AUDIT OF OUT-OF-STATE
TRAVEL EXPENDITURES

From The Office Of State Auditor
Claire McCaskill

State departments need to assume a greater responsibility in cost-justifying out-of-state travel and reducing unnecessary out-of-state travel costs.

Report No. 2004-39
May 14, 2004
www.auditor.mo.gov

PERFORMANCE AUDIT

Office of
Missouri State Auditor
Claire McCaskill

May 2004

YELLOW SHEET

State departments could save on travel costs

Although budget constraints led to a 45 percent reduction in out-of-state travel costs between fiscal years 2000 and 2003, auditors still found ways to further reduce the $5.2 million spent on travel in fiscal year 2003. Auditors tested out-of-state travel trips at the seven state departments which do the most traveling and showed improved management of the trip approval process is needed to avoid unnecessary spending. State travel regulations have not established spending limits, provided adequate regulation, or required cost justification for employees traveling to out-of-state destinations.

Air travel costs were excessive and reservation practices were inconsistent

Seven departments could have saved 26 percent in service fees by using lower cost travel agents. State travel regulations do not require departments to use the lowest and best rate available. In addition, because advance planning for airline reservations was not required employees may not take advantage of the discounts available. (See page 5)

Rental vehicles used even if not cost-effective

State travel regulations and departments' policies do not require employees to compare the costs of using rental cars to using commercial ground transportation. In addition, examples show that employees were reimbursed for rental car use including personal travel. (See page 7)

Lodging allowances could reduce costs

None of the seven departments in our audit prescribed or enforced limits for lodging. Auditors found 26 percent of the overnight lodging rates reimbursed to employees exceeded those established by federal travel regulations. (See page 8)

Travel plans and cost-analyses were not well documented

Travel authorizations for the trips sampled did not contain sufficient documentation to determine if the most cost-effective means of travel was selected. As a result, auditors could not determine if authorizing officials had appropriate documentation available to make accurate decisions when approving travel. (See page 10)

AUDIT OF OUT-OF-STATE TRAVEL EXPENDITURES

TABLE OF CONTENTS

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Missouri State Auditor

Honorable Bob Holden, Governor
and
Members of the General Assembly
and
Jacquelyn D. White, Commissioner
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Most state departments reduced out of state travel significantly from fiscal year 2001 to 2003, some by over 75 percent. From July 1, 2001, to December 31, 2002, state agencies spent $9.2 million for out of state travel. We examined expenditures at seven departments that accounted for $5.4 million (59 percent) of total expenditures to determine if the departments' entities were adequately controlling out-of-state travel costs. The purpose of the audit was to determine (1) the state departments' purpose and expenditures for travel to out-of-state locations during the 18-month period July 1, 2001, through December 31, 2002, (2) the departments' adherence to state travel regulations, and (3) policies and procedures the state's departments and agencies have implemented to control travel and travel related costs.

The issues identified through review of the test vouchers were systemic and could recur with future travel. Audit tests disclosed state regulations and the departments' policies did not provide adequate guidance and limitations on the amounts state employees could be reimbursed for lodging, and incidental expenses. As a result, travel costs were excessive. State departments' also could not provide adequate documentation to cost justify all trips, necessity of rental cars, the use of personal vehicles for state business travel, or extending travel to include extra days or weekends.

The seven departments used 29 different travel agencies to book airline tickets and hotel rooms during the 18-month review period. Fees charged by the travel agencies ranged from $20 to $35, with one travel agency charging ten percent of the cost of airline tickets. In October 2003, the Office of Administration made arrangements for state departments to use eight travel agencies, which could reduce overall travel costs.

We made recommendations to improve state travel regulations, and to ensure departments use travel agencies under contract to the state.

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We conducted our audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

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State Auditor

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RESULTS AND RECOMMENDATIONS

Better Controls Are Needed Over Out-of-State Travel Costs

State government organizations reduced out-of-state travel costs from $9.4 million in fiscal year 2000 to $5.2 million in fiscal year 2003 (45 percent) in response to declining budget authorizations. Our audit tests at seven state departments showed additional savings can be achieved by improved management of the trip approval process and travel plans. State travel regulations have not established spending limits, provided adequate regulation, or required cost justification for employees traveling to out-of-state destinations. In the seven departments reviewed, there was a lack of cost-benefit analyses to support travel decisions concerning airfares, need for rental and personal cars, lodging, and length of stay. As a result of these control weaknesses, departments missed the opportunity to conserve some travel funds and, in some instances, risked additional costs that could come from lawsuits if rental vehicles used for personal travel are involved in injury accidents.

