Official Travel by Public Sector Employees

Canberra   ACT
24 November 1997

Dear Madam President
Dear Mr Speaker

In accordance with the authority contained in the *Audit Act 1901*, the Australian National Audit Office has undertaken a financial control and administration audit of travel management and administration across a number of Commonwealth entities.

Financial control and administration audit findings are reported generically. The findings and recommendations contained in this report are not therefore necessarily attributable to any one entity, based as they are on a range of entity experience. The nature and delivery of these types of audits are set out in the *Financial Control and Administration Audit Charter* published in 1995.

This report concentrates on findings which have an 'across the board' perspective and relevance. A companion better practice guide 'Public Sector Travel' has been developed in the course of the audit (text of which has been reproduced in Appendix 1of this report). The guide draws on experience from both the private and public sectors.
I present this report to the Parliament. The report is titled *Official Travel by Public Sector Employees.*

Yours sincerely

Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra   ACT

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the Audit Act to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Results in Brief

1. This audit was undertaken as part of an ongoing program of FCA audits which examine various aspects of the financial control and administration frameworks of Commonwealth entities.

2. Travel is needed to support program delivery. It can be a significant component of the administration costs of budget-funded agencies. Yet it is often overlooked in comparison with the relatively large size of program expenditures and/or revenues.

3. While it is not possible to obtain accurate figures for overall Commonwealth public sector travel expenditure the 'best estimate' by the ANAO is that it is around $600 million annually.

4. The audit found high levels of compliance with current government and entity travel rules and regulations in the entities reviewed. There is a low risk that widespread abuse or fraud occurs in relation to official travel claims.

5. However, the present entitlement-based allowance system is considered to result in higher direct and indirect travel costs than would otherwise be the case under a reimbursement-based system operating on better practice principles.

6. It is probable that savings, possibly in excess of $75 million each year, could be achieved across the Commonwealth by a fundamental overhaul of the allowance system, including the introduction of a reimbursement system.

7. The benefits of a reimbursement system extend beyond cost savings. It provides the capacity to collect management information on the entire travel spend in an entity. It also overcomes public perception and criticism that the present system is overly generous and able to be used for personal gain.

8. With respect to air travel, the audit found that entities have progressively negotiated better across-the-board discounts (rebates) and have achieved real cost savings as a result. However, it is considered that additional savings, of at least $9 million annually, can be realised primarily through greater use of discounted airfares.

9. Finally, the audit found that better management of frequent flyer points remains an intractable issue. Entities are only now seeking solutions which will improve control over the use of these points. They have yet to demonstrate they can effectively manage such points to achieve significant cost savings.

Part One

Key Findings and Recommendations

Official Travel by Public Sector Employees

Across-portfolio audit

Background

1.1 The last official review of travel arrangements in the Commonwealth public sector was undertaken in 1987 as part of the 'Block' Efficiency Scrutinies[1].

1.2 The changes which have occurred in the ten year period since, and the current reform program within the public sector, provide the conditions for a fundamental re-assessment of travel arrangements. This would lead to significant savings and improved program and service delivery outcomes.

1.3 Some key statistics highlighting the importance of travel are:

- travel expenses are one of the three largest **controllable**[2] costs in most organisations, together with personnel and information technology costs;

- travel expenditure by Commonwealth entities has **grown significantly in real terms since 1986**. Air travel costs were then estimated to be around $106 million for 'core' government agencies. Air travel costs are estimated by the ANAO to now be around $200 million for 'core' agencies in today's dollars.

- total direct expenditure on travel (transport, accommodation and meals) by the wider Commonwealth public sector (including 'core' agencies) is estimated by the ANAO to be around **$600 million each** year; and

- the 'hidden' processing and administration costs of travel are likely to be above 10% of direct costs, or at least **$60 million per annum.**

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[1] '*Australian Public Service Travel Scrutiny*', March 1987.
[2] In this context 'controllable' refers to variable or discretionary costs such as salaries but does not include fixed costs such as rent or depreciation on capital items.

Audit Objectives, Scope and Focus

1.4 The subject of travel by public servants can be emotive. From the travellers' perspective, working away from home will generally be regarded as a 'necessary evil'. The public perception is more likely to be that travel by public servants is a 'perk' and that travel entitlements present an opportunity for 'rorts'.

1.5 The primary objective of this audit was to review the management and administration of travel undertaken by public sector employees to determine whether, and to what extent, it complied with approved policies and procedures.

