

STATE TRAVEL OFFICE



A feasibility study for the Minnesota Legislature



FEBRUARY 2000

A Management Analysis Division Legislative Report



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Department of Administration

MANAGEMENT ANALYSIS DIVISION

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The Management Analysis Division is Minnesota government's in-house fee-for-service management consulting group. We are in our second decade of helping public managers increase their organization's effectiveness and efficiency. Our highly skilled professional management consultants provide quality management consultation services to local, regional, state, and federal government agencies.

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EXECUTIVE SUMMARY

The commissioner of Administration was directed by the 1999 Legislature to study the feasibility and potential advantages of creating a state travel office in the executive branch. This office would manage and oversee arrangements for air and surface travel by state employees and officials (Laws 1999, Chapter 250, Art. 1, Sec. 109). The study was to consider travel procedures used by the state in comparison with those used by the federal government, other states, and private businesses. The study was assigned to the Management Analysis Division. This report documents the division's findings, conclusions, and recommendations.

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Employee travel is typically cited as the third-largest expense of organizations. Control and efficient use of travel expenditures through good policies and practices is given high priority in most organizations. Effective travel management can increase employee productivity as well as produce significant cost savings.

The 1999 Legislature directed the commissioner of Administration to study the feasibility and potential advantages of creating a state travel office in the executive branch to manage and oversee arrangements for air and surface travel by state employees and officials (Laws 1999, Chapter 250, Art. 1, Sec. 109). The commissioner assigned the study to the Management Analysis Division. This report documents the division's findings, conclusions, and recommendations from that study.

The executive branch has a small travel management program in the Department of Administration's Travel Management Division, headed by the state's fleet manager. The travel management function was created in the 1980s, has little funding, and represents only the beginnings of a state travel office.

Considerations for this study included:

- the goals and objectives of a central travel management function,
- fit with the environment in state government,
- established and potential relationships with the other branches and higher education,
- needed resources and funding,
- travel vendor and supplier relationships and selection criteria, and
- and a review of configuration options.

CONCLUSIONS

Structure. The project team for this study concluded that the desirable results can best be obtained from:

- establishing a service-oriented central travel management function in the executive branch;
- continuing in a multi-vendor, decentralized, non-mandated environment for travel purchase decisions within state and department policies; and
- maximizing joint cooperative contracting, policy coordination, and best-practices sharing among the branches of government and higher education.

Responsibilities. State travel office functions can include internal and outsourced components, the latter being preferable for travel agency-type services. The better approach appears to be a central internal travel management function that manages a small number of preferred agencies competing to provide good travel services at reasonable costs.

Advanced technology. Two significant components of a new travel management system would be best use of new technologies, particularly the Internet, and improved management information. Internet and related technologies are revolutionizing many parts of travel processes. Travel suppliers that most effectively use these new technology tools will be better able to cost-effectively provide services.

Use of quality management information about travel and travel expenditures is a notable gap in Minnesota's centralized state program. The study project team concluded that contracting for the services of a travel data consolidator/consultant is desirable. Improved management of information about travel expenditures and aggregation of volume with the state and higher education would provide the basis for negotiating improved services and lower travel costs.

Joint ventures. The state, through the University of Minnesota, has already obtained the benefit of joint contracts for travel agency services and car rentals. Pooling volume of the three branches of state government and higher education systems, with improved management data, could improve services and costs of airlines, hotels, and car rentals.

Operations center. State governments with travel programs typically operate the function in a general services or administration department in the executive branch, and in a division of travel management or purchasing. In Minnesota, the function is in the Department of Administration's Travel Management Division. The University of Minnesota travel program operates from the university's Division of Purchasing.

Industry funding sources. Many public and private-sector travel management programs have been in turmoil in recent years due to the changing structure of travel agency commission and service fee rebates that have funded the travel programs. Returns of commissions to travel programs have been significantly reduced as airlines have cut travel agency commissions. Service fees have been instituted by travel agencies to replace the lost commission revenues, but new fees are being resisted by travel buyers. The university's travel program relies on general funding. The Department of Administration's Travel Management Division funding source for travel management functions is commission returns from travel agencies. This source of funding for travel management has been problematic, with no returns from commissions in recent years.

State Travel Management Division. The Travel Management Division operates the state motor vehicle fleet and performs limited travel management functions. The division's chief duty is administering the motor pool. The limited resources directed to the travel management program come from the central motor pool revolving account; the account has received virtually no funding from commission rebates in recent years to support central travel management activities.

The division works with the university and the state's Materials Management Division on vendor contracts, updates state travel policy, maintains a Website for traveler information, and answers questions and solves travel-related problems as they are brought to the division's attention. Funding has not been adequate to further advance the travel program. Greater resources, focus on objectives, organized coordination with departments, and travel management expertise are needed for a more effective central component of state travel management.

At the decentralized level, state departments vary considerably in their effective management of employee travel, with some agencies having well-developed practices and policies. Effective central travel management in the executive branch requires greater resources and effort. A system of strong coordination by a state travel office with department travel coordinators would assist in obtaining program objectives. A travel committee that helps coordinate across organizational boundaries would also benefit the program.

State travel policy encourages travelers to accept travel options that can net substantial savings, such as flights that have layovers of acceptable length consistent with the objectives of the travel. Savings also could be achieved in the new era of service fees through minimizing changes to the plan. Providing additional education to travelers and travel coordinators would be key to these and other areas of potential cost savings that derive from traveler behavior.

Preferred-agency criteria. Stringent criteria for selection of preferred vendors and benchmarked vendor performance criteria would help ensure the most cost-effective services. Vendor criteria would be necessary notably in the areas of low costs and fees, good and reliable management information, use of new technologies to streamline processes, and strong

direct service to travelers and travel coordinators. The next round of contracting will likely specify the use of new technologies. In the absence of other funding sources, the vendors' ability to offer a source of reliable funding for a central travel management function through some type of pass-through or splitting of fees or commissions must also be considered in vendor selection.

State government's joint contracting with the University of Minnesota has been beneficial. An executive branch central travel management function could benefit further from adopting the better practices of the university's travel program, particularly in training, routine communications, and working with travelers and departments to increase both adherence to policies and participation in the use of preferred vendors.

Frequent-flyer benefits. The study found the state's requirement that accumulated frequent-flyer miles benefit only the state, not the individual traveler, to be rare in both public and private sectors. Preliminary information points to, first, difficulty and expense in administering such a policy and questions about uniform compliance, and second, to an unknown and perhaps comparatively small real benefit to the state. Only when the accumulation of miles on a per-traveler basis reaches a high threshold is there a tangible result (usually a free ticket that can be used by the traveler or another employee). Although the available options include contracting for frequent-flyer mile record-keeping, that approach is suited better to very different circumstances — that is, to an environment with limited options where the use of free tickets can be spread as broadly as possible across organizational lines. Additionally, it is questionable whether the travel volume of the state and higher education system would justify the effort and costs. This information suggests a follow-up cost-benefit analysis of the frequent-flyer mile requirement. Alternatively, a more limited focus to ensure compliance by the few travelers who travel enough to generate free tickets would relieve administrative requirements and help ensure retention of frequent-flyer benefits for state-paid travel, but would raise fairness questions.

RECOMMENDATIONS

The Management Analysis Division offers the following recommendations to the legislature:

- 1. Strengthen the centralized travel management function in the Department of Administration.** The function would include as primary responsibilities:
 - arranging for, gathering, and analyzing travel management information on a state level for use by the travel office and departments;
 - contracting (or participating in contract preparation) for preferred travel agency vendors and other travel-related contractors as needed, for such services as data consolidation;
 - working with departments to maintain and update state travel policy;
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- training travelers and travel coordinators;
 - developing or arranging Internet and intranet technologies for use by travelers to enable more streamlined travel processes and provide better management information;
 - maximizing joint contracting with the university that benefits state government and the university;
 - providing assistance and coordinating efforts with department travel coordinators and purchasers; and
 - providing other services to departments to promote adherence to travel guidelines and to encourage the use of best practices in travel decisions and department travel management.
- 2. Provide adequate funding and resources for the centralized travel management function.**
 - 3. Require departments that use other than preferred travel agencies at a level above a specified dollar amount to provide travel data to the centralized travel office in electronic format and a form to be specified so that the information can be consolidated with that of preferred vendors.**
 - 4. Further evaluate the frequent-flyer miles program to determine costs and benefits.** The findings and conclusions from discussions with travel coordinators and others are that the program has significant administrative problems and small actual benefits to the state.