Audit Methodology

According to the statewide accounting system (SAM II), 26 state government organizations spent $9.2 million for out-of-state business travel during the 18-month period July 1, 2001, through December 31, 2002. We examined expenditures at seven departments that accounted for $5.4 million (59 percent) of total expenditures to determine if the entities were adequately controlling out-of-state travel costs. These departments were 1) Department of Economic Development (Economic Development), 2) Department of Elementary and Secondary Education (Education), 3) Department of Insurance (Insurance), 4) Department of Labor and Industrial Relations (Labor), 5) Department of Public Safety (Public Safety), 6) Department of Social Services (Social Services), and 7) Department of Transportation (Transportation). The issues identified through review of the test vouchers were systemic and could recur with future travel. Table 1.1 shows the departments and corresponding amounts spent during the 18-month audit period.

Table 1.1: Out-of-State Travel Costs by Selected Departments

Department	Travel Costs	Percent
Insurance	$ 1,643,495	17.8
Economic Development	1,136,321	12.3
Transportation	772,141	8.4
Public Safety	697,966	7.6
Education	504,399	5.5
Labor	340,130	3.7
Social Services	307,641	3.3
All Other Departments	3,811,780	41.4
Totals	$ 9,213,873	100.0

Source: SAO analysis–Transactions from July1, 2001, to December 31, 2002.

We reviewed 359 of 1,208 (30 percent) expense reports at the 7 agencies to determine if the purpose of the trip and associated expenses (airfare, rental car, lodging, incidental, and overnight stays) were appropriate. We limited the review to expense reports with claimed expenses of $750 or higher. The 359 expense reports accounted for 590 trips.

We compared airfare policies between the seven departments and to the statewide contracts to determine if fares obtained were reasonable and if departments were using the statewide contracts. We analyzed rental car use by looking for documentation supporting the need for the car, evaluating alternatives, and reviewing mileage data for the car while in travel status.

We reviewed department policies, procedures and documentation supporting the trips, and discussed expenses with department officials. Since there were no statewide policies setting limits on lodging reimbursements, we used federal travel regulations as a benchmark to determine reasonableness. These regulations identify maximum allowable expenses by geographic area for federal travelers.

The agencies included in the audit were given the opportunity to respond to the report and the comments of the respondents are included.

State departments reduced travel expenses

State reduces out of state travel by $4.2 million

The state departments responded to recent budget crises by substantially reducing travel to out-of-state locations. During the 18-month audit period, 2,883 employees from the 26 government organizations made 6,183 trips of which 78 percent were for training courses and professional conferences. The departments' expenditures for out-of-state travel decreased from $9.4 million in fiscal year 2000 to $5.2 million in fiscal year 2003, or about a 45 percent reduction.[1] The source of funds for these trips included federal funds (23 percent), the General Revenue Fund (12 percent), and state non-general revenue funds (65 percent).[2]

State travel policies

Pertinent state regulations for employee travel including travel modes, lodging and ground transportation are:

- 1 CSR 10-11.16(D) states: "State agencies should plan their out-of-state-travel by making advance air travel reservations to obtain the lowest convenient air fares. Air travel shall not, however, exceed coach fare for the most direct available route."
- 1 CSR 10-11.010(2) states: "Reimbursable travel expenses are limited to those expenses authorized and essential to the transaction of official business of the state."
- 1 CSR 10-11.010(5) states: "Employees and officials are expected to exercise the same care in incurring expenses as a prudent person would exercise if traveling on personal business. Meal and hotel expenses shall be in reasonable relationship to their average cost for the cities where the expenses are incurred."

[1] See Appendix II for annual out-of-state travel expenditure totals.
[2] Examples of state non-general revenue funds are Insurance Examiners Fund and State Road Fund.

- 1 CSR 10-11.010(17) states: "State department directors are authorized to promulgate and enforce regulations governing travel. Departmental regulations may be more restrictive than these regulations. Departmental regulations shall not grant expenses that are not allowed under the State of Missouri Travel Regulations."

The Office of Administration (OA) establishes regulations concerning travel and subsistence expenses. OA provided guidance to the departments to assist in making cost-effective travel decisions, but has not required the departments to use the tools provided.

State departments could have saved additional costs

The audit found excessive airline costs, questionable use of rental cars, no limits on lodging expenses, and lack of cost-benefit analyses for travel decisions. Travel reimbursement forms for 414 of 590 trips (70 percent) had questionable expenses or expenses without support documentation to determine reasonableness. We reviewed in detail 151 of the 414 trips to evaluate expenses claimed.

Air travel costs were excessive and air reservation practices were inconsistent

The 7 departments paid 29 travel agencies $79,170 in service fees for air travel during the 18-month audit period. These departments could have saved $20,285 (26 percent) by using lower cost travel agents. The service fees are typically non-negotiable flat rate fees charged on a per-ticket basis. State travel regulations require departments to select travel agents that can best accommodate their individual travel planning and scheduling needs. Our review of billing statements for the 18-month period showed departments were paying a variety of service fees for their travel depending upon which travel agency they selected for any given trip. Table 1.2 shows the total fees paid and the number of billings by fee amount paid by the seven departments.