1.6 The other objective of this audit, as with all across-the-board FCA audits, is to identify, develop and report better practices. The opinion expressed in this regard is a measure of the extent to which improvements can be made leading to lower direct and indirect travel costs, better management of these costs and better program outcomes.

1.7 The audit dealt with short-term travel by Commonwealth public sector employees on official business. The fieldwork for the audit was undertaken in the period May to July 1997. This fieldwork did not address travel by Parliamentarians or their staff.

1.8 It was conducted in twelve Commonwealth entities at fifteen locations and included departments (and like agencies), and statutory authorities.

Audit Opinion

1.9 **The evidence indicates that Commonwealth entities pay too much for travel and travel-administration**. It is probable that savings of the order of $84 million each year could be realised by adopting better practices. However, this would require a fundamental overhaul of current travel entitlements.

1.10 The savings projected above will not come from elimination of opportunities for 'rorting' or abuse of the current system—the audit found little evidence of this in the entities examined. The savings will come through:

- changes to travel allowance entitlements which will produce a better match with actual costs;

- improved relationships with the suppliers of transport, accommodation and travel services;

- elimination of unnecessary controls and redesign of processes; and

- an appropriate level of management interest in containing costs through monitoring employee travel patterns and behaviour.

1.11 A critical prerequisite for the realisation of savings is a fundamental change in the way travel allowance entitlements are determined. This would require a move from the present entitlement-based, allowance system to a reimbursement-based, actual cost system.

Audit Findings

1.12 The above opinion is based on the following key findings. Each of these findings are discussed in greater detail in Part 2 of this Report.

Compliance

1.13 The audit found a high level of compliance with government travel policies and with the internal policies and procedures put in place by entities.

1.14 While exceptions were noted in certain entities, these were isolated instances. **There was no evidence within the entities audited of systematic or widespread abuse of the travel allowance system or of significant impropriety in travel arrangements**.

1.15 However, one critical control procedure found not to be operating effectively in a number of entities was the level and adequacy of post-travel checking by an independent officer.

1.16 The absence or breakdown of this control increases the risk that variations to pre-approved travel itineraries will not be subsequently identified and questioned.

1.17 As a result entities rely substantially on the integrity of the traveller to notify variations when they occur. This may result in overpayments to the traveller and to the travel supplier remaining undetected.

Monitoring

1.18 The audit found that the level of management attention given to review of travel expenditure and other travel management information, at either the entity or program level, could be improved.

1.19 Inadequacies in travel management information within almost all entities audited is considered to be a major factor contributing to the low level of management attention.

1.20 In many instances entities were unable to provide, or to obtain from their travel service providers, detailed information on total travel expenditures. These entities were even less

likely to have information at program or business unit level.

1.21 Information on travel behaviour, travel patterns and compliance with travel policy was even less in evidence and as such not generally available to support adequate monitoring and reporting to senior management.

1.22 As a result the ability of entity management to manage and control travel expenditure to achieve more cost-effective outcomes was significantly restricted.

Administration

1.23 The Commonwealth public sector is **below recognised best practice** in several key areas of travel administration.

1.24 Areas requiring attention include more pro-active contract management with the travel service provider, and clarification and enhancement of the role of the travel manager within entities.

1.25 One systemic factor which limits the ability of agencies to achieve best practice is the current entitlement-based travel allowance system. This system, while more efficient than the 'travel advance' system it replaced, still has high inherent

costs associated with the need to process entitlements on a 'per-trip' basis. It also creates exposures when variations to travel occur after approval.

1.26 The ANAO also obtained evidence, from comparisons with the private sector and certain public sector entities, that the current system may lead to higher overall costs for accommodation and meals when compared with a reimbursement system.

Frequent Flyer Points

1.27 Effective control of frequent flyer points accumulated on official travel by public servants has, to date, been largely illusory.

1.28 Whether, and to what extent, such points are being used for official (or private travel) was not able to be reliably measured by most entities.

1.29 As a result the current prohibitions on the use of points for private purposes are ineffectual—adherence to policy has relied predominantly on the honesty and integrity of the traveller.

1.30 Where information was available in the audit, primarily anecdotal in nature, it was found that frequent flyer point redemption rates were very low in most entities. This implies at

least some *potential* for achieving additional savings on air travel costs if the points could be better managed.