It is further recommended that the Department of Administration:

- 5. Explore adoption in the executive branch of a ghost card system like that in use at the university for employees' purchase of airline tickets.**

In addition, it is recommended that the centralized state travel office:

- 6. Use a travel data consolidation service to provide aggregated information and tailored, high-quality reports that would be the basis for negotiating improved fares and rates for other travel services.** Work with departments on report design that also can meet their needs.
 - 7. Adopt practices such as traveler education and others from the university's travel management program for the executive branch central travel management program.**
 - 8. Consider whether the centralized travel office should include the role of meeting and conference planning.**
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- 9. Update travel policies and work with departments to ensure appropriate and best use of new technologies including the Internet by travelers.**

It is recommended that the state travel office, in partnership with its customers:

- 10. Develop and maintain strong links between department travel coordinators and the central travel function to promote adherence to state policies and assist with traveler education.** Strengthen the department-level travel coordinator function and its relationship to the state travel office.
- 11. Encourage travelers to use preferred vendors by demonstrating cost savings to departments and the state and high service levels appropriate to traveler needs, and by ensuring the latest appropriate application of travel technology in the contracted services.**
- 12. Establish a travel committee for the executive branch to advise on such things as policy development.** Also provide for continued coordination of efforts across organizational boundaries of MnSCU, the University of Minnesota, and the three branches of state government.
- 13. Encourage best practices among the preferred travel agencies and executive branch department travel coordinators.**

It is recommended that the state travel office, with its contracting partners:

- 14. Explore developing with the university for the next preferred travel agency contract (Calendar Year 2001) that incorporates the latest technology to assist travelers and provide good management information.** Assess the feasibility of developing jointly with the university a Website for employee and travel coordinator use that includes online booking and may include the expense component in the longer term. Online booking would be available to all users across the systems and offer options that include multiple vendors.
- 15. Taking all 14 recommendations together, it is recommended that the early priorities be:**
- establishing a reliable source of continued funding,
 - filling the new travel manager position,
 - initiating improvements in management reporting, including data consolidation,
 - establishing the terms of the next preferred vendor contract so that it incorporates the best available use of new technologies, and
 - establishing greater coordination of efforts with department travel coordinators.
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INTRODUCTION

The commissioner of Administration was directed by the 1999 Legislature to study the feasibility and potential advantages of creating a state travel office in the executive branch. This office would manage and oversee arrangements for air and surface travel by state employees and officials (Laws 1999, Chapter 250, Art. 1, Sec. 109). The study was to consider travel procedures used by the state in comparison with those used by the federal government, other states, and private businesses, and address these issues, at a minimum:

1. the relative merits of central vs. decentralized management and oversight of travel;
2. current procedures used by the legislative, judicial, and executive branches of the state as well as the Minnesota State Colleges and Universities and the University of Minnesota;
3. statutory and other authority necessary to manage and oversee state travel;
4. the relative merits of state operation of travel services vs. the provision of travel services by travel agencies under contract;
5. the use of one travel agency vs. several preferred agencies;
6. the criteria used in selecting the preferred agencies;
7. managing frequent-flyer miles vs. other options; and
8. the use of Internet-based travel authorization and booking vs. traditional methods.

APPROACH and SCOPE

The research and analysis for this study were performed with the assistance of primary stakeholders. A working group was formed of representatives from the University of Minnesota, the Minnesota State Colleges and Universities system, the executive branch, the judicial branch, and two from the Legislature. This group provided information about the practices and policies of their organizations as well as discussion and feedback on the topics to be covered in the report. The members' contributions helped ensure that their travelers' preferences and priorities were made known to the project team.

Information was gathered from a number of sources regarding practices and policies of other states, the federal government, and private-sector organizations' travel management programs. A focused discussion was held with representatives from the state's contracted "preferred" travel agencies, as well as from a limited number of other travel service vendors. Discussion groups of department travel coordinators, principally from executive branch state agencies, were held to gather information for the study. Additionally, travel coordinators from the three branches and the higher education entities responded to questions about their practices through an exchange of electronic mail and telephone interviews.

Although the directive focuses on feasibility and benefits of a state travel office in the executive branch, there was assumed to be additional potential benefit from improving joint and cooperative efforts among the branches and higher education entities. This view might point to opportunities for more coordinated travel management efforts. Both internal (state) and external (contracted) configurations for a “state travel office” appeared to present feasible options. Thus, the feasibility question was addressed in terms of the advantages and disadvantages of various internal and external travel management options.

BACKGROUND

Public and private-sector organizations use many approaches to oversee and manage travel, from strong centralized function and mandates to highly decentralized management and comparatively unrestricted policies. The significant organizational interests involved in travel management include minimizing or reducing costs, exercising control to ensure both appropriate and best use of limited funds, and maximizing the productivity of employees who travel. Travelers generally want to be able to choose from among options the one that best meets their needs, and they want assistance in making plans, support for changes in their plans before and during travel, and arrangements that consider their convenience, comfort, and the value of their time while in travel status.

Factors that can work against strong centralized management of travel include:

- autonomy of individual organizational subunits,
- a large number of travel supplier options,
- comfortable relationships with existing suppliers,
- lack of cooperation across organizational boundaries,
- unwillingness to take advantage of opportunities for savings as they arise,
- inadequate monitoring and control systems, and
- lack of adequate data to support analysis.

Factors that favor centralization include greater control over expenditures and enforcement of travel policies.

Travel management is in part a procurement activity — that is, purchasing travel services like any other commodity. Organizations can improve the value from their purchases by leveraging their purchasing power, using fewer suppliers, and focusing on sustained improvements in lowering costs and increasing supplier value.

TRAVEL MANAGEMENT INDUSTRY

Travel management programs in the private and public sectors are being dramatically affected by recent developments and trends.

Significant reductions in travel agency commissions by airlines. This development has caused travel agencies to reformulate financial arrangements with their customers. It also has encouraged adoption of automated booking and expense reporting

systems as efficiency measures. Additionally, travel agencies are charging service fees to cover their costs and make up for lost commission revenues. Most observers expect the trend to lower commissions to continue and even extend to other travel service providers, such as hotels.

More direct dealings between travel suppliers and travel buyers. Airlines are increasingly bypassing traditional channels in dealing directly with travel programs and individual travelers. Travel agencies' roles as intermediaries are reduced. Travel managers are concerned that direct dealings with travelers may bypass their program's policies and controls.

Streamlined and automated travel procedures. Recent developments include greater use of electronic ticketing, which saves printing and delivery costs; automation of all major parts of the travel process; and widespread implementation of automated systems. Online and Internet-based automated booking and expense reporting have increased dramatically, reducing costs, saving time, promoting better expenditure control, and providing an opportunity for more effective communication of travel policies and promoting preferred practices and vendors.

More technology applications that enable end-users. Individual travelers and travel coordinators are more able to conduct their own research about travel options and to book trips. New end-user technologies implemented as part of Internet or intranet configurations promote better tracking of travel spending and speed up transactions from booking to expense management. However, this enabling of end-users has not eliminated the need for the types of services and support provided by travel agents and agencies, for example, plans changed because of weather-delayed flights or cancellations.

Together, these industry changes are presenting considerable challenges to effective travel management, but also new opportunities.

TRAVEL MANAGEMENT PROGRAM OVERVIEW

At its most basic, travel management is a planning function for cost-effective travel services needed by travelers in support of the organization's mission. The travel management function has many parts.

Travel management involves integration of the internal organizational components with a set of external travel service providers or consultants; this includes service suppliers such as airlines, hotels, and car rental companies; travel agencies; and charge card vendors. Travel management programs:

- establish and maintain overall travel policies and coordinate with organization units to ensure conformity;
- maintain supplier relationships and analyze changing needs in services;
- negotiate with suppliers to obtain better pricing and services;
- initiate and conduct performance evaluations of the program;
- analyze the value of the tools and services provided by travel suppliers including travel agencies, to determine if they result in savings and benefits to travelers;
- analyze travel processes — from pre-planning to post-trip reimbursements and evaluations — and streamline processes for ease of use and cost reductions, often through additional automation;
- enhance travel program relationships to assist purchasing, accounting, and auditing;
- improve communications with travelers and educate them to make appropriate travel decisions; and
- initiate and help develop organizational intranets or other software applications that make the travel processes more streamlined and easier to use by travelers and promote adherence to travel policies and cost-effective travel purchase decisions.

Runzheimer International, a prominent provider of information to the travel industry, recently published a summary of the top goals for travel programs, based on a subscriber survey.¹ The top goals, starting with the most often mentioned items, include: improving travel information and reporting, communicating more effectively with travelers and management, reducing travel expenses, negotiating more effectively with travel suppliers, improving expense reporting and

¹ *Runzheimer Reports on Travel Management*, February 1999, Runzheimer International, Rochester, Wis. 53167.

auditing, increasing travel policy compliance, updating travel policy, centralizing travel services, and improving meeting services.

FUTURE DIRECTIONS

Travel management programs. Travel programs are increasingly placing emphasis on:

- more active design and use of management information, including design of reports better tailored to the organization's specific needs;
- an increasingly stronger planning role — setting specific cost and service goals for the travel program and defining and implementing strategies to achieve the goals;
- more involvement in creating automated tools for the traveler or travel coordinator for communications, booking, and expense reporting and reimbursement; and
- greater sophistication in negotiating with travel service suppliers and selecting the best available combination of vendors and vendor services for the organization's needs

Travel agency services. Travel agencies are having to redefine their roles in the current environment of lower commissions and greater access by their customers to automated travel transactions. Should a travel agency earn a fee when travelers use an automated booking system on an intranet, if travel policies are built into the design of the system? What is the added value from travel agency services in the longer run? Such questions pointedly indicate the implications of new technologies and declining revenues from commissions. The future role of travel agencies may depend more on being able to deliver, among other things, more information about travel options at particular destinations, to integrate services using trip profiles and whole packages of supplier services, and to add demonstrable value in support of the client organization's travel policies rather than on finding the lowest cost option at the time of booking. Charging service and transaction fees for identifying and delivering the valuable services that customers are willing to pay for will be more difficult in the future. Additional future travel agency roles include more emphasis on aiding customers in supplier negotiations and providing customers with access to advanced technologies for automated booking and other travel management processes and the integration of automated services.

