

# **SPECIAL REPORT**

## **Issues Related to the State Travel Agency August 2003**

**John G. Morgan  
Comptroller of the Treasury**



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Comptroller of the Treasury**

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John G. Morgan  
Comptroller

August 14, 2003

The Honorable Phil Bredesen, Governor  
The Honorable John S. Wilder  
Speaker of the Senate  
The Honorable Jimmy Naifeh  
Speaker of the House of Representatives  
The Honorable Dave Goetz, Jr., Commissioner  
Department of Finance and Administration  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the special report concerning issues related to the State Travel Agency. This report was prepared by the Waste and Abuse Section of the Division of State Audit, Office of the Comptroller of the Treasury. The Waste and Abuse Section produces non-audit reports to highlight areas where state agencies may not have acted in the best interest of the state. Ideas are received from a variety of sources, including state government and the general public. The issues for this report include the following:

1. Is it practical and efficient for the State of Tennessee to contract with a travel agency to purchase airline tickets in light of alternate procedures available, specifically those on the Internet?
2. Does using a state travel agency to purchase airline tickets make fiscal sense?

The answer to these questions appears to be, "Yes, with recommendations." This report does not disclose cases of waste and abuse. This report is limited to the purchase of airline tickets, and does not include the University of Tennessee or the Tennessee Board of Regents.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

# ISSUES RELATED TO THE STATE TRAVEL AGENCY

August 2003

## Department of Finance and Administration

For the last 12 years, the Department of Finance and Administration has contracted with a travel agency to provide control over travel-related purchases and serve as a source for comprehensive travel information. The current contract with World Travel Service, Inc., based in Knoxville, has a term from November 1, 2002, to October 31, 2004. The contract is renewable annually, up to a maximum of five years. The previous contract was with Wright Travel Agency, Inc., in Nashville. The contract with World Travel Services is for state agencies other than the University of Tennessee and the Board of Regents (TBR). The University of Tennessee has its own contract with a travel agency, and TBR does not have a central travel contract because its travel volume is low.

Over a period of about five years, airlines gradually reduced commissions paid to travel agencies and by April 2002, eliminated all commissions. At that time, Wright Travel Agency, in accordance with the contract, implemented a \$15-per-ticket fee to be paid by ticket purchasers. In light of the changes in the industry, the state decided to rebid the travel agency contract rather than renew the one expiring July 31, 2002. On May 22, 2002, the state sent out the "Notice of RFP" to 24 vendors. An RFP is a Request for Proposals, which is issued to solicit bidders. Twelve vendors responded with intent to bid, seven of those submitted technical proposals, and three of those seven proposals were rejected because of violations of bid rules. Following evaluation of the proposals, the state decided to award the contract to World Travel Service, Inc. Wright Travel, the first runner up, protested the decision, saying that World Travel's proposal did not meet the technical requirements of the RFP for on-line booking. On August 21, 2002, the Commissioner of the Department of Finance and Administration "determined that Wright Travel Agency's protest should be denied," saying the World Travel proposal met the requirements and was responsive. (Wright Travel provided travel agency services to the state during the protest period.) The contract with World Travel began November 1, 2002.

### Timeline of Activities

- *May 2002* Wright Travel, state contracted travel agency since August 1, 1999, begins to charge the state \$15 for each ticket purchased
- *May 22* Notice of RFP sent to 24 vendors
- *June 18* Seven proposals received

- *June 24* Three proposals rejected, four proposals evaluated
- *June 25* Intent to award contract to World Travel and to announce on July 1, 2002
- *July 8* Wright Travel protested award to World Travel
- *August 21* Wright protest denied by Commissioner of F&A
- *November 1* Contract with World Travel begins

**Average Number of Airline Tickets Purchased Monthly and Amount Paid**

<u>Calendar Year</u>	<u>Tickets Purchased</u>	<u>Ticket Costs</u>	<u>Administrative Fees</u>
2000	317	\$110,022	N/A
2001	214	\$72,847	N/A
2002 (through March 2003)	188	\$67,391	\$3,091

**Examples of Two Tickets Purchased, Alternatives, and Costs**

An analysis of tickets purchased by state agencies and discussions with F&A management have revealed that the major factors contributing to higher-priced airline tickets appear to be days of travel and number of days in advance the ticket was purchased.

<u>Round-Trip City Pair</u>	<u>Departure Day</u>	<u>Return Day</u>	<u>Days in Advance</u>	<u>Cost</u>
Nashville/Washington	Saturday	Tuesday	19 days	\$253.00
(Days of travel)	Wednesday	Friday	23 days	\$760.50
Nashville/Atlanta	Wednesday	Same day	5 days	\$806.50
(Days in advance)	Monday	Same day	14 days	\$408.50

**Facts**

The following paragraph is taken from F&A Policy 8, Comprehensive Travel Regulations, effective January 1, 2003.