1.31 As an example of the scale of the issue the points that could have been accrued last year from domestic travel were estimated to be in excess of 100 million in the twelve agencies reviewed. In one small agency it was claimed there were 10 million unused points[3] accrued.

1.32 However, a number of factors conspire to defeat better management of these points.

These include:

- the 'private' nature of loyalty point schemes;

- limited airline seat availability; and

- stringent terms and conditions on travel times and notice.

1.33 The existence of these 'limitations' can be related, to a greater or lesser extent, to the yield management and revenue objectives of the airlines, and to the objective of securing the loyalty of individual travellers.

Recommendations

1.34 The recommendations below follow from the audit findings. Each is expanded upon in the main body of the report.

1.35 In relation to the payment of travel allowance it is **recommended** Commonwealth entities:

- undertake a cost-benefit analysis of their existing processes in comparison with a reimbursement system;

- subject to the results of this analysis, as the opportunity arises, implement a reimbursement system for travel expenses based on actual costs incurred (paras 2.51 to 2.73 refer);

- implement new, or redesign existing, controls to facilitate removal of the requirement to obtain formal pre-travel approval on a per-trip basis (paras 2.88 to 2.98 refer); and

- introduce a charge card system for all frequent travellers (paras 2.99 to 2.107 refer).

1.36 In relation to the control of other direct travel costs it is **recommended** that entities:

- routinely analyse their air travel costs to determine whether any additional efficiencies can be achieved and to ensure ongoing compliance with their approved policies (paras 2.33 to 2.48 refer);

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[3] the equivalent of around 1,100 return flights from Canberra to Sydney.

- review existing contracts with travel service providers (paras 2.113 and 2.118 refer); and

- seek to establish systems, preferably in conjunction with the travel service provider and/or the loyalty scheme, which separately identify frequent flyer and other loyalty program points accumulated through official travel or other official functions (paras 2.119 to 2.149 refer).

1.37 In relation to the control framework within entities it is **recommended** that management:

- review their existing policies and procedures to ensure the latter adequately address all key aspects of travel (paras 2.7 to 2.13 refer) ;

- review the adequacy and usefulness of the travel management information available to executive management (paras 2.14 to 2.25 refer); and

- appoint or formally designate an internal position as 'travel manager' (paras 2.111 to 2.117 refer).

Part Two

Detailed Findings and Recommendations

Official Travel by Public Sector Employees

Background

2.1 This audit covered short-term travel undertaken by Commonwealth public sector employees on official business. It addressed direct travel costs such as air fares, accommodation and allowances. Ground transport costs were not specifically addressed. This audit is complemented by a Performance Audit which is addressing air travel contracting arrangements in Commonwealth agencies.

2.2 This FCA audit considered the effectiveness of systems (procedures and processes) within entities for managing direct travel expenses. It also examined the indirect costs of travel associated with processing movement requisitions and expense claims and paying invoices.

2.3 This Part expands the key findings summarised in Part 1. The findings are discussed below in terms of the above split between direct and indirect costs. Firstly, however, those findings which reflect on agencies' internal control frameworks are considered in more depth.

Getting the Fundamentals Right

2.4 All significant business processes undertaken in an agency, such as paying accounts or processing travel claims, should operate within a sound control framework.

2.5 This will help to ensure, among other things, payments are properly made; actions and decisions taken by staff are consistent with the agency's objectives and within its powers; and control procedures prescribed by executive management are in place and operating effectively.

2.6 Two critical elements of the control framework, where improvements were found to be required, are travel policy and procedures, and travel management information.

Travel Policies and Procedures

2.7 All entities subject to review had a formal travel policy.

2.8 Policy and procedure manuals were found to be adequate in the entities reviewed in as much as they related to arranging travel and processing travel claims - from obtaining approval to travel,

arranging and booking transport, through to acquitting variations to approved itineraries and paying suppliers. However, a number of areas were noted in several entities where improvement is warranted. In particular the need for more comprehensive basic policy statements was noted.

2.9　A number of entities did not make reference in their policies to:

- the travel service provider (or the reference was out of date);

- key aspects of contractual arrangements with the 'travel service provider'; or

- to 'preferred supplier' arrangements.

2.10　These omissions have the potential to jeopardise the strategic relationship with the service provider or the supplier and could weaken the leverage used to obtain favourable discounts.