Table 1.2: Travel Agency Processing Fees By Department

Department	Agency Fees	Number of Billings With Service Fees At				
		$35	$30	$25	$20	$15
Economic Development	$ 25,340	405	5	3	547	
Education	$ 1,885	5	8	31	34	1
Transportation	$ 21,930	8	719	0	4	
Insurance	$ 7,380	6	1	110	218	2
Social Services	$ 6,420	97	0	5	145	
Public Safety	$ 10,515	221	8	0	127	
Labor	$ 5,700	63	1	9	162	
Total	$ 79,170	805	742	158	1,237	3

Source: SAO Analysis –Transactions from July 1, 2001 to December 31, 2002

Table 1.3 shows the potential savings if the departments had used a travel agent who charges $20.

Table 1.3: Potential Savings

Billings At	Number of Billings	Multiplier[1]	Potential Savings
$35	805	$15	$12,075
$30	742	$10	7,420
$25	158	$5	790
Total	1,705		$20,285

[1] Represents the difference from $20.

Source: SAO analysis

Since October 2003, through a cooperative agreement with the University of Missouri, OA arranged for eight travel agencies to provide travel services to state departments. These agencies offer discount rates, and service fees ranging from $20 to $35 per ticket (3 charge $20, 4 charge $25 and 1 charges $35). Departments are not required to use these contracts. Six of the 7 departments have scheduled 721 trips at the $20 fee rate using 1 of the contractors.

These contracts provide additional services to the advantage of the state departments:

- Each contractor has access to and uses the appropriate airline, lodging, and rental car contracts that offer discounts from published fares when booking both individual and group state business travel.

- Each contractor is required to find the best available fare given the constraints of the traveler. The contractors have the expertise and software necessary to do this job.

- Each contractor has the ability to watch for fare decreases and reissue tickets at the lower fare (assuming the difference exceeds any reissue fee).

- Each contractor should be able to provide travel data that will enable the state to negotiate better fares from airlines.

- Each contractor can provide personal services such as notification of airline flight changes, problem resolution with airlines, etc.

- "Soft Dollars" or "Revenue Sharing" which reflects building complimentary travel opportunities for the state or specific departments based on the volume of travel.

- Two of the eight travel agencies offer Internet reservation and booking services for employees at processing fees of $17.25 and $15 per transaction compared to a $35 charge and a $25 charge when an agent is used.

If state departments were required rather than encouraged to use the contracts, additional savings could be achieved, especially if they used the on-line booking services.

Travel regulations do not require sufficient advance planning for airline reservations. All seven department travel policies are consistent in requiring air travel to be at coach or tourist rates. Only 1of the 7 departments requires booking airline flights at least 14 days in advance of travel to obtain the best possible air travel discounts. Airlines frequently offer advance reservation and booking discounts at 14 or 21-day advance pre-travel intervals. Since 78 percent of out-of-state travel is for conferences or training (characteristically known in advance), there is opportunity for savings through advanced travel planning. We could not evaluate if advance reservations were made for the trips in our sample because documentation was not maintained. Since six of the departments do not have a policy for advance reservations prescribed by number of days in advance, employees may not take advantage of the discounts available.

Rental vehicles were used without determining cost effectiveness

Our review of the 151 trips disclosed the 7 departments reimbursed 44 state employees $20,805 for rental cars and an indeterminate amount in associated expenses, such as gasoline, parking at out-of-town sites, and rental car insurance. State travel regulations and the departments' policies do not require employees to compare the costs of using rental cars to using commercial ground transportation, such as airport hotel shuttles, taxis, and light rail systems.

Review showed none of the expense reports involving rental cars included a cost-analysis showing a rental car was more cost effective than local ground transportation. Documentation generally was not available to show whether the car was used by one or multiple employees to drive from the airport to a hotel to attend conferences, or used to visit one or multiple locations. Accordingly, neither we nor agency supervisors could determine if a rental car was cost effective compared to other forms of transportation. For two trips, we were able to glean enough information from the trip location and rental car use to determine local ground transportation should have been less costly. In these two instances, considerable personal travel occurred in government funded rental cars.

No one knows whether rental car use was cost-effective

Trip 1: An employee went to San Mateo, California, to attend a 5-day computer training seminar. The round trip distance from the airport to the hotel was 18 miles, and the employee stayed in a hotel 1.7 miles from the training site. The employee's official travel miles should have been about 35 miles (3.4 miles to training x 5 trips plus the 18-mile trip to and from the airport). The employee traveled 515 miles in the rental car, or an average of 103 miles each day. The cost for the rental car with unlimited mileage and gas was $362.55 which included $48 in gasoline purchases. Receipts showed the employee traveled considerable distances at late hours exemplified by a gasoline purchase for the vehicle at midnight, 56 miles from her training location. The employee and supervisor explained the employee got lost.