CURRENT PRACTICES

The Society for Travel Agents in Government annually surveys U.S. states and Canadian provinces regarding their travel management practices. The 1999 survey results² are used here along with information specific to Minnesota from various sources.

Travel budgets. For the 45 states and provinces that reported their budgets, the average annual travel budget was about \$42.5 million. On average, travel budgets had increased 4.5 percent from the previous year. On this set of statistics, the survey report noted that developing meaningful data about state programs was difficult in part because government travel expenditures generally are not centralized.

Central vs. decentralized features of programs. Twenty-eight governments reported having established a central travel coordinator. Thirty-four of the states and provinces have centralized travel agencies under contract, including multi-vendor contracts. However, a few states are allowing prior contracts to expire, permitting travelers to select from the open market. Minnesota's travel management is decentralized in state government and higher education. The state and the university jointly contract for travel agency services, and travelers' use of these travel agencies is on a "preferred," not a mandated, basis.

State government and higher education. The survey report noted that higher education is an important part of travel management's customer base in at least 15 states, with 32 to 80 percent of their total travel budgets attributable to higher education. The report also noted the opportunity for greater travel program cooperation between state governments and higher education.

Travel charge cards and direct-billing (ghost) accounts. Charge card programs are used in 62 states and provinces, an increase from 47 in 1991. Of these, 53 use individual travel cards, an increase of 11 from 1991, and 36 use a centralized direct (or ghost) account billing system, up 21 from 1991 (and up five from 1997). Minnesota state government and the university's programs differ. The university, for example, employs individual charge cards and a ghost account with the contracted travel agencies; state government uses charge cards and purchase orders.

Meeting planning. The survey report noted that meetings and related travel represent 20 to 25 percent of state and higher education budgets, but only three states have centralized the responsibility. Meeting planning for Minnesota state departments and higher education is decentralized. However, the Department of Employee Relations offers a local conference and meeting planning function for state agencies.

² "The 16th Annual Survey of State and Provincial Travel Management Practices and Procedures," September 1999. All 50 states and 17 provinces were surveyed. The number of responses varied with each question.

Automation and use of the Internet. Thirty-four states are automating travel processes, but only three have automated all phases of the travel management process. The most-automated phases are data capture, payment and reimbursement, and reporting. Least-automated are pre-trip, authorization, post-trip, and policy approval. The Internet is used by 45 states and provinces, up eight since 1998. The major Internet uses are data and research (in 27 states and provinces); communicating policies and procedures (27); and contracting and other electronic commerce (24). Contracting and other e-commerce is the fastest growing area of Internet use. The University of Minnesota and the Travel Management Division make use of the Internet to assist travelers. The university's Website links to its preferred contract car rental vendor for online booking. No other online booking is featured on the Websites. Both Websites have links to preferred vendors through e-mail.

Management reporting. Management reports are used by 38 states and provinces, up five from 1991. Thirty-six monitor total expenditures, 14 track individual travel reports, and 22 track city-pair (origin–destination) compliance. Preparation of the management reports is done mostly by charge card vendors (in 22 states and provinces) and travel agencies (21). In Minnesota, the “preferred vendors” generally provide management reports and the respective charge card programs provide expense information. Consolidated information is not available without considerable manual effort.

Trends in state travel management practices. The report noted trends that emerged from the survey:

- program efficiencies being achieved through use of new technologies like e-ticketing,
- more direct negotiations for car rentals and lodging,
- greater use of charge card programs and ghost accounts, and
- automation of more components of travel management processes.

The report said that higher priority should be given to certain state program practices:

- more centralized meeting management;
 - cooperative policy, contracting, and procedures between higher education and government;
 - expanded use of automation in travel management processes; and
 - use of best practices for central travel management and central travel agencies under contract.
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FEDERAL TRAVEL PRACTICES

The federal government annually spends an estimated \$2.5 billion on travel and has about 8,000 travel locations in the continental United States. The General Services Administration, Department of Transportation, and Department of Defense are all heavily involved in managing travel for the federal government, and all have current major initiatives to improve travel processes. The Department of Transportation's travel management contract is the only fee-based federal travel contract. The Defense Travel System is a new paperless travel system. When it becomes operational, travelers will submit travel requirements by e-mail to an official for authorization by electronic signature. The system decentralizes travel budgets, makes supervisors responsible for managing their travel, uses government charge cards to process transactions, and speeds up voucher settlements and payments of claims through electronic fund transfers. The Defense Travel System is expected to be expanded in the next three years to include 3.5 million active-duty employees worldwide.

The Department of Defense uses the services of SatoTravel, a private company, that provides travel agency services on a mandated basis for military and other federal personnel. Special volume pricing and seat availability, as well as other very substantial traveler and government benefits, are gained as a result of the enormous bargaining power of the federal government. SatoTravel has not provided services to state governments.

TRAVEL PRACTICES in MINNESOTA STATE GOVERNMENT, MnSCU, and the UNIVERSITY

Executive branch. The commissioner of Administration is authorized to offer central travel services to all state departments and agencies, and to the Minnesota State Colleges and Universities.³

The Travel Management Division in the Department of Administration operates a small travel management service. The principal activity of the division is operating the state vehicle fleet within the central motor pool revolving account. Funding for the central travel management activities is provided for in M.S. §16B.531, which states that the commissioner "may, in connection with that service, accept payments from the travel agencies under contracts for the provision of travel services. . . . Revenues in excess of the management costs of the central services must be returned to the general fund." However, travel agency payments have been very small or near zero for many years. The travel management program has never had significant funding from this source. Central travel management activities are limited. The division works with the Materials Management Division to purchase state travel services. The

³ M.S. §16B.531.

statewide travel policy formulated in the early 1990s is periodically updated by the Travel Management Division. Management reports from contractors are collected. Assistance to travelers and travel coordinators is provided by the director in the nature of a help desk function.

The executive branch and the university contract with four preferred travel agencies, extending through the end of this calendar year. The four preferred travel agencies for Calendar Year 2000 agreed to charge no service fees. The contract travel agencies include targeted-vendor-, female-, and minority-owned businesses, or those owned by people with disabilities. State government travel policies, developed by the Travel Management Division working with a group of department representatives in 1995-96, are permissive or recommended. The executive branch of state government spends about \$2.3 million for air travel each year, which includes amounts only through preferred vendors. Executive branch departments and agencies provide policies and procedures for their employees in addition to state policies.

Although some executive branch agencies are able to use purchase orders for airline tickets, that practice is being greatly curtailed by travel agencies. Credit or charge cards and purchase orders are the means of payment. The Materials Management Division is converting to a purchasing card program to replace the former corporate charge card program for the executive branch (the legislative and judicial branches are not eligible to participate; MnSCU and the university have their own card programs). The purchasing cards are specified for use up to a dollar limit and for general or particular types of purchases, such as travel, at the discretion of the departments. Each card is issued in the name of an individual, and departments pay the annual fee. As with past practice, only individuals who need them for business purposes will be issued cards. To purchase costly airline tickets for travelers who fly infrequently, charges could be placed on personal credit cards or on a purchasing card that one person in the office uses for the purpose. This arrangement will have to be worked out for each department or subunit making such arrangements, unless a direct-billing or other payment mode is available.

Management reports from travel agencies are generally forwarded to the Travel Management Division. Some departments request management reports from the travel agencies whose services they use.

State departments and organizations with the largest in-state travel expenditures for Fiscal Year 1998 were (in decreasing order) MnSCU, Transportation, Human Services, Natural Resources, Health, Corrections, Economic Security, Public Safety, Agriculture, and Pollution Control. For out-of-state travel in FY 98, the largest expenditures were by (in decreasing order) MnSCU, Transportation, Economic Security, Public Safety, Health, Revenue, Human Services, Natural Resources, Corrections, and Children, Families and Learning.

University of Minnesota. For the university, the central component of travel management is conducted by the Business Travel Program manager in the Purchasing Division, with support from other university services. Travel services are provided for all campuses. Centralized program functions include contracting for travel services, monitoring performance of travel contractors, reviewing management reports from contractors, working with department-level travel coordinators, formulating and reviewing travel policy, designing and delivering educational programs for travelers and department travel coordinators, and designing Website travel support and other documentation for travelers. The university's travel manager is a certified corporate travel executive.

As noted earlier, state government and the university jointly contract for preferred travel agency services. The university spent about \$9 million on air travel last year, which includes travel booked through both preferred travel agencies and others. The contract travel agencies include targeted vendors, for which the university sets targets and tries to achieve levels of business. State and university travelers and travel coordinators are allowed to select other travel agencies. The university estimates that the market share for preferred contract vendors (percent of all travel that is handled through preferred agencies) is about 80 percent and has been growing.