2.11　In addition, almost all of the travel policies reviewed did not adequately address behavioural issues (the travel culture of the entity) such as settling travel arrangements as far as practicable in advance to maximise use of discounted airfares; seeking the lowest practical overall cost-outcome for the trip; and consideration of non-travel alternatives such as tele-conferencing.

2.12　It is **recommended** entities review their existing policies and procedures to ensure the latter adequately address all key aspects of travel.

2.13　The travel policies should be made as simple as possible and the procedures should be clear, concise and up to date. Both should be promulgated to all staff and the travel service provider and preferably be available on-line where such access exists.

Management Information

2.14　*'If you can't measure it you can't manage it'*—this saying is particularly salient to travel management information.

2.15　Capturing actual travel costs in a general ledger is only a sub-set of the total information required for an entity to effectively manage its travel spend.

2.16　Ideally, travel costs need to be dissected into components to provide data that would be useful:

- when negotiating with the travel service provider and suppliers of transport or accommodation;

- for monitoring the service provider's performance against the contracts;

- for monitoring compliance of employees with the approved travel policy; and

- for benchmarking travel performance.

2.17 Such data should separate international and domestic travel; and categorise expenditure between fares, accommodation, meals and incidentals, and between business units, programs, divisions, etc.

2.18 In addition to costs, other key data required for effective management would provide information on travel behaviours, such as the elapsed time between booking airfares and date of travel, the number of changes made to itineraries before travel; and the use made of the preferred supplier arrangement.

2.19 In the entities subject to review the audit found the extent and nature of travel management information available to be limited and generally simplistic.

2.20 In particular:

- there was little or no dissection of total travel costs (although the current system militates against this in relation to accommodation and meal costs);

- while there was more detailed information available on air travel expenses and savings made, through reports supplied by the travel service provider, questions about the reliability of some of this data were unresolved in some entities at the time of the audit.

It was also difficult, and in some cases impossible, to obtain reliable dissections of expenditure for international and domestic travel on a sector (or route) basis; and

- there was almost a complete absence of useful behavioural information.

2.21 Consequently the use able to be made of the available travel management information by executive management was found to be limited in the entities reviewed. However, the lack of useful travel management information in these entities also reflects the general lack of attention paid to this area by executive management.

2.22 It is **recommended** entities review the adequacy and usefulness of the travel management information available to executive management to facilitate monitoring of compliance with the approved travel policy and to permit effective cost control.

2.23 The review should consider the extent to which cost information can be, and needs to be, dissected to permit effective monitoring below entity level and also to facilitate contract negotiations with travel service providers and suppliers.

2.24 It should also consider the type of non-financial information required to monitor compliance with the entity's travel policy and to monitor travel behaviour.

2.25 Finally, the review should address the information required to be able to develop useful performance indicators, such as the average cost per sector; the use of discounted airfares; and the actual or potential savings achieved on full fares and other tariffs. This would, among other advantages, indicate the level of effort that is justified for 'investing' in travel re-engineering and also indicate areas to target for future savings.

Achieving Cost-Effective Travel (Direct Costs)

2.26 The major direct costs associated with travel relate to transport, accommodation and meals. An analysis of expenses incurred by the entities in this audit indicated there is approximately a one-to-one ratio between transport costs (principally airfares) and all other costs.

2.27 This one-to-one ratio is also found to be the case in the private sector. In case studies and reviews of that sector, airfares typically account for around 45 percent of the total of all direct travel and entertainment costs.

2.28 The Commonwealth public sector (excluding Government Business Enterprises such as Telstra and Australia Post) is estimated by the ANAO to have spent **approximately** $300 million on air travel in the last year.

2.29 This estimate is consistent with the estimate in the Performance Audit on air travel which considered 'core' government (defined to be agencies subject to the *Financial Management and Accountability Act 1997*[4]).

2.30 The air travel figure for the latter agencies alone, which are a sub-set of all Commonwealth entities, has been estimated to be in the vicinity of $200 million per annum.

2.31 Applying the ratio of air travel costs to total costs referred to previously, the total of all direct travel costs for the wider Commonwealth Government sector is therefore likely to approach $600 million annually—although it is recognised that part of the air travel expenditure estimate does not relate to short-term official travel and the actual ratio will therefore be less than 2 to1.

2.32 A more reliable estimate of total travel costs is not currently available due, in part, to the limitations in management information discussed above. However, travel industry representatives have confirmed that the air travel estimate of $300 million for the wider Commonwealth is likely to be near the mark.