Trip 2: An employee attended a training course in San Mateo, California, and stayed at a hotel 1½ miles from the training site. Accordingly, the employee's official travel miles in the rental car should have been about 30 miles during the week of training, including the roundtrip from the airport to the motel. The rental car receipt showed the employee traveled 300 miles and purchased $25 in gasoline, which his supervisor approved for reimbursement.

According to the employee's supervisor, the drive to the training site took about 20 minutes because of heavy traffic volume. Therefore, taxi charges for twice daily trips would have been substantially more than the cost of the rental car. We contacted a local taxi company and determined the trip would be an estimated 5-10 minutes, there is no traffic congestion, and the estimated rate would be $10 per trip or $20 per day. The rental car cost the employee $264 for 7 days, or $37.71 per day. The supervisor said the department does not condone incurring expenses for personal benefit; however, in this instance it was not relevant because the rental car came with unlimited miles.

Employees use rental cars for personal travel

In both incidents, the employees drove a significant number of miles for personal matters. OA Policy SP-4 prescribes rental vehicles cannot be used for personal purposes such as travel to entertainment facilities and sightseeing or trips for personal pleasure. However, it is permissible to use a rental car for travel to meals or to attend to other necessities of the operator or authorized passenger when away from their official domicile on state business. The employees rented these vehicles with unlimited mileage. However, the unlimited mileage privilege is not a license to use the car at will, and allowing such use places the state at risk of costly lawsuits if the vehicle is involved in an injury accident. Additionally, the state paid the gasoline charges for the personal travel. In both incidents, because there were no cost analyses, the supervisors had to rely on the word of the employees when approving reimbursement. A more appropriate action would have been to disallow the reimbursement until the employee provided sufficient justification for renting the vehicle and the mileage incurred.

Maximum lodging allowances could have reduced costs by $32,000

State regulations do not prescribe dollar value limitations for lodging and transportation. Each department director can establish reimbursement and limitation policies provided they are more restrictive than the state's general travel regulations. None of the seven departments in our audit prescribed limits for lodging.[3]

We used federal travel regulations to benchmark reasonableness of lodging expenses. We used the CONUS[4] rate for the destination city plus a 13 percent tax rate[5] and a 25 percent differential allowed for conferences (for travelers who stay in the conference hotel). During July 1, 2001, through December 31, 2002, state employees from the seven departments were reimbursed $408,688 for lodging expenses from 3,404 overnight stays included in our sample. Analysis shows 897 (26 percent) of the overnight lodging rates exceeded those established by federal travel regulations for the cities traveled. If the departments had limited reimbursements to federal lodging rates, travel costs could have been reduced by $32,208 as shown in Table 1.4.

[3] Some departments have claimed federal limits, but audit tests show that these limits are exceeded. As of December 31, 2002, all tested departments except Transportation have adopted federal travel rates. Transportation prescribes actual expenses.

[4] Continental United States

[5] This rate was the average for the taxes charged for the reimbursement claims reviewed.

Table 1.4: Hotel Reimbursements Exceed Federal Travel Regulation Limits

Department	Number of: Over Night Stays	Number of: Stays Exceeding Federal Rates	Actual Lodging Amount Claimed	Lodging Costs Based on Federal Limits	Potential Savings
Economic Development	915	226	$ 110,297	$ 100,096	$ 10,201
Education	540	179	67,668	59,948	7,720
Labor	471	146	71,164	66,196	4,968
Public Safety	410	87	42,146	39,505	2,641
Insurance	401	122	51,657	49,082	2,575
Transportation	264	127	22,118	19,784	2,334
Social Services	403	10	43,638	41,869	1,769
Totals	3,404	897	$ 408,688	$ 376,480	$ 32,208

Source: SAO Analysis

Department officials stated lodging rates could be higher for some trips because employees stay in the hotels where training conferences are held. They stated employees benefit from the ability to network with their peers, and savings could be negated by other costs employees would incur getting to and from alternate lodging sites. The networking benefit can occur anywhere during the conference without regard for where the attendees lodge. A cost-benefit analysis made before the trip could determine the extent of offsetting costs to savings.

Lower priced lodging options are often available within reasonable walking distance to conference/training hotels, especially in large metropolitan cities. For example, our analysis included reviewing expense reports of four department employees who attended a conference in New Orleans, Louisiana. One employee stayed at a non-conference hotel that was within federal rates, while three other employees stayed at the conference hotel, which exceeded the federal rates. The employee who stayed at the lower priced hotel said he stayed there to save state funds.

We noted 28 of the 151 trips in our sample were for business purposes other than training and conferences by employees from 3 state departments where lodging expenses exceeded federal rates.

<u>Adopting federal travel rates could reduce tipping expenses</u>

Our review of the 151 trips in our sample showed state employees from the 7 departments were reimbursed $1,556 for tips for baggage handling, maid service, bellmen, skycaps and airport shuttles. Tips ranged from $1.00 to $10.00 per occurrence. State travel regulations do not address tipping. According to state travel regulation 1CSR 10-11.010(2):

> "Reimbursable travel expenses are limited to those expenses authorized and essential to the transaction of official business of the state. Incidental expenses not directly concerned with travel may be allowed when necessary to the performance of official business while traveling."