In general, state and university travel policies provide guidelines that are not mandatory. They are described as "should" policies. The university has negotiated airfares with a few airlines (United, Frontier, and TWA), in contrast to state government, which has no negotiated airfares.

The university has three credit card payment methods — a corporate travel card and a ghost account (a number issued only to the contract travel agencies) — and a procurement card for purchases of non-travel-related goods and services. The university's large volume of business allows the university to avoid paying fees for the issuance of cards to individuals. The university's ghost accounts with the preferred travel agencies can be used only for air travel. Ghost accounts, which accommodate about 15,000 transactions annually, have been in use since 1986. With the procurement card, reconciliation occurs before the transaction, while with the ghost account, it occurs after. The university has an extensive Website for travelers, as well as a travel information newsletter issued periodically and training courses conducted by the travel manager.

Like the travel Websites of the Travel Management Division and MnSCU, the university's travel Website for its employees does not provide for online travel booking,⁴ expense reimbursement, or other travel-related transactions.

⁴The university has a Website link for booking car rentals.

Minnesota State Colleges and Universities System. MnSCU travel policies and procedures cover the systems office and 36 institutions. Each institution also develops its own policies and procedures. The institutions are encouraged, but not required to, use state-preferred vendors. MnSCU employees use domestic and international flights. MnSCU has been involved over the years in working with the executive branch on state travel policies. One of the institutions, Mankato, negotiates directly with air carriers for flight services. In-state travel requires oral prior authorization and out-of-state travel requires written preapproval.

Employees are advised to consider specific cost factors in making arrangements. Travel arrangements can be made through any travel agency, but use of the state's preferred vendors or targeted group and economically disadvantaged vendors is encouraged. Employees are to make reservations early enough to take advantage of advance purchase discounts. Lodging is to be obtained at the lowest government rate available at a reasonably priced licensed lodging facility. Use of state-issued credit cards for business expenses is encouraged. Travel advances may be issued. Employees are reimbursed for reasonable and necessary expenses. Air travel costs can be paid using a direct or central billing account, state charge or corporate credit card, or personal charge or credit card. The policies and procedures for MnSCU employees are presented on the MnSCU Website.

Legislative branch. Travel authorizations in both bodies are ultimately provided by leadership. In the Senate, requests are made to committee chairs, with final authorization by the majority leader. For the minority, requests route through the committee chairs, minority leader, then majority leader. In the House, travel requests are made to committee chairs, with final authorization by the speaker. The legislative branch uses various travel agencies. The legislature uses both preferred travel agencies and several that are not. The House and Senate each has a staff member who coordinates travel arrangements. They seek the lowest available fares, with nonstop trips preferred. The travel needs of legislators take precedence. The focus in selection of travel services is cost, availability of the right arrangements, and personal service in case of problems while traveling. Typically, the staff would request that the travel costs be billed directly.

Judicial branch. The Supreme Court sets the travel policies for judicial branch employees. Judicial travel reimbursement rates are set by statutory reference to compensation plans promulgated by the Department of Employee Relations. Internal policies on out-of-state travel are set by judicial leadership, subject to funding. Once travel is approved, employees typically make their own arrangements. Court managers and/or the Administrative Services Office review expenditures. Two travel agencies are used most often, one of which is an executive branch preferred travel agency. Costs are direct-billed to the court whenever possible. The few employees and judges who travel out of state are generally judicial leadership and court managers.

FREQUENT-FLYER MILES PRACTICES

State employees and elected officials may not receive personal benefits from business trips when traveling at state expense. This requirement applies to the three branches of state government and the higher education institutions. The code of ethics for employees in the executive branch provides that employees may not personally benefit from activities related to their duties, except from the state.⁵ Since 1992, state agencies have been required to account for the use of airline travel credits, also known as frequent-flyer miles or similar designations.⁶

The frequent-flyer programs record accumulated mileage on a per-person basis. Members of the programs accumulate frequent-flyer miles for free air travel or other perks. For example, a member who accumulates a certain number of miles (for example, 20,000 or 25,000 with the Northwest Airlines program) is eligible for a free round-trip ticket.

Airlines create the rules that govern the use of frequent-flyer miles. Northwest Airlines' frequent-flyer membership rules include these provisions: only individuals are eligible; corporations or other legal entities cannot be enrolled as members; only one person can be enrolled per account; a member who fails to earn mileage for a period of three consecutive years is subject to termination of membership and forfeiture of accrued mileage; award trips may be given to other people; accumulated miles cannot be transferred to another airline program, nor can another airline's miles be transferred into a Northwest account.

Most mileage is never redeemed for free tickets. State policy calls for travelers to create two accounts, a personal and the business account, although many airlines discourage the practice. Organizations with travelers would prefer to pool frequent-flyer miles earned by their employees, but this is not a program feature for major airlines.

⁵ M.S. §43A.38, Subd. 2, provides in part: "Employees in the executive branch in the course of or in relation to their official duties shall not directly or indirectly receive or agree to receive any payment of expense, compensation, gift, reward, gratuity, favor, service or promise of future employment or other future benefit from any source except the state for any activity related to the duties of the employee unless otherwise provided by law."

⁶ M.S. §15.435. "Airline travel credit. (a) whenever public funds are used to pay for airline travel by an elected official or public employee, any credits or other benefits issued by any airline must accrue to the benefit of the public body providing the funding. In the event the issuing airline will not honor a transfer or assignment of any credit or benefit, the individual passenger shall report receipt of the credit or benefit to the public body issuing the initial payment within ninety days of receipt. (b) by July 1, 1993, the appropriate authorities in the executive, legislative, and judicial branches of the state and the governing body of each political subdivision shall develop and implement policies covering accrual of credits or other benefits issued by an airline whenever public funds are used to pay for airline travel by a public employee or an elected or appointed official. The policies must apply to all airline travel, regardless of where or how tickets are purchased. The policies must include procedures for reporting receipt of credits or other benefits."

The legislative auditor has noted that state agencies have a difficult time keeping track of their employees' use of frequent-flyer miles and that agencies need additional guidance in order to properly handle frequent-flyer miles accumulated as a result of state business. State departments have instituted various procedures to track frequent-flyer miles earned on state business.⁷

Federal regulations require that frequent-traveler benefits received for transportation paid for by the government belong to the government and cannot be used for personal travel. The benefits can be used for official travel and for upgrades (but not to first-class air) if an appointing authority authorizes the upgrade. No other state was found to collect its employees' frequent-flyer or similar miles. However, a number of times during the study, persons from other states said that they believed one or two states had the practice, although they couldn't name them.

According to the business travel industry publication *Business Travel News*, "the trend is away from collecting awards, and the number of corporations doing so, about 5 percent, is declining year over year."⁸ The reasons noted for allowing employees to receive the benefits include avoiding the administrative headache of tracking miles and the disincentive that not having access to their miles would represent to employees. This latter sentiment refers to situations where employees have a history of being able to retain the frequent-flyer miles for their own benefit, which is not the case in the federal government or in Minnesota.

A few third-party companies specialize in tracking and optimizing mileage for clients, typically corporate clients. These providers will conduct a feasibility assessment to determine whether in particular circumstances the savings would justify using such a program. The fee for such an assessment is said to be about \$2,500. The assessment would provide an estimate of potential savings. To estimate potential savings, the provider requires representative travel data for a year. The estimates are based on full compliance by travelers. One provider, as an example, generally earns 25 to 35 percent of the savings or a flat fee. If the service is used, the provider is notified of all flights booked through the corporate travel agency. The provider scans its database to see if anyone in the traveler's organizational unit has enough points to pay for a flight. If so, the provider purchases the ticket with accumulated mileage. Accumulation of mileage can occur on a department level, but smaller groups don't have access to the savings that a larger pool would have.

⁷ For example, a 1996 Department of Administration memo from the financial management division directed that Administration employees who travel on state business and request frequent-flyer miles must establish a frequent-flyer account exclusively for state travel with their name and the address of the Department of Administration.

⁸ 1999 Business Travel Buyer's Handbook, *Business Travel News*, New York, April 5, 1999.

The third-party companies that track frequent-flyer miles for a fee noted that the system works best when all travel is booked through one or a small number of travel agencies and use of these agencies is mandatory for all employees. Neither condition exists at the university or the state. Prospective users of this system must have good information about how their travelers are booking travel. Knowing how best to use the free tickets creates value in the system. A key to the system is being able to use free tickets that apply to the most expensive travel. Thus, most benefit is gained when the use of the free tickets can cross organizational boundaries freely. This can be problematic when frequent-flyer benefits are earned by specific departments, grants, or projects. To the extent that smaller organizational units accumulate mileage and tickets for their own use, fewer savings would result. For this program to work, travelers must be discouraged or prevented from using their personal credit cards to book travel. Typically, travel policies must be revised to ensure that travelers do not avoid the system.

Runzheimer International estimated that a 25 percent savings is the maximum possible from retaining frequent-flyer miles. Another travel organization estimated the range of savings at 10 to 20 percent of a total travel and entertainment budget. Half of the savings results from using miles instead of dollars for tickets. The other half is through elimination of unneeded trips that generate extra mileage for the traveler, and gaining better compliance with travel policy. These estimates assume maximum compliance in a mandated environment and the broadest level of cross-use of the free tickets across organizational lines.

