



# Legislative Audit Division

## Performance Audit Summary

### Management of State Government Airfare Purchases November 2003

EXHIBIT 7  
DATE 11/19/05

#### Introduction

The Legislative Audit Committee requested a performance audit of state travel practices. The Montana Department of Administration (DofA) is responsible for state procurement activities, and has delegated responsibility for travel purchases to state agencies. Since many travel expenditures, such as employee per diem and lodging are set by statute, administrative rule, and policy, audit scope was limited to agency purchases of commercial airfares.

Employee travel is essential to state government for coordinating government activities with other states and the federal government, enforcing state laws and regulations, providing employee training, and promoting Montana's economies and universities. State agencies, including the university system, spend approximately \$30 million annually traveling on official state business, including \$3 million for airfares.

State Domestic Commercial Airfare Expenditures			
	FY01	FY02	FY03
State Government	\$1,973,809	\$1,891,331	\$1,457,510
Estimated University System	\$1,410,401	\$1,573,169	\$1,364,489
<b>Total</b>	<b>\$3,384,210</b>	<b>\$3,464,500</b>	<b>\$2,821,999</b>

#### State Government Average Airfare Cost is Higher than the Montana Average Airfare Cost

Analysis of a sample of roundtrip domestic airfares purchased by seven agencies indicated the agencies pay on average approximately \$53 more per airfare than the average cost of a Montana airfare for comparable flights. Analysis also indicated airfares purchased from travel agents cost 52 percent more than airfares purchased from discount ticket brokers or directly from airlines using e-commerce. Many agencies commonly use travel agents to obtain airfares, and some agencies rely almost exclusively on travel agents for airfare purchases. Consequently, the state may have incurred up to \$880,000 in additional costs by using travel agent services during fiscal year 2002.

Comparison of Average Domestic Airfare Costs Fiscal Year 2002		
	Mean Cost	Median Cost
State Government	\$461.01	\$395.00
Montana	\$417.01	\$342.00
<b>Difference</b>	<b>\$44.00</b>	<b>\$53.00</b>

Note: Costs in this table do not include service fees.

#### The State Can Increase Management Controls Over Airfare Purchases

Agencies require supervisor approval for airfare purchases, ensuring travel is necessary for meeting agency goals and objectives. However, the state can increase controls to better manage and control airfare costs. Purchasing airfares is typically an incidental or occasional duty for state employees, and employees may not be knowledgeable about finding or identifying the lowest reasonable cost airfares. Determining and identifying the lower cost airfares can be a complex task, requiring the consumer to be knowledgeable about different airfare "products" offered, options that can affect airfare prices, and other travel factors. However, the state provides employees with only limited guidance or information about purchasing airfares at the lowest reasonable cost.

Improving employee knowledge and understanding of the types of airfares "products" available, as well as other factors that affect airfare costs would help agency personnel identify more cost effective airfares, whether from travel agents or e-commerce vendors. *We recommend the Department of Administration develop and implement programs to help agencies identify and obtain cost-effective airfares.*

#### Increasing Agency Use of the State Purchasing Card Increases Purchasing Options

Many agencies continue to rely on direct bill purchasing payment methods to pay for airfares rather than using the state purchasing card (MasterCard). Direct bill purchasing generally requires an agency establish an account with a vendor. The direct bill payment method restricts agency airfare purchases to vendors, typically travel agents, with whom the agency has an established account. By increasing use of the purchasing card, agencies can increase purchasing options to include other travel agents, as well as e-commerce vendors.

## Using Purchasing Cards Can Reduce Administrative Costs

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Purchasing airfares with a purchasing card can also reduce an agency's administrative costs. Direct bill payments requires a vendor to submit an invoice for purchases, which an agency must process and reconcile with purchases and previous vendor payments and then process a state warrant to pay the vendor. Since agencies may have multiple airfare purchases during a billing cycle, as well as use multiple vendors, agencies process multiple invoices and vendor payments, which increases administrative costs. Using purchasing cards, managers can approve purchases electronically while reviewing the purchases, and the state can issue a single monthly payment to the purchasing card vendor.

Increasing use of purchasing cards for airline purchases would also increase the rebate the state earns from the vendor that issues the purchasing card.

### Purchasing Card Purchases and Rebates Earned Fiscal Years 2001-2003\*

	Purchase Volume	Rebate Earned
FY 2001	\$18.5 million	\$21,278
FY 2002	\$22.5 million	\$32,005
FY 2003	\$24.5 million	\$35,241

\* Program fiscal year from September 1 to August 30.

## Using Purchasing Cards Can Improve Management Information

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State government has limited management information about airfare purchases, such as airfare vendors, service fees, travel itineraries, and other factors that affect airfare costs. This information is useful for understanding agency travel needs and practices and can provide valuable information for negotiating preferred airfare rates with vendors. State and university system accounting systems are not designed, and may not be the most effective system, for collecting airfare management information.

While purchasing card data may have limitations and may not be able to provide extensive information about trip itineraries or airfare changes, it can provide useful data to help better understand current airfare purchasing activities and future management information needs. Additionally, using the purchasing card can increase agency purchasing options and reduce administrative costs that can reduce airfare costs. *We recommend the Department of Administration direct state agencies to use the purchasing card for airfare purchases and obtain management information to improve airfare purchasing.*

For a complete copy of the report (03P-07) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@state.mt.us](mailto:lad@state.mt.us); or check the web site at <http://leg.state.mt.us/audit/>