State regulations do not address tipping

Two of the seven departments had written polices allowing tips, but limited meal tips up to 15 percent of the total meal costs. The other five departments did not specifically identify any dollar or percentage limits for meal tips, but allowed reimbursement for tipping. Personal services tips for other than meals are considered normal business travel expenditures as long as they are reasonable and customary. No limitations have been established for these categories. Receipts for tips for incidental expenses (excluding meals) are not required and would be difficult to obtain even if required. Therefore, this expense element is dependent upon an honor system and is the most vulnerable for abuse.

For benchmarking purposes, we used federal travel regulations that prescribe a limit of $3 per day for all incidental expenses, which includes tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses. Gratuities above the daily specified limits are not reimbursed. One of the state agencies had a similar $3 incidental expense limit. The audit disclosed state travelers are more generous than would be allowed under federal travel rules. Table 1.5 illustrates the tipping practices of state travelers.

Table 1.5: Comparison of Actual Tips to Federal Allowable Tips

Employee	Travel Status (Days)	Total Tips[1]	Allowable Federal Rate[2]	Potential Savings
A	5	$30	$15	$15
B	5	24	15	9
C	8	30	24	6
D	4	14	12	2
E	2	7	6	1

[1]Maid, bellman, and skycap tips
[2]Number of travel days x $3
Source: SAO analysis of individual travel reimbursement vouchers

Travel plans were not well documented

Travel authorizations for the trips in our sample did not contain sufficient documentation to determine if the most cost effective means of travel was selected. Commercial airline is the preferred mode of travel for out-of-state official business, training, meetings or conferences. Travel regulations do not require state employees to use the lowest available airfare. There are a number of considerations that must be evaluated to fully consider all travel costs such as alternate airlines, flight times, layovers, weekend stays, and additional meals.

Travel authorization forms are used by state travelers and approved by supervisors. All costs, including transportation costs such as airfares, are estimated and sent to a front line supervisor for initial authorization, then to the director for final approval. The travel authorizations for the trips in our sample did not include any documentation that showed how the traveler arrived at the travel decision made. We could not determine if alternate flight times and fares, travel schedules, airlines, and number of days in travel were considered before selecting the method used. Therefore, we could not determine if authorizing officials had appropriate documentation available to make accurate decisions. Officials from the seven departments said they conduct such analyses and discard the documentation after the travel form is authorized.

Our review of the 151 trips disclosed a lack of cost-benefit analyses to support travel decisions regarding lodging, rental car and length of stay. As shown earlier, when compared to federal rates, lodging expenses were excessive in 26 percent of the trips reviewed. Choices for rental cars in lieu of local transportation were not documented as cost-effective.

Travel planning did not include cost-benefit analyses

State employees often extend their business travel in order to take advantage of reduced air fares. Table 1.6 shows extended travel occurs up to 54 percent of the time based on the trips sampled.

Table 1.6: Out-of-State Travel Includes Extra Days

	Number of Trips		
Department	**Total**	**With Extra Days**	**Percent**
Economic Development	138	75	54
Labor	91	48	53
Education	138	72	52
Transportation	91	43	47
Insurance	13	3	23
Social Services	81	15	19
Public Safety	38	7	18
Totals	590	263	45

Source: SAO Analysis

Departments may benefit from employees staying extra days to reduce airfares. Airline fare schedules often favor extended stays into the weekend. Cost-benefit analyses could be used to determine if the offsetting costs of staying over outweigh the gain from reduced airfare. Some of these offsetting costs would include extra lodging, meal and transportation expenses for the extended days. We could not determine from the support documentation that cost comparisons are completed for these trips to adequately justify staying extra days. Department officials said the analyses are made, but the documentation is discarded once the trip is approved.

One agency allows employees with prior approval to use their personal vehicles for out-of-state travel. There is no requirement to cost justify the choice. In one instance, an employee commuted 288 miles daily from Sikeston, Missouri to Memphis, Tennessee for inspections at a fabrication plant. These commutes occurred for 18 days in one month and 12 days in the following month. The employee was reimbursed $2,585 for these trips. Although the agency has over 1,600 fleet passenger vehicles, this traveler was not provided one. The district supervisor said the agency did not have one available, but officials did not consider locating one from another district, or reassigning vehicles in the district for the temporary time needed.

Employee paid $2,585 for use of personal vehicle

In two other instances, an employee used a personal vehicle to travel roundtrip to St. Paul, Minnesota from Jefferson City, Missouri and was reimbursed $315. Another employee made two roundtrips from Jefferson City, Missouri to Charleston, South Carolina and Farmington, Pennsylvania and was reimbursed $1,110.