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[4] commences operation on 1 January 1998.

Transport Costs (Airfares)

2.33 As mentioned previously a separate Performance Audit is being carried out in relation to this component of travel costs.

2.34 This FCA audit also considered how well each entity managed its air travel costs within the terms of the contract established with their 'travel service provider'[5].

2.35 The audit found that entities with significant air travel requirements have used their financial leverage to obtain reasonable 'point of sale' rebates (discounts) on airfares. However there remains some scope to obtain additional rebates at the point of sale, consistent with those obtained by better practice entities.

2.36 Further costs savings could also be realised in a number of entities by maximising use of discounted airfares currently available on advanced-purchase and group travel fares. The discounts available on such fare types are in excess of those negotiated by most entities as 'point of sale' discounts.

2.37 The audit noted only some of the entities reviewed actively encouraged or mandated the use of discounted air fare types.

2.38 In a number of entities the use of discounted domestic fares had declined over the past 18 months. This may be due in part to the increasing restrictions imposed on such fare types by the airlines over this period.

2.39 It was also observed in a number of entities that no justification was provided, nor required, when full fare seats were utilised where discounted seats were available.

2.40 In one entity a misunderstanding of the conditions attaching to discounted fare types led to a prohibition on their use except where there was little risk of the booking being cancelled.

2.41 This is at odds with the fact that advance purchase fare types are currently able to be re-booked, re-routed and remain open for use by the ticket holder for twelve months. Fares attracting a discount can also be upgraded to the cost of a full fare ticket, sometimes at a higher class, if itinerary changes are made to the date and time of travel which breach the stipulated minimum periods of notice required for advance purchase fares.

2.42 Given these booking options exist on most discounted fare types, the ANAO considers that encouraging or mandating their use would result in a low risk that the total actual costs of airfares would exceed those costs that would have

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[5] There are four 'travel service providers' to the Commonwealth - American Express, Carlson Wagonlit, Ansett Australia and Qantas Airways.

been incurred by using the normal full-fare price.

2.43 It is considered there is a much higher probability that actual costs will be significantly below the potential full-fare costs.

2.44 The ability to book far enough in advance to obtain discounts and to minimise or eliminate the need for variations to itineraries before travel will of course depend to some extent on the business needs of each entity. However it is appropriate for travel expenditure decisions, as with all other decisions, to be made on a risk management basis.

2.45 A benchmarking study undertaken for this audit confirmed that the entities included in the audit had the potential to achieve further savings on their domestic airfares of **at least** 4 percent each year.

2.46 While the results of the benchmarking analysis are strictly applicable only to those entities included in the study, it is likely that additional savings of this order could be realised across the public sector.

2.47 It is therefore estimated the Commonwealth could achieve ongoing savings of at least $9 million[6] each year through more effective purchasing of air travel.

2.48 It is **recommended** all entities routinely analyse their air travel costs to determine whether any additional efficiencies can be achieved and to ensure ongoing compliance with their approved policies.

2.49 Areas to which agencies should pay particular attention when reviewing their air travel costs include:

- the overall savings available from point of sale rebates, 'corporate' discounts, and prepayment or prompt payment discounts that can be negotiated with either their travel service provider or, directly with the airlines;

- the potential for additional discounts/rebates through strengthening a preferred supplier arrangement with a particular airline;

- the extent to which the business needs of the agency can be moderated to provide more certainty in travel permitting greater use of advanced-purchase and group travel airfares; and

- how the travel behaviour of employees can be modified, including promoting early booking of travel, early advice of changes to travel, the use of discounted airfares and

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[6] This figure is based on the domestic component of the $300 million estimate for airfares for the Commonwealth public sector. The ratio of

domestic airfares to total airfare costs is estimated to be around 3:4 (ie $225 million).

minimising the frequency of changes to travel itineraries before travel.

2.50 The Performance Audit, previously referred to, treats the issue of airfare costs in much greater detail. It is expected to be tabled in December.

Accommodation, Meal and Other Direct Travel Costs

2.51 The payment of allowances to compensate for costs incurred while on official travel is a condition of service for public sector employees.

2.52 Conditions relating to travel by Commonwealth public servants not in the Senior Executive Service, are contained in the General Employment Conditions Award 1995 (GECA) and the Continuous Improvement in the APS Enterprise Agreement 1995-96. Similar terms and conditions apply to the Senior Executive Service and are included in Public Service Determination 1983/10.