Reservations for all air travel shall be made through the state travel agency designated by the Department of Finance & Administration. Airfares should be billed to the department’s Business Travel Account. In unforeseen circumstances, direct purchase is permitted; a receipt in the form of a ticket stub must accompany the expense claim. Advantage of discount fares and advance booking should be taken whenever practical, and fares should not exceed the regular tourist or coach fares offered the general public. In accordance with procedures established with the state travel agency, electronic ticketing should be used whenever possible.

The State of Tennessee (not including the Board of Regents and the University of Tennessee) had airline ticket expenses of approximately \$900,000 for calendar year 2002.

Approximately one-third of the state's airline travel for calendar year 2002 was with Southwest Airlines.

The most used city pair is Nashville-Baltimore/Washington International.

According to the company's Web site, World Travel is one of the top 60 travel management companies in the United States with over \$60 million in annual sales. Headquartered in the World Travel Building in Knoxville, World Travel manages travel for over 100 organizations.

### **Travel Agency Advantages**

The Department of Finance and Administration (F&A) recommends the use of a travel agency to consolidate travel and travel information, manage accounts and provide centralized billing, and negotiate special arrangements with travel-related companies. According to F&A, the volume of travel by state agencies is not sufficient to negotiate special arrangements with any specific airlines. However, World Travel is researching airline-related arrangements, such as special rates on ground transportation.

The contract states, "Travelers will be offered the lowest available fare of flights leaving or arriving within three hours of the travelers' requested departure or arrival times, including discount airlines such as Southwest. The contractor will research alternate itineraries in order to provide the lowest fares." World Travel compares the price on every ticket purchased to prices provided by on-line services Orbitz and Sidestep and provides F&A with a monthly report of the comparison. F&A reviews the reports and investigates any big-dollar differences by contacting the state agency involved. According to management at F&A, investigation occurs only "on occasion" as these differences are unusual. F&A is also setting up a process to review higher-cost tickets and make sure that the travelers have not turned down cheaper arrangements that are just as feasible.

According to the contract, the contractor must monitor the quality of travel services and notify the state of all corrective actions as they are taken. World Travel records every complaint received, the issue, corrective action, and dates of receipt and correction. Then World Travel forwards these reports to F&A. There were 11 complaints from November 2002 through February 2003, and 10 were that either the traveler or World Travel did not correctly identify the state agency to charge. According to World Travel, these issues are transitional and related to the startup of the account. The average correction time was three days. As of June 20, 2003, there had been no further complaints.

World Travel does not believe that being in Knoxville is a problem for customers in Nashville because so much is done electronically. Most agencies make travel arrangements over the phone, and virtually all airline tickets are paperless e-tickets. In fact, many airlines add a surcharge for producing a paper ticket.

## **Travel Agency Disadvantages**

In accordance with the contract terms, World Travel charges \$20 per ticket purchased through a sales representative and \$10 per ticket purchased via World Travel's ticketing Web site, ResAssist. As of April 2003, ResAssist was operational for the State of Tennessee, and by June, "a few tickets" had been purchased through it. According to F&A, in June there were 15 travel arrangers, representing 70 state employees, who signed up to use ResAssist. F&A said that travel arrangers are getting familiar with ResAssist and sometimes use it to get information rather than to book tickets directly. As state agency representatives become more familiar with ResAssist, usage should increase, though some users prefer to talk with a person rather than make ticket purchases online.

While F&A is authorized to grant an exception to allow direct Internet bookings by state agencies, direct bookings have averaged fewer than six per year. According to the experience of the F&A Director of Policy, instances of "significant savings" of several hundred dollars, the requirement for an exception, are infrequent. Occasionally, a board member or a new employee is not aware of the travel regulations and makes a purchase outside the state travel agency. F&A treats this as an exception to the travel regulations and requests the agency seek approval for the exception via a memo. According to F&A, these tickets are usually purchased through other travel agencies and not on-line by the individual. F&A always reimbursed expenses related to these exceptions.

## **Conclusion**

The Department of F&A has decided to pay a travel agency \$20 per ticket to centralize airline ticket purchases and billing, to have assurance that the lowest-priced ticket is purchased (as required in the contract), and to receive regular reports of travel purchases.

## **Recommendations**

To minimize travel costs, F&A should encourage state agencies to purchase tickets well in advance of travel dates, and to utilize lower-priced alternative flights identified by World Travel that may involve different days and times of travel. It is understood, however, that there are instances where it is not possible to plan day(s) of travel and days of advance purchase.

Before F&A renews the contract with World Travel, it should review the benefits provided by the travel agency compared to the costs to be sure the contract is still the best arrangement for the State of Tennessee.

The Department of Finance and Administration should periodically compare the costs and benefits of the contract with the state travel agency to the ease and expense of direct Internet purchase of airline tickets by state agencies.