Without cost-benefit analyses for alternatives available for travel, we could not evaluate whether employees considered alternatives and whether supervisors were able to properly evaluate the travel decisions being made by employees. Consequently, travelers may spend and claim more expenses than necessary.

Conclusions

Because of decreased state revenues, the departments have substantially limited travel to out-of-state locations. Nevertheless, the departments' employees incurred unnecessary and questionable out-of-state travel expenses due to lack of adequate state travel regulations and management oversight.

Processing fees associated with travel costs for booking air fares could be reduced significantly if state employees used low cost or contracted travel agencies. Not all agency travel policies require at least a 14-day advance reservation for airfares. Since most of the out-of-state travel is for conferences and training, employees should book airfares sufficiently in advance to obtain the most economically beneficial travel terms. Cost-benefit analyses for all aspects of the business trips are needed to ensure the proper travel decision is made and to conserve travel funds.

Recommendations

We recommend the Commissioner, Office of Administration amend state travel regulations to:

- Require departments to use low cost contracted travel agencies and use the lowest and best rate.
- Require cost/benefit analyses to support decisions to use rental cars and extended stays at out-of-state locations.
- Limit the amounts employees can be reimbursed for lodging and incidental expenses.
- Require sufficient advance reservations for all out-of-state travel and require appropriate support documentation.
- Require departments to implement a record retention policy for cost-justifying and documenting out-of-state travel expenditures.

Office of Administration Comments

1. *Departments have been strongly encouraged to use the travel agency contract. There are occasions where lower fares may be obtained through the Internet. We do not want to preclude departments of the opportunity to obtain the lowest fare possible. We believe this is fiscally prudent.*

   The Travel Regulations already require the departments to use the lowest and best rate. 1 CSR 10-11.010(5) states: "Employees and officials are expected to exercise the same care in incurring expenses as a prudent person would exercise if traveling on personal business. Meal and hotel expenses shall be in reasonable relationship to their average cost for the cities where the expenses are incurred."

2. *We concur. We will amend the Travel Regulations to require the departments to perform cost/benefit analysis to support decisions on rental cars and extended stays.*

3. *We do not concur. Based on our experience limits turn into per diems whether or not the expense was incurred. Our experience indicates that per diems generally result in higher travel costs overall as opposed to reimbursement of actual costs.*

4. *We partially concur. The Travel Regulations already require advance reservations for out-of-state travel. 1 CSR 10-11.16(D) states: "State agencies should plan their out-of-state travel by making advance air travel reservations to obtain the lowest convenient air fares. Air travel shall not, however, exceed coach fare for the most direct available route." We will amend the rules to require the departments to maintain appropriate documentation.*

5. *We concur. As stated above, we will amend the rules to require the departments to maintain appropriate documentation.*

Auditor's Comment

The OA did not provide any analysis to support that per diems cost the state more than actual costs.

Department of Insurance Comments

While the report does not include recommendations addressed specifically to the Missouri Department of Insurance (MDI), it also does not exclude the MDI from the findings and recommendations. MDI has a large percentage of the out-of-state travel costs included in the report, as we are required to examine insurance companies whose records are located out-of-state. MDI's travel policy and procedures reflect the need for accountability when conducting these out-of-state examinations. As indicated in the responses below, the department feels it has already addressed the audit findings included in the report.

Air travel costs were excessive and air reservation practices were inconsistent

MDI travel policies have established spending limits, provide travel guidelines and require cost justification for employees traveling out-of-state. Agencies are allowed to be more restrictive than the state travel policy and MDI's travel policy is more restrictive.

Of 337 MDI billings audited, 65% were at $20 or below. Only 7 billings were above a $25 fee. MDI is the only department audited which requires booking airline flights at least 14 days in advance of travel to obtain the best possible air travel discounts.

Maximum lodging allowances could have reduced costs by $32,000

MDI travel policy includes CONUS limits for meals and lodging and requires approval by department management to exceed CONUS limits. Depending on the location of the insurance company being examined and the company's proximity to available lodging approval may be given to exceed CONUS.

Adopting federal travel rates could reduce tipping expenses

MDI policies use CONUS that includes a $3 a day limit for incidental expenses. Tips for meals are included within the CONUS limit set for each meal. The department's policy is consistent with recommendation of the audit report.

Travel plans were not well documented

MDI conducts cost-benefit analyses on travel expenses and includes forms to document; 1) non-travel weekend authorization; 2) authorization to exceed CONUS; 3) out-of-state travel authorization forms that include documentation to evaluate departure date, length of stay, and other considerations. MDI employees travel extensively and utilize the MDI requirement to make air travel arrangements 14 days in advance to receive the lowest fare. MDI employees travel each week and it is not always feasible to extend a stay to receive a lower airfare, as the employer may need to be at a different location the following week. If an employee chooses to remain on the jobsite on non-travel weekends, a cost comparison must be done and approved in order to remain on the job site rather than return home.