2.53 Some of the key features of the current arrangements are:

- an allowance is payable in respect of accommodation, meals and incidental expenses for an employee who undertakes travel on official business and is required to be absent overnight (*GECA 19.5.2*);

- the officer travelling is entitled to be paid the allowance **prior to undertaking travel** (*GECA 19.5.3*);

- once received the allowance becomes private money (para 14.7 of *Finance Direction 14B*);

- where the actual travel itinerary differs from planned travel the traveller must provide details of the variations (*Finance Direction 14B);*

- the travelling allowance payable is calculated based on separate amounts for accommodation, meals and incidentals (*APS Continuous Improvement Agreement*);

- the traveller is not required to pay back any part, or all, of the allowance if any of the actual costs incurred are each less than the individual components of the allowance or if the total of costs actually incurred is less than the allowance paid; and

- the traveller may be required to pay back part or all of the allowance only if there is a variation to the approved itinerary which results in a different total allowance entitlement.

2.54 The benefits of an entitlement-based allowance system include:

- it reduces the possibility of a traveller being out of pocket;

- it provides certainty in respect of what are considered to be 'reasonable' costs for accommodation, meals and incidentals;

- it provides greater flexibility for the traveller; and

- it generally sets a maximum cost of travel for the agency.

2.55 The system is also more efficient than the advance-based system it replaced which required full acquittal of any allowance paid. However, there are risks inherent in the present system, including:

- the creation of a culture where minimising the cost of travel to the entity may not be a primary concern of the traveller; and

- a perception, both within the public sector and by the public, that the allowance entitlement system can be, and is, abused; and that it provides unfair and unnecessary 'perks'.

2.56 The risk of abuse is able to be addressed at the entity level through more effective approval and verification processes. However, the effectiveness of existing controls has been found in some entities to be questionable, particularly in relation to the detection of variations to approved travel itineraries.

2.57 Recent events have highlighted and confirmed the public perception that the system is open to abuse. While this, in part, arises from a lack of knowledge about the entitlement system, it has created an environment where the integrity of the public sector has been subject to greater questioning.

2.58 In addition to the above concerns, the current entitlement system impacts directly on the ability of agencies to effectively manage travel costs.

2.59 Under such a system it is difficult for the management information systems within entities to identify and separate out actual accommodation, meal and incidental expenses.

2.60 This lack of data makes it difficult for entities to apply the same degree of leverage with suppliers of accommodation as that applied to airlines to obtain discounted airfares.

2.61 An entity that can reliably determine the number of bed-nights it buys in a particular location and that can back this up with cost information is in a much better position to negotiate favourable room rates with hotel/motel chains. This should lead to lower overall travel accommodation costs for these entities.

2.62 Setting aside the issue of discounted room rates, the audit also found direct evidence that the

entitlement-based allowance system leads to higher accommodation costs when compared to a reimbursement system.

2.63   One entity included in the audit, not subject to the GECA, has introduced a reimbursement-based, actual cost system. In a study based on a sample of trips, savings of 10% were realised in accommodation costs for domestic travel when compared to the amount that would have been paid out in accommodation allowances.

2.64   A similar finding applied to meal allowances. The experience of the agency was that actual meal costs were 32 percent less than those that would have been incurred under an entitlement-based, allowance system.

2.65   A significant proportion of the savings achieved for meal costs related to the existing entitlement to be paid an allowance for same day travel. Presently, under GECA, if a public servant is away for a single day (ie no overnight stay) and their absence is in excess of 10 hours, they are entitled to be paid an allowance (*GECA 19.5.5*).

2.66   The study referred to above found that actual costs claimed for meals and incidentals on same day trips were either nil or well below the level of the current allowance.

2.67   It is also interesting to note that the Australian Taxation Office has ruled that the one-day, part-day

travel allowance is now subject to full substantiation rules[7]. This indicates that the cost of meals on single day trips are more likely to be viewed as a private expense.

2.68   The overall cost savings achieved by the agency referred to above, on accommodation, meals and incidentals expenses were, on the sample of trips examined, computed to be 15 percent when compared to the expense that would have been incurred had the allowance system continued to operate.