A second question pertaining to frequent-flyer miles is the extent to which the state actually gains the benefits of free tickets from employees' accumulation of frequent-flyer miles. From a sampling of agencies taken during the study, the number appears small. However, the extent of actual benefit statewide is not known with any degree of accuracy. Most larger agencies noted that they have travelers who accumulate enough miles to earn a free ticket periodically.

CENTRAL TRAVEL MANAGEMENT COMPONENTS

This section of the report discusses the key tools and techniques for centralized travel oversight and management. In short, this is a program management function that relies on planning, organizing, directing, and controlling resources to achieve program goals. The discussion includes needed functionality and other aspects of making feasible a centralized travel management and oversight function in the executive branch.

PROGRAM GOALS

The goals for a centralized executive branch travel management program would be those of any centralized component of travel management: helping departments to ensure that state travelers' needs are met; increasing the value obtained for travel spending; streamlining all processes related to travel; reducing costs related to travel agency and other contracted services; and helping to ensure adherence to policies and other requirements.

ESSENTIAL ACTIVITIES

Maximizing the utility of management reports. Good-quality statewide consolidated travel information is not available in state government. Among the ramifications is an inability to develop information that would clearly document how funds are being spent overall and to prepare volume information for negotiating better fares and rates from travel suppliers.

Now, travel managers depend on reports from travel agencies and charge card suppliers. These reports often are deficient from the point of view of managing travel, such as lacking sufficient historical comparative data. They also often are not designed to permit easy consolidation with other information in a multi-vendor environment.

Management reports are generated most often by travel agencies, somewhat less often by charge card companies. Often, both sources of information are used by travel program managers. The information is most often provided according to department/division, individual traveler, and/or city-pairs. Many variations of the data are possible. Uniform reporting among travel agencies is important when multiple agencies are used, so that consolidated data is available for decision making and negotiations. Receiving the information in electronic format may be needed to ensure that data from multiple suppliers can be consolidated.

The kinds of data essential to effectively negotiating with airlines include top city-pairs, average ticket price per city-pair, and volume of traffic per route for each airline used. Negotiations for discounts can be a complex endeavor, and solid information is mandatory for a credible starting point.

Using charge cards and ghost accounts for improved control and information. Another key aspect of travel purchasing is individual purchase transactions by travelers or travel coordinators. Many organizations provide travelers with corporate charge cards that can be used for travel purchases. However, mandating use of the cards often conflicts with the travelers' preference to use their personal cards in order to gain frequent-flyer miles. Mandating use of charge cards, however, has many advantages: Charge card reports capture a higher percentage of travel expenses, which assists in monitoring appropriate use of travel policies, helps in audits by leaving a clear audit trail, can streamline travelers' expense reimbursements, and provides better information for supplier negotiations. Use of one card for travel purchases is advantageous for control of expenses and information.

Use of ghost, or direct-billing, cards is common practice, particularly for airfare charges. The ghost accounts are set up so that travelers with charge cards don't have to pay for expensive tickets prior to reimbursement and to accommodate travelers who don't have charge cards.

Contracting for high-value travel agency services at reasonable cost. Quality travel information is required for this activity and can be had through, for example, benchmarking services using industry data and data from the service providers. The contracting process also includes working with travel agencies to solve problems and continually upgrade services to meet traveler and department/state needs. For the longer term, some observers interpret current trends to indicate that in the future the in-house travel manager will have to assume more functions traditionally handled by travel agencies if today's travel agencies are forced to reduce services due to declining revenues. To prevent this, travel agencies impose service and transaction fees to replace lost commission revenues.

Improving automation use in travel processes with intranets and contracted services. Online booking systems have many advantages. They can increase use of alternative airfares, increase use of preferred suppliers, and promote more effective negotiations with suppliers. It also is less costly to book online; a rule of thumb is that the process of online booking can be about one-third the cost of telephone booking.

Widespread use of automated technologies is radically changing travel processes. Computerized reservation systems have been around for many years to provide access to airline schedules and fares as well as many other travel services. Automated personal computer booking systems are becoming widespread and provide access to the information available from the computer reservation systems. New options for access to the information provided by computer reservation systems are coming, as major software companies develop them.

Automation can reduce the often considerable time that travelers and travel coordinators/arrangers use in planning and booking trips. Any travel booking that doesn't require a telephone conversation will save money.

Airlines recently have been openly encouraging individual travelers and organizations to bypass travel agencies and book directly online with the airlines. This arrangement saves commissions and travel agency service fees, but also separates buyers from any needed travel agency services.

Travel managers may have greater difficulty controlling travel purchasing with the wide availability of online options. New policies and attention to conformance will be an increasing need. On the other hand, some online options such as through intranets may actually provide greater control and more real-time channeling of traveler behavior and other quality controls. They could, for example, help travelers to make the appropriate decisions based on low-cost travel policies that meet traveler needs, supplier preferences, and other factors.

Travelers may be able to fill out forms on their personal computers that provide all needed information for both arranging trips and ensuring conformance with travel policy.

Automated booking and other travel management systems should speed up processes, be easy to use, help enforce policy and cost control, and ensure overall savings. Automated systems can include not only Internet-based software on personal computer systems but also transactions by e-mail.

Travel managers will have to adapt existing travel policies to incorporate use of online transactions in both procedures and safeguards to ensure that requirements are met. Travel managers also will have to monitor online developments and somehow ensure that the use of online transactions actually saves costs and works within guidelines. This will be a moving target.

Travel agencies are adopting online systems that reduce the need for reservationists to spend time on the telephone. This can be a significant cost savings. On the other hand, travel agencies may lose business if travelers buy directly from suppliers using online access. It may be difficult to justify transaction fees or other service fees if no interaction with travel agents takes place. Various service configurations will probably become available from travel agencies as a result of various planned or assumed levels of personal service requirements.

Negotiating with airlines and travel suppliers based on consolidated volume information. The ability to take advantage of lower airfares is more limited in less-competitive markets. Low-fare airlines drive down costs where they operate. Typically, organizations would be able to negotiate reduced fares on city-pairs for the most frequent travel routes in a competitive market or the purchase of blocks of seats on flights to frequent destinations. The Twin Cities market is not regarded as competitive. Numerous reports,

including a recent one by the Minnesota Planning Agency, state strongly that the local market is not competitive. The comparison with other states that have been able to negotiate reduced city-pair fares or the purchase of blocks of seats on frequently traveled routes shows that there is much less opportunity locally.

Developing and maintaining joint travel services contracts. The travel office works with or through the purchasing department and contracting partners to create joint travel contracts with travel agencies, travel suppliers, and other travel consultants as required.

Promoting use of state travel policies and requirements. Working with departments to promote adherence to state travel policies, including providing educational and other assistance, are important travel office responsibilities.

Educating travelers and department travel coordinators In multi-department organizations, the central travel management function should be to work with a committee of representatives and suppliers to provide information and understanding of the overall policies and how best to use the available resources to get best service and save costs. The travel manager should use newsletters, focus groups, videotapes, traveler Websites, and other tools and incentives to encourage travelers to use the program.

Convening working groups or committees of department travelers and travel coordinators to help set the agenda for planning and receive feedback on services. Advice on the directions and needed services for the centralized function can be obtained through interaction with working groups or committees from the departments and organizations. This can also be an opportunity to provide training to the organizations.

LOCATION in the EXECUTIVE BRANCH

Travel management programs in other states are nearly always located in administration or general service departments. Within these central services departments, the program is either part of purchasing or a separate travel management program. Neither location appears to be inherently better for the management of travel. Other factors appear more important, such as available resources, support from other parts of the department, and the expertise and credentials of the person in charge.

FUNDING

In the executive branch, a state travel office could be operated on general funds or a revolving fund. The current executive branch Travel Management Division function operates out of the central motor pool revolving fund, which receives no dedicated funding for travel management purposes. Revenues in the fund come solely from operation of the motor vehicle fleet. Commissions or fees from travel agencies under contract — a source of funding anticipated in the statutes — have not provided funding for several years. If an executive branch state travel office function was part of the purchasing function, as it is at the University of Minnesota, it would come under the Materials Management Division, which is funded from the general fund. Preferred travel vendor contracts, which expire at the end of this calendar year, provide for no service or transaction fees. Thus, there is no expectation that funds will come from the return of commissions or service fees during the year. As a result, the Travel Management Division is without dedicated funding for undertaking travel office functions at least through the end of the calendar year. After that, unless other funding is found, the travel program will rely on revised contractual arrangements that provide for return of service fees or a fee charged to travelers who make arrangements through the preferred travel agencies. Neither of these sources may be workable.

SUMMARY of ROLES and RELATIONSHIPS

Following is a summary listing of the participants and their roles and relationships in a state travel management program with a stronger centralized component in a decentralized environment:

State travel manager who directs a centralized program. Organizationally, the program is either part of procurement or a separate travel management unit. In either case, specialized expertise in travel management, including certification, is desirable to effectively manage the program.

A system of travel coordinators in each department. These employees ensure that travelers follow state and department policies and procedures, provide coordination with the state-level program, and may arrange travel.