The Missouri Department of Insurance currently limits the amounts employees can be reimbursed for lodging and incidental expenses, requires arrangements be made 14 days in advance, and adheres to the record retention policy filed with the Secretary of State's Office. MDI maintains records of all forms and documentation until the completion of an audit then the documentation is destroyed.

Department of Economic Development Comments

I would respectfully suggest that some of the comments in your cover letter as well as the audit itself are presumptive and out of context, given the only recommendation in the audit is for the Office of Administration to amend state travel regulations to cover things that are perceived *issues. If the SAO is only now making these recommendations to OA, you are auditing against criteria and guidelines not currently in place and faulting agencies for excessive travel costs based on these non-existent travel requirements. DED does comply with current travel regulations and the report does not indicate such.*

The draft audit also does not mention that DED requires submission of a request to travel out-of-state and approval of the request prior to such travel. You did not mention DED uses CONUS as its guideline for meal reimbursement. Thirdly, DED does attempt to use the travel agencies under the University of Missouri contract when possible. It seems worthwhile to note that the state travel contract was not in place until October 2003. The audit period was only through December 2002. There is no way we could have utilized the state travel contract to save money when it was not available to use. Even if we had used the state travel contract, there is no guarantee that the travel agent with the cheaper fee would have found the cheaper airfare, or that we would have used that particular agent. On occasion, DED will use no-fee Internet bookings or other resources to achieve greater cost savings and to support minority and women-owned businesses which ensures compliance with Executive Order 98-21 and helps DED meet its MBE/WBE procurement goals.

In the draft report, the SAO state DED could have saved $10,201 in hotel costs, if the federal per diem rate had been used. OA travel regulations currently do not require agencies to use the federal per diem rate for hotels.

DED makes every effort possible to make advance airfare reservations but due to the nature of this agency's work, there are times when a business, industry, or sales situation requires short-notice travel.

Although your audit was intended to highlight the policies of the Office of Administration, I would respectfully suggest that the data reported in tables and the case studies are often insufficient to support the findings.

For instance, Table 1.2 reports that this department paid travel agency fees totaling $25,340 and that 405 of those fees were at the $35 service fee rate. This information is then used in Table 1.3 to draw the conclusion that using a travel agency with a lower fee would result in potential savings. I do not believe the audit report provides findings to support this conclusion. In fact, a lower total cost may have been achieved even though a higher travel agency charge was paid. Further, selecting an agent with a higher service fee may also have been an appropriate selection if MBE/WBE procurement compliance was a consideration. However, without a full report and a review of the specific samples used in this audit, it is impossible to address SAO issues and some of the SAO assumptions may be flawed or in error.

Auditor's Comment

The travel agent fee comparison was made against existing fees charged by travel agencies, not the statewide contract. In fact, the DED comparison shows that 42 percent of the travel fees were paid at the highest rate of $35 while 56 percent was paid at the $20 rate which was available to them for all trips.

Department of Labor and Industrial Relations Comments

We appreciate the opportunity to respond to the draft audit report on "Better Management Procedures Could Reduce Unnecessary Out-of-State Travel Costs." We have reviewed the information presented on pages 7 and 8 of the draft report regarding the use of a rental car by a department employee. We do not have any additional information to add to your report.

The Department had already addressed some of the concerns apparent within the report, but these changes were made late in the time period covered by the audit or outside the audit period. For example, the Department obtained through the Office of Administration, a travel procurement card, which allows our Travel Coordinator to book flights directly with the airlines, eliminating travel agency fees. In addition, the Department began using CONUS in October 2002, which reduced reimbursement rates for meals and incidentals and limited the allowable lodging costs in most instances. There were only two items tested out of 34 total test items, which occurred in October 2002 or later.

As can be seen by the graph on page 19, state agencies are already reducing out-of-state travel expenses. The Department has already reduced out-of-state travel expenditures from a high of $309,337 in FY 2001 to $256,314.20 in FY 2002 and to $128,443.54 in FY 2003. From FY 2000 to FY 2003, the Department reduced out-of-state travel costs by 58.4 percent, which is more than the 45 percent reduction cited in your report on page 3.

The Department will consider the recommendations made in your report in addition to the steps that we have already taken to reduce costs.

APPENDIX I

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of this audit were to determine (1) the state departments' purpose and expenditures for travel to out-of-state locations during the 18-month period July 1, 2001, through December 31, 2002, (2) the departments' adherence to state travel regulations, and (3) policies and procedures the state's departments and agencies have implemented to control travel and travel related costs.

Scope and methodology

To accomplish the audit objectives, we obtained and reviewed SAM II data showing all state departments and agencies out-of-state travel expenditures for state fiscal years 2000 through 2003. We identified the top seven departments with the highest or significant levels of out-of-state travel expenditures during period July 1, 2001, through December 31, 2002, for detailed review. For each of the seven departments we:

- Interviewed department officials responsible for approving out-of-state travel, and obtained and reviewed each departments' out-of-state travel policies and procedures.