2.69   If this experience is indicative of a 'norm', when applied to the total Commonwealth expenditure on travel allowances, which has been estimated to be around $300 million, the ongoing savings to the Commonwealth from the introduction of a reimbursement system could be as much as $45 million annually. The extent to which the experience of the agency is likely to be a 'norm' is, of course, not known at this time.

2.70   It is **recommended** therefore that Commonwealth entities:

- first undertake a cost-benefit analysis of their existing system in comparison with a reimbursement system; and

- subject to the results of this analysis, as the opportunity arises, implement a

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[7] Taxation Ruling TR 96/21 refers.

reimbursement system for travel expenses based on actual costs incurred.

2.71 For the purposes of the *Workplace Relations Act 1995* the payment of travel allowances are an 'allowable matter' under GECA. The current terms and conditions in GECA will continue to apply after 1 July 1998, unless varied by a Certified Agreement or Australian Workplace Agreement.

2.72 The PS Determinations relating to SES travel will lapse after twelve months if the new *Public Service Bill 1997,* presently before Parliament, is enacted in its current form. In addition, from the date of operation of the new Public Service Act, entity heads will have the power to make their own determinations in relation to travel entitlements, amongst other matters. However, such determinations will only be effective to the extent they are consistent with GECA or any workplace agreement.

2.73 The benefits likely to flow from a reimbursement system extend beyond the cost-savings referred to above. It will permit more detailed and accurate capture of actual cost data allowing improved management control. Perhaps more importantly it will address those areas of public concern and perception canvassed previously.

Efficient and Effective Travel Administration

2.74 Any analysis of the total cost of travel to an entity needs to consider the 'indirect' costs relating to its administration.

2.75 These include the overheads associated with negotiating travel contracts, collating and disseminating travel management information, and preparing and updating travel policies and procedures.

2.76 They also include costs, particularly staff costs, associated with arranging, approving and acquitting travel, paying suppliers and updating management and financial information systems.

2.77 To achieve cost-effective administration the objective is to minimise and simplify the number (and hence cost) of processes while maintaining an appropriate level of control. This can be best effected under a risk management framework.

Processing Travel

2.78 The current system for processing travel claims was developed from the Block Efficiency Scrutinies undertaken in the late 1980s. The reforms introduced then sought to eliminate the non-value added processes.

2.79 The final recommendations arising from the Block review were made in the context of the entitlement-based, allowance system currently in force.

2.80 This audit found that the introduction of a reimbursement-based system has the potential to result in cost-savings, in addition to those direct cost savings described above, through more efficient administration of travel.

2.81 The key features of such systems, used by recognised better-practice private sector organisations, include:

- elimination of formal, documented pre-travel approvals per trip (empowering staff to make travel decisions commensurate with their management responsibilities);

- mandating the use of a charge card[8] for transportation and accommodation costs and for meals and incidentals where possible;

- providing a limited cash withdrawal facility on the charge cards through ATMs, for out-of-pocket expenses;

- monthly reimbursement of travel expenses to coincide with the billing cycle of the third party credit provider;

- automation of the expense reimbursement process; and

- integration of expense reimbursement information with the in-house travel management and financial management systems.

2.82   An audit of travel administration[9] undertaken by the United States General Accounting Office (GAO), the ANAO's equivalent, found travel administration costs to be as high as 30 percent of direct travel costs in Federal agencies employing the allowance system.

2.83   The 'Block' review in 1987 estimated indirect costs in the Australian context to be of the order of 15 percent of direct costs under the 'old' allowance system. Whereas the initiatives arising from that review were aimed at reducing this ratio to less than 5 percent, not all were implemented (refer Appendix 2).

2.84   It is likely therefore that administration costs in Commonwealth entities average somewhere between the 5 percent target set by the Block review and 15 percent. It is considered by the ANAO they are most likely to exceed 10 percent.

2.85   A recent American Express survey of business travel indicated that the private sector norm is between 8 percent and 10 percent of direct travel costs. This sector almost exclusively uses a reimbursement system.

2.86   Better practice data obtained by the GAO in 1995 indicated that a benchmark figure of 6 percent is achievable for reimbursement systems. In fact the 'best-in-class' private sector organisations have reduced this to below 3 percent, which is below the implied target levels used by the Block review for the current entitlement system. These 'best-in-class' U.S. organisations have embraced all of

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8 a 'charge card' differs from a credit card. Payment of the outstanding monthly balance is required in full.
9 '*Travel Process Re-engineering*', US GAO, March 1995.

the better practice features described above.