Travel committee. Made up of representatives from the major organizations that are part of the program, the committee helps set policy and plan for long-term improvement in a travel management program.

Contracting partners. Along with the state, contracting partners use joint purchasing power and volume to achieve discounts and other service add-ons. In this case, the partners may be state government, MnSCU, and the University of Minnesota. MnSCU currently may access travel management services and contracts of the executive branch. The legislative and judicial branches also may access the contracts and services of the executive branch. The

university is able to contract with other Big Ten schools to gain benefit of contracts that also can be joined by state government (an example is the current National Car Rental agreement). Such broadened contract arrangements may be expanded.

Travel agencies that provide basic travel services.

Other consultants or outsourced services. For example, data consolidation, management of frequent-flyer miles, and advanced technology applications such as through the Internet or intranets.

Additional direct contracted suppliers. These could include airlines, hotels, and car rental firms.

Travelers. They provide feedback on services to improve the program.

Internal support services to the central travel management function. These include purchasing/contracting, finance, and audit.

Arrangements for contracted services (travel agencies, consultants, and direct suppliers) can be accomplished through either the individual organizations or joint powers contracts. Joint endeavors enable better management information and can increase the likelihood of being able to obtain volume-based discounts.

STATE TRAVEL OFFICE CONFIGURATIONS and EVALUATION

This report section discusses options for a state travel office. The full range of usual travel office configurations and their pros and cons are discussed.

The working group for this study, consisting of representatives from the three branches of state government, MnSCU, and the University of Minnesota, was asked early in the study what they thought would be desirable study outcomes. They developed in a brainstorm session considerations that should guide recommendations in the study. The group said that the study recommendations, including those concerning configuration of a state travel office, should:

- promote less costly travel management;
- promote taking advantage of economies of scale in the purchase of travel services;
- accommodate different policies and procedures;
- be non-regulatory and non-mandated;
- fit well in a decentralized travel management environment;
- assist travelers/coordinators, prompting them through correct procedures such as authorizations;
- allow users to make tradeoffs, recognizing that they can have special needs that should override the concern for obtaining the least costly ticket;
- make the travel processes easier to use for all people involved; and
- provide good management reports for control of expenditures.

Overall, the working group was asking that the study determine which travel office configuration would work best with the existing volume and types of government travel, have low costs of operation, be suitable to the decentralized travel organizational culture, have low operating costs, and provide demonstrable savings consistent with good traveler services.

BASIC CONFIGURATION OPTIONS for a STATE TRAVEL OFFICE

A state travel office could include both management and oversight functions and traditional travel agency services. Various options exist for an internal executive branch travel agency.

1. State travel agency/office (under state management) on-site or nearby

- Reservations and ticketing would be handled on-site such as in the Capitol Complex and at remote locations as needed; this would be a full-service travel agency
- Staff of the internal travel agency could be state government employees or employees of a contracted travel agency managed by state employees
- All travelers would be required to contact the travel office for reservations

Kansas and several other states use an internal travel agency model. Nearly all states, like Utah and Kansas, use the services of a single travel agency with this configuration. Kansas has remote locations at three higher education institutions. The state can provide the on-site office space or the operation can be at a travel agency's location nearby.

With dedicated staff, the level of service and problem solving should be high, based on knowledge of travelers and organizational needs. The state would have strong control over the application of state and department travel policy. Theoretically, at least, the office produces management information that includes all travelers. E-tickets and other streamlined procedures and automation can be used to minimize time and costs for travelers. Otherwise, interoffice mail can be used for delivering itineraries or tickets. The office negotiates discounts from travel suppliers or contracts with a consultant to assist.

With this configuration, personnel, technology, and overhead costs are spread over the customer base, often with a service fee arrangement that is billed to travelers. This arrangement should in theory be less expensive to be done in-house. However, there are many complications, and travel agency personnel often are less costly and may be more experienced. Smaller internal travel offices are probably less likely to have funds to purchase the latest available technology such as for online booking and reservations. The reservation center could be located outside the more costly metropolitan area, although in-person assistance is then not feasible. The customer base may not be large enough to justify a full-time office. Conversely, the office may be prone to under-staffing and peak-period problems could regularly arise.

A variation is a configuration where a dedicated travel agency staff has a full-service but off-site travel office branch specifically for the state business. This configuration would be more likely to ensure that the staff are knowledgeable about state policies and procedures. It is also likely to be the most expensive model. Assuming its use is mandated, this also would provide maximum control.

2. State travel office that makes reservations only

- Reservations would be made by in-house staff, but ticketing would occur off-premises at a travel agency
- Office staff would be employees or travel agency staff under state management

If the state travel office is a small or even one-person office, this can relieve the workload and still provide controls over the proper application of state policy. Travel office staff can be equipped with computerized access to identify travel options and help travelers make appropriate choices. The staff in the Aeronautics Division of the state Department of Transportation, for example, have access to a WorldSpan terminal to assist MnDOT travelers in making reservations. Access to the terminal is without extra cost to the agency and allows staff to integrate use of the Aeronautics airplanes into the flight options. The agency can channel business to whatever travel agency or agencies that it deems appropriate. Because the travel agency makes reservations, the travel office would have to rely on them for usual management information. Service levels of the travel agency can be a factor in how travelers use the services.

3. State travel office with an in-house agent from a travel agency

- The office would rely on a person from a travel agency, who is on the premises, to provide services linking the travel agency to state travelers in the capacity as agent or account manager
- An off-site travel agency team would handle transactions for the state travel office

The travel office staff can be small, yet the on-site travel agency person can ensure higher levels of service from the travel agency and efficient problem solving. The volume of traffic would have to be high enough to justify the costs of an on-site account manager.

4. “Rent-a-plate” and corporate travel department options

- Under both options, the state travel office would take on substantial duties and obligations of a travel agency
- Under “rent-a-plate,” the travel office would pay a fee to a travel agency for permission to use its “plates” and thus be able to conduct its own reservations and ticketing and collect commissions on its own ticket sales
- Under the corporate travel department scenario, the travel office would become its own full-fledged travel agency, able to conduct all travel agency business and having full responsibilities and liabilities of a travel agency

These options would be used if the state wanted to take on all or a great part of the tasks and obligations of a travel agency. The state would have complete control over services,

management reporting, and relationships with other travel suppliers. The travel office would provide all staffing and other resources needed to undertake the travel agency responsibilities. The travel office would retain its commissions or service fees generated from operations. No states that were using or planning soon to use either option were identified.

5. Centralized state travel office that provides management and oversight

- This office would rely on a decentralized system in departments for travel management at the department level
- It would provide services to contract or assist in supplier and travel agency contracting, reviewing and assessing consolidated travel data, formulating and revising policy, educating travelers and travel coordinators in departments about policy and procedures, and maintaining external relationships, among other activities of centralized services and controls

This option most closely fits into a decentralized travel management environment. It does not exercise the degree of control and oversight of the other options. This option does not involve management or supervisory responsibilities for travel agency functions and staff. However, varying levels of both service and control would be possible. This configuration can likely be put into place with a small number of state staff and resources.

CENTRALIZED vs. DECENTRALIZED MANAGEMENT and OVERSIGHT of TRAVEL

The underlying purpose of management and oversight of state travel is to achieve program goals. Travel program goals include lowering costs and ensuring good service for travelers in support of the department's mission and goals. Some travel program goals can be better promoted with centralized oversight, but generally there are important trade-offs.

Travel is managed by state government departments with varying degrees of oversight and control. Some larger departments with higher travel expenditures tend to exercise more active oversight, although the overall picture is not clear. It also is not clear if departments have good travel management information available to judge the effectiveness of individual travel decisions or their programs overall. Basic travel management information received from travel agencies is collected and used by some departments. Departments also monitor travel expenditures made on charge cards and employee expense forms, to some extent.

It seems unlikely that most departments would have access to many types of travel management information that would ensure they were doing well and improving their travel programs. There did not appear to be consistency among departments in development and use

of travel policies. Traveler education did not appear to be a strength of the current decentralized system in the executive branch.

However, decentralized travel oversight at the department level allows travel decisions to be made closer to the traveler and supports more policies tailored to the particular travel needs of departments and subunits. Adherence to state travel policy and requirements can be promoted through periodic internal reviews by the departments. Cost-saving measures and traveler feedback on services to promote department travel program goals could similarly be accomplished at that level.

To the extent that travel procurement and policy development requires specialized expertise, departments are generally not well-equipped to undertake strong travel management or oversight. On the other hand, department procurement specialists may have some level of experience with travel vendor relationships, particularly in the larger agencies.