- Selected out-of-state travel expense reports with claimed expenses of $750.00 or more to evaluate if the claims were reasonable.

- For each report selected for detail review, we determined (1) the duration, purpose, and location of visit; (2) costs for lodging and meals; and (3) costs for other items, such as rental cars, limousines, and airline tickets.

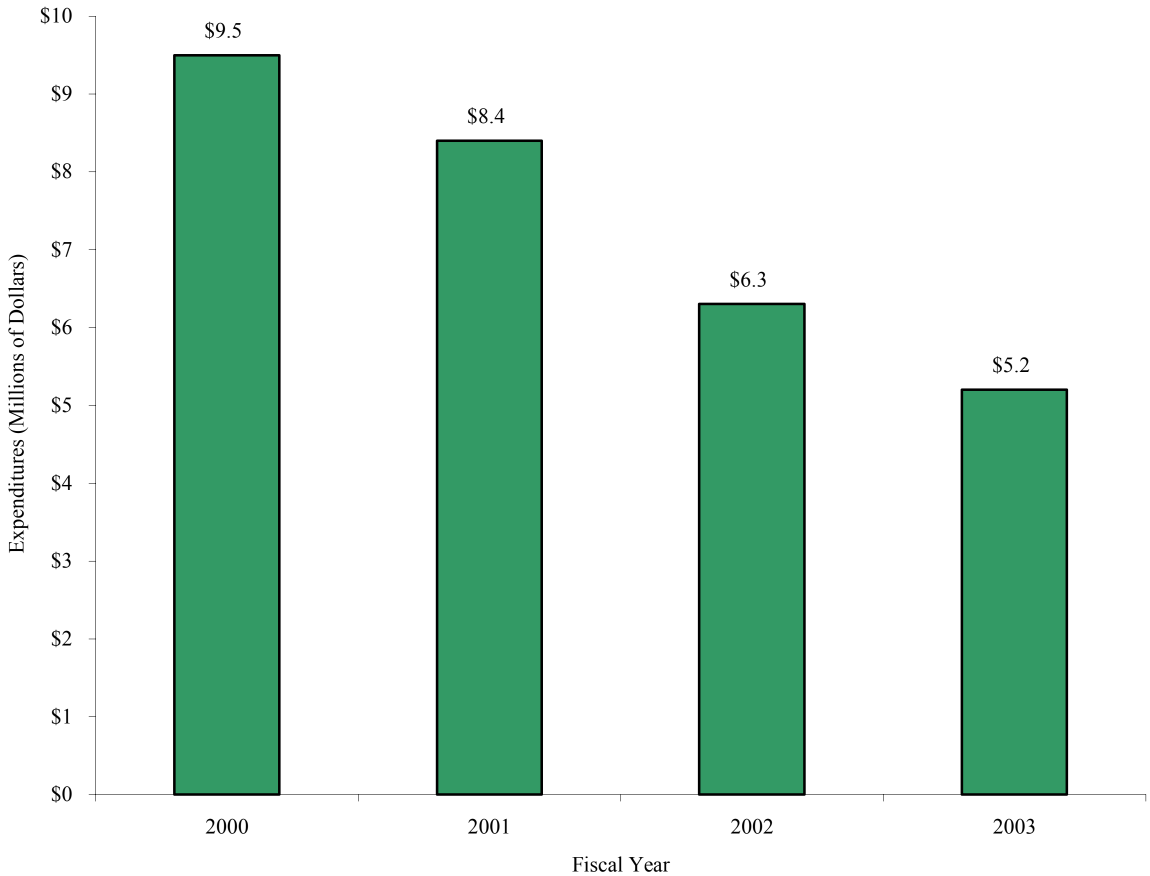
Since the majority of out-of-state travel was for training and conferences, we took this fact into consideration for analyzing lodging rates. Stated in Appendix E, Chapter 300 of the federal travel regulations a conference is defined as, "a meeting, retreat, seminar, symposium or event that involves attendee travel. The term "conference" also applies to training activities that are considered to be conferences under 5 CFR 410.404." The federal travel allowances for conferences are defined as, "that rate that is up to 25 percent above the established lodging per diem rate." In-addition, we included an average 13 percent tax rate for sales and occupancy taxes for our comparisons.

We interviewed officials from the seven departments to discuss reimbursed expenses that appeared questionable and/or excessive.

State travel regulations do not prescribe limits employees can be reimbursed for lodging or meals while staying in out-of-state locations. We used lodging and meal limits prescribed in federal travel regulations as our criteria for determining if employees were reimbursed for excessive lodging expenses. We did not find material problems with meal expenses. Federal travel regulations establish daily lodging limits for all U.S. cities and many major foreign cities.

APPENDIX II

ANNUAL OUT-OF-STATE TRAVEL EXPENDITURES



Source: SAM II data