration and the Department of Health and Social Services' (DHSS) responses to the audit report. Nothing contained in the responses causes us to revise or reconsider the report conclusions and recommendations. However, there are points raised in DHSS management's response that we wish to address.

In response to Recommendation No. 2, DHSS management asserts that the contractor *determined that purchasing refundable fares results in savings for purchases from Alaska Airlines*. Our audit work contradicts this statement. We noted during the audit the travel contractor, in October 2014, presented information regarding how savings could be obtained in the top Medicaid travel markets by purchasing non-refundable tickets. DHSS management did not pursue the purchase of non-refundable tickets subsequent to the meeting. Additionally, DHSS management stated that the department seeks the least cost of transportation for nonemergency travel. However, the management did not provide a reasonable justification or support as to why 75 percent of Medicaid nonemergency airfares were purchased less than seven days in advance of travel and why fully refundable tickets were purchased.

In addition to commenting on DHSS' response to the audit, we want to clarify that the total cost of Medicaid airfare of \$42.3 million identified on page 12 of the audit report relates only to Medicaid airfare procured through the state travel office. This amount represents approximately 58 percent of all Medicaid travel costs in FY 15. Typically, the travel office does not procure medivac flights, hotel, or ground transportation for Medicaid recipients.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

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