STATE OPERATION of TRAVEL SERVICES vs. TRAVEL AGENCIES under CONTRACT

The pros and cons of state operations and travel agency operations are as follows:

State-operated travel services

- provide greater control over service levels, policy implementation and enforcement, and management information
- can be, but is not necessarily, more costly because all resources are devoted to internal travelers, whereas travel agencies can move staff around according to need
- may have less flexibility in services (there's no competition) but probably more understanding of policies and requirements
- may have a tendency to be comparatively understaffed due to general resource limitations
- may not have access to the latest technology, especially for a small office

Travel-agency-operated services

- require annual tending to contracts and the time-consuming contracting process
 - provide the services of people very familiar with travel arrangements and the operation of travel services
 - provide the opportunity to replace poorer service-providers over time, through contracts
-

- provide travelers and travel coordinators with service options that best meet their needs, if multiple contractors are used
- can be more costly
- can present a constantly changing set of service options and associated fees
- are more likely to be able to keep up with the latest technology developments and tools for larger agencies, such as use of the Internet

USE of ONE or SEVERAL PREFERRED TRAVEL AGENCIES

The advantages and disadvantages to the state of using one or several preferred travel agencies are summarized below: “Preferred contractors” are those under contract with the state and the university to provide travel agency services. There are currently four such contractors. It should be noted that the implication of “preferred” agencies is that departments and travelers can go outside the list for services if they wish as long as they use state purchasing guidelines. The mandated use of one or a very small number of travel agencies, or of an internal agency, can permit tight controls on adherence to travel policies and monitoring of traveler actions.

The single travel agency:

- provides a single source for travel management information so that information is automatically in consolidated form (assuming all travelers use this travel agency)
 - probably provides few advantages beyond reduced contracting costs if it is a preferred rather than mandated option, because any number of other non-contract options are available to travelers, with the potential result of higher fees and less control over service deficiencies and management information
 - provides a focus for the state’s management of the travel agency’s services and delivery
 - should involve lower administrative costs because the state would be dealing with one contractor
 - can give the state more bargaining power to achieve favorable terms because of the travel volume committed to the vendor
 - may be able to provide greater understanding and application of state policies
 - is likely to be a larger provider, able to keep up with and probably provide the latest technology
 - doesn’t necessarily deliver on all of the theoretical advantages, and corrective action requires more than simply shifting business in the short term to a better available option
 - doesn’t necessarily have the spur of competition, because all business is assured
-

Several “preferred contractors”:

- provide options for travelers, all of which are under contractual control to deliver services at known costs and fees
- entail more contracting administrative costs, negotiations, and contract tending
- do not afford the opportunity for easy consolidation of management information, without additional effort by the travel office or department and without contractual requirements to provide the information in a specified manner
- provide departments with a level of autonomy to choose from among options those that provide the better services
- probably give departments greater opportunity to find an agency that can suit their specialized needs and the opportunity to experiment to find the better providers
- require more effort to coordinate services and measure contract compliance

An additional consideration is the accommodation of targeted and economically disadvantaged travel agencies. Further, the industry consists of a large number of very small, family-type agencies. Historically, they often have provided good services well-tailored to the needs of state travelers. Procurement practices have incorporated small vendors and even directed their inclusion with targeted programs. Some travelers like the different “feel” of working with smaller agencies.

The number of preferred travel agencies matters because of the need to consolidate travel information for it to be useful for decision making. Fewer agencies should yield better uniformity of management information and reporting. Consolidation of travel data is important because it reveals opportunities for understanding how travel dollars are spent, decision making, and negotiations that are key to effective travel management.

State travel operates in an environment of choice. That is, agencies and travelers are free to use the preferred travel agencies or another travel agency of their choosing. They may also purchase travel services directly. In all cases, necessary approvals must be obtained. Departments can set rules that limit choices for their employees. Overall, however, a wide range of choices are available to state and university departments and travelers. Their decisions are generally based on positive experience with agencies that have been perceived to meet their needs.

STATUTORY and OTHER AUTHORITY NECESSARY to MANAGE STATE TRAVEL

Controls to manage and oversee state travel can be exercised in either a mandatory or permissive environment, and at the department and/or state levels. At the most restrictive, options for control can include state (statutory or policy) mandates to use one or more contracted travel agencies or an internal agency.

A centralized state-level travel management office could be empowered in statutes — or statutes could directly provide for the same requirements — to mandate limited options for departments and travelers. The goal would be to (1) reduce costs by enforcing restrictions on more types of traveler behaviors that increase costs, (2) place restrictions on options of other travel suppliers if not specifically authorized, (3) create policies that restrict reimbursement for travel expenditures depending on compliance with statewide or department travel policies, and (4) direct a restrictive travel expenditure authorization process that includes a stronger pre-audit of individual travel decisions. Many of these objectives might also be accomplished without mandates but with better developed policy, more education, and other efforts to promote optimal travel decisions.

A centralized travel management function could be directed or empowered to receive management reports that cover all affected employee travel. With the aid of new technologies such as internal intranets or an Internet user interface, controls on permitted decisions could be instituted, with exceptions being directed through a centralized review function. This approach would be more practical with strong statutory directives mandating greater control of travel expenditures through central oversight.

The legislature might direct creation of a strong central travel management authority with oversight of department travel decisions. Additional controls would be developed in policies governing expenditure controls, specification of services to be used in the absence of authorization for exceptions, and other policies that determine the range of discretion in selecting travel services. The underlying objectives, however, might be accomplished in a less mandatory and regulatory manner.

The least restrictive authority that would increase management and oversight of state travel would involve providing resources for additional education of travelers, travel coordinators, those who authorize travel expenditures, and purchasers of travel services in departments, to make decisions consistent with existing state and department travel policies and help ensure cost-effective choices. Delivery of this education could be accomplished through various means including newsletters, focus groups, videotapes, e-mail, and online question-and-answer boards, an informational Website, and online informational bulletins.

CRITERIA USED to SELECT PREFERRED TRAVEL AGENCIES

Careful travel agency selection is critical to the success of travel programs; therefore, criteria used to select preferred agencies must be developed to promote program goals and meet travelers' needs. Basic criteria for selection of agencies would be included in the request for proposals. The generic criteria for selecting travel agencies would include quality of management reports; compatibility with needs of the organization and the cultural environment; costs of the services; sharing of commissions, fees, or overrides; and measures of customer service. Selection should also consider specific information such as the principal computerized reservation system in use; soft-dollar benefits that can be obtained from airlines, hotels, car rental companies, etc.; types of management reports available; automated services; traveler services; types of assistance to ensure traveler adherence to travel policy; and the availability and types of financial and billing information. Additional criteria might include a travel agency's ability to perform on measures of customer communications, internal quality control, assistance with traveler and department training, and management information reports. Another criterion that is becoming more important is a travel agency's ability to show that it can lower expenses and transaction costs through use of technology such as automated booking systems, expense reporting, and management information reporting. Another criterion may be a travel agency's ability to negotiate and deliver on price breaks with travel suppliers, notably with airlines, but also hotels and car rentals. The quality of a travel agency's communications with the travel program manager, departments, and travelers may be another important consideration.

In the future, travelers will be using the Internet and intranets to find travel information and conduct transactions. Travel agencies' support of software that enables appropriate use of the latest proven technologies by travelers will be another major criterion in the near future. Travelers' use of the technology is likely to include not only the pre-trip portion but use during the travel.

All of these criteria are differentiators by which to evaluate prospective travel agency services. It is always a matter of balancing the considerations, especially those that are specifically noted in the request for proposals, and of providing a fair and auditable evaluation leading to the choice of preferred vendors.

The used criteria are contained in the request for proposals and contracts. Recent revisions to contract terms would exclude service fees. The federal Department of Transportation request for proposals for a major travel service and management initiative contains specifications for the advanced use of technology that could be adapted to state contracts.

The actual criteria used for selecting preferred agencies can be developed or refined with the assistance of a committee of representatives from parts of the organization. Represented on

this committee would be managers from various departments as well as from purchasing, human resources, and finance. This committee would help set goals and address problems. A traveler survey and interviews could also provide information about needs and expectations.

USE of INTERNET-BASED TRAVEL AUTHORIZATION and BOOKING

The Internet and related technologies (for example, intranets) have radically changed the travel business. The profound changes are still in their early stages. Internet-based travel authorization and booking are just two of the features that major vendors' software systems provide. Other less sophisticated technologies are also assisting the processes.

Adoption of these new technologies is likely to come about as a result of contract specifications written into a future (perhaps the next) round of requests for proposals for travel agency services. Travel agencies, airlines, and other travel suppliers are rapidly adopting these technologies through purchase, development, or partnering with other vendors for the new technology capabilities.

Trip planning and authorizations can be assisted with several technologies. Forms can be filled out and faxed or e-mailed online to those who authorize travel and to travel agencies. Online forms are also a feature of the Internet-based travel planning and authorization process. Intranets permit automated processing from initial planning to expense handling. Software to book travel has become a major feature of attention on the Internet. Travel managers are concerned that the technology, while enabling transactions within the business environment, can also be used to easily avoid policies and controls unless there is sufficient oversight.

With automated booking systems embedded within intranets, an employee at a personal computer can receive travel options, obtain approvals, book travel herself or through a department travel coordinator, and follow through with the reservation and further processes that may include expense reporting and reimbursements. Automated booking systems can be set up to steer travelers to preferred vendors, incorporate policies into the options available to travelers, and provide additional traveler information on the same Website. By using online forms, the traveler's request is "in writing" and more likely to be complete when received for processing. Saving telephone conversations with the online option cuts transaction costs considerably. In short, online booking is widely used and continues to grow dramatically, both for personal and business travel.

Although not discussed in depth here, online technologies are also being used for other phases of travel, including making reservations, optimizing reservations (quality-control checks on individual purchasing decisions), pre-trip reporting to identify deviations from travel policies and to identify potential further savings before a ticket is issued, distribution of travel documents including itineraries used with e-tickets, and expense reporting and reimbursement.

To recap, Internet-based travel authorization and booking are available for implementation.

The availability of online booking as an option readily available on the Internet to anyone creates a potential for loosening of control over travel decisions and avoidance of travel policies. Within an organizational Website or an intranet, with enhancements to channel travelers through choices that include correct application of travel policy and preferred vendor relationships, online options provide streamlined travel processes as well as improved controls and management reports.

CONCLUSIONS

Based on these findings, the Management Analysis Division project team reached the following conclusions:

- 1. Decentralized travel management environment.** Both the university and state government operate in a highly decentralized environment for travel management and oversight. Departments, operating within the rules and guidance provided by statutes and university-wide or state-wide travel policies, establish procedures and policies and authorize travel. Departments may direct or encourage their employees to use certain travel vendors, either from the preferred-vendor list or outside it, based on historical loyalties, perceived-savings experience, good service experience, or a combination of these and other factors. The decentralized management of travel is the most common model among state governments and higher education.
 - 2. Joint contracting.** Joint contracting for travel services and cooperative development of travel policy between the university and state government are beneficial and should continue. Among the reasons are volume-purchasing benefits. Joint contracting is common among states, although some industry experts believe there is much greater potential.
 - 3. Limited funding.** Funding has severely limited the resources available for the central travel management function in the Department of Administration's Travel Management Division. The funding mechanism, receipt of travel agency fees or commissions to the central motor pool revolving account, has been near zero for several years. The division has been able to provide only very limited travel management and oversight. Current travel agency contracts effective through this calendar year preclude fees, the partial return of which could provide some funding.
 - 4. Mandated or preferred travel agencies.** State government and university departments and employees may choose from among preferred vendors or any other vendors for travel services, consistent with department guidelines. A change to a mandated use of one or several agencies would be a significant development. More reasons favor the use of options than limiting choice with mandated use of a small number of travel agencies. The migration of travelers to preferred vendors can be accomplished better with incentives and demonstrations of traveler, department, and state benefits. The university's travel management program has achieved a high level of use of preferred vendors through education and demonstration of benefits. This is a practical model that could be applied more fully in the executive branch without imposing new mandates.
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- 5. Internal or contracted travel services.** The option for the executive branch to develop a travel agency of its own in conjunction with a central travel oversight function does not seem practical. Other options, such as having a travel agency liaison on-site, are closer to practical but still probably not cost-justifiable.
 - 6. Number of preferred travel agencies.** Three to six vendors may be a good number to provide a reasonable set of choices to travelers, assuming that management information is compatible for consolidation and reporting is at appropriate detail levels for department and state control in a decentralized environment.
 - 7. Managing frequent-flyer miles.** The realized benefits to the state from travelers accumulating frequent-flyer miles (that is, free tickets) result from the activities of a very small number of travelers. Tracking frequent-flyer miles for all employees who accumulate them is burdensome. Vendors will track frequent-flyer miles for a front-end fee to assess feasibility and predict savings, but they note that the savings is significant when all travelers' miles are mandated for inclusion and the free tickets can be passed across organizational boundaries to pay for the most expensive, usually international, flights. Another option is to refocus tracking on the few travelers whose frequency of travel indicates that a free ticket will be obtained.
 - 8. Feasibility and potential advantages of a state travel office.** Configuration options range from those that support a centralized, mandated program to those that provide services and education only. It seems apparent that a non-mandated use of several preferred providers, in conjunction with more centralized oversight functions, provides the prospect for advancing the goals of executive branch travel management. In that regard, the university's program can provide examples of good practices.
 - 9. Travel information.** Lack of good information about the use of travel dollars on an aggregate basis by the state is a significant barrier to improvement of travel expenditures. The unlimited options available for the purchase of tickets, the inconsistent tracking of expenditures, and the inability to aggregate accurate and complete information about travel expenditures are key factors that impede further progress.
 - 10. Management reports.** Management reports contain valuable information about travel decisions and travel expenditures, and should be used to yield decision-making information on a consolidated basis. Without good, aggregated information for the use of travel expenditures, the state is not in a good position to effect savings, much less negotiate for reduced prices on travel. In particular, the local market does not make any negotiation likely to be fruitful without the greatest degree of aggregated travel and the best available information.
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- 11. Travel data consolidation.** In a non-mandated environment with several preferred and other vendors, it is necessary to consolidate travel data from available sources into a usable information source for decision making and negotiations.
 - 12. Automated/Internet-based travel processes.** Internet-based travel tools can streamline travel processes, reduce transaction costs, promote adherence to policies, and provide an accessible and easy-to-use information source for travelers.
 - 13. Purchasing travel services.** Travel agencies are paid through direct billing, purchase orders, or credit cards. A trend in payment mechanisms is individual credit purchasing cards and/or a single billing account commonly called a “ghost account.” The university uses a ghost account for airline tickets, allowing any authorized traveler to take a flight that is direct-billed to the university. This tool, however, is not used by the executive branch for the same travel agencies. The ghost account system provides significant efficiencies for arranging travel through travel agencies. The university’s ghost accounts have a lengthy history that supports this proposition. There are, however, further matters of feasibility that should be investigated for its application in the executive branch.
 - 14. Centralized component of executive branch travel management.** The centralized component of state government travel management is significantly underdeveloped. In contrast to the University of Minnesota’s travel program, the state travel function in the Department of Administration has been limited by lack of funding in its provision of oversight and services to departments and travelers.
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RECOMMENDATIONS

The Management Analysis Division offers the following recommendations to the legislature:

- 1. Strengthen the centralized travel management function in the Department of Administration.** The function would include as primary responsibilities:
 - arranging for, gathering, and analyzing travel management information on a state level for use by the travel office and departments;
 - contracting (or participating in preparation of contracts) for preferred travel agency vendors and other travel-related contractors as needed, for such services as data consolidation;
 - working with departments to maintain and update state travel policy;
 - training travelers and travel coordinators;
 - developing or arranging Internet and intranet technologies for use by travelers to enable more streamlined travel processes and provide better management information;
 - maximizing joint contracting with the university that benefits state government and the university;
 - providing assistance and coordinating efforts with department travel coordinators and purchasers; and
 - providing other services to departments to promote adherence to travel guidelines and to encourage the use of best practices in travel decisions and department travel management.
 - 2. Provide adequate funding and resources for the centralized travel management function.**
 - 3. Require departments that use other than preferred travel agencies at a level above a specified dollar amount to provide travel data to the centralized travel office in electronic format and a form to be specified so that the information can be consolidated with that of preferred vendors.**
 - 4. Further evaluate the frequent-flyer miles program to determine costs and benefits.** The findings and conclusions from discussions with travel coordinators and others are that the program has significant administrative problems and small actual benefits to the state.
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It is further recommended that the Department of Administration:

- 5. Explore adoption in the executive branch of a ghost card system like that in use at the university for employees' purchase of airline tickets.**

In addition, it is recommended that the centralized state travel office:

- 6. Use a travel data consolidation service to provide aggregated information and tailored, high-quality reports that would be the basis for negotiating improved fares and rates for other travel services.** Work with departments on report design that also can meet their needs.
- 7. Adopt practices such as traveler education and others from the university's travel management program for the executive branch central travel management program.**
- 8. Consider whether the centralized travel office should include the role of meeting and conference planning.**
- 9. Update travel policies and work with departments to ensure appropriate and best use of new technologies including the Internet by travelers.**

It is recommended that the state travel office, in partnership with its customers:

- 10. Develop and maintain strong links between department travel coordinators and the central travel function to promote adherence to state policies and assist with traveler education.** Strengthen the department-level travel coordinator function and its relationship to the state travel office.
 - 11. Encourage travelers to use preferred vendors by demonstrating cost savings to departments and the state and high service levels appropriate to traveler needs, and by ensuring the latest appropriate application of travel technology in the contracted services.**
 - 12. Establish a travel committee for the executive branch to advise on such things as policy development.** Also provide for continued coordination of efforts across organizational boundaries of MnSCU, the University of Minnesota, and the three branches of state government.
 - 13. Encourage best practices among the preferred travel agencies and executive branch department travel coordinators.**
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It is recommended that the state travel office, with its contracting partners:

- 14. Explore developing with the university for the next preferred travel agency contract (Calendar Year 2001) that incorporates the latest technology to assist travelers and provide good management information.** Assess the feasibility of developing jointly with the university a Website for employee and travel coordinator use that includes online booking and may include the expense component in the longer term. Online booking would be available to all users across the systems and offer options that include multiple vendors.

 - 15. Taking all 14 recommendations together, it is recommended that the early priorities be:**
 - establishing a reliable source of continued funding,
 - filling the new travel manager position,
 - initiating improvements in management reporting, including data consolidation,
 - establishing the terms of the next preferred vendor contract so that it incorporates the best available use of new technologies, and
 - establishing greater coordination of efforts with department travel coordinators.
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