2.87   The following discussion outlines the steps required for entities to move to these better practices in the Australian context.

Elimination of Per-trip Approval

2.88   The present system requires documented pre-trip approval and authorisation of expenditure for **each** journey.

2.89   The principal benefit arising from removal of this requirement, in part or wholly, is that it eliminates the need for processing movement requisitions for each trip.

2.90   It also complements the elimination of prepaid travel allowances. As a result, the time required to document travel and to obtain and document approval is eliminated from the processing chain.

2.91   To implement this better-practice it is necessary for entities subject to the current Audit Act (and new FMA legislation) to consider how they could continue to meet the requirement to obtain authorisation to expend public moneys prior to the liability being incurred (F*inance Regulation 44A refers*).

2.92   It is also necessary to consider whether removing specific trip approvals will affect the traveller's rights to compensation for accident, injury or loss while travelling on official business.

2.93   One approach may be to delegate limited authority to 'self-approve' travel on the basis of the level of officer travelling, their program responsibilities, and the nature of the travel. It may be

considered desirable, at least initially, to require staff instead to obtain informal approval from, or acknowledgment by, their supervisor of the proposed travel.

2.94   As an example, a three-tier system could be introduced initially which provides for:

- documented pre-trip approval by a supervisor for each trip involving overseas travel (travel to New Zealand and perhaps to South-East Asia may for this purpose be defined as domestic); and for all other trips requiring expenditure above a set limit;

- limited open authorisations - elimination of pre-trip approvals on a per trip basis for all other domestic trips or trips to certain locations (eg Eastern seaboard or flight duration of less than 5 hours); and

- unlimited open authorisations - eliminate the need for documented, pre-trip approvals per trip for any type of travel for (say) entity heads and senior executives.

2.95   General authorisations to spend travel moneys could be provided at the beginning of each year based on approved budgets.

2.96   A key to maintaining effective control under such an approach is a rigorous budgetary system which separately identifies travel

expenditure. Where practical, executive management approval, and ongoing monitoring, of the annual travel program, particularly in relation to overseas travel, would also assist control.

2.97 The recommended approach also requires strong expense reimbursement controls and an effective travel management information system to quickly detect and flag any possible abuses.

2.98 It is **recommended** entities progressively implement new, or redesign existing, controls to facilitate removal of the requirement to obtain formal, documented pre-travel approval on a per-trip basis. This could be piloted, with frequent travellers initially, to ensure that compliance with the travel policy is not adversely affected.

The Use of Charge Cards

2.99 The use of a charge card system naturally complements the earlier recommendation for introduction of a reimbursement system based on actual costs. In fact, the two are closely inter-related and each alone would not operate as efficiently or effectively.

2.100 It has been government policy, as reflected in GECA, that public servants travelling on official business should not to be unduly 'out-of-pocket'. The current entitlement-based allowance system gives effect to this policy.

2.101 A charge card system would ensure this policy is not compromised.

2.102 Use of such a system may also incorporate limited access to cash from Automatic Teller Machines to meet expenses not able to be covered by charge card, such as bus fares and bridge tolls; and for use where merchants do not accept charge cards.

2.103 The administrative benefits flowing from such a system include the fact that a separate allowance need not be calculated and paid for each trip, which is in contrast with the current entitlement-based system. It also eliminates the possibility of double processing in the situation where a pre-trip allowance is paid and subsequently a post-travel reimbursement for additional costs is made or recovery of the allowance is sought due to itinerary changes.

2.104 It is **recommended** Commonwealth entities progressively introduce an employer-sponsored charge card system for all frequent travellers.

2.105 The features of such a system are discussed in the better practice model in Appendix 1 of this report. In outline they encompass payment for card membership by the employer; use of a joint liability card issued in the name of each traveller; and restricted access to cash through Automated Teller Machines.

2.106 Legal advice obtained by the ANAO in this regard indicated that it is within the Minister for Finance's power to permit the use of such cards in so much as they constitute the provision of goods and services on credit and for obtaining cash.

2.107 Statutory authorities which have regulatory restrictions on their borrowing powers would need to examine their enabling legislation and possibly seek an amendment prior to implementing this recommendation.

2.108 It is considered that implementation of the above recommendations would enable public sector entities to make significant progress toward, and possibly beyond, the 6 percent processing cost benchmark referred to previously.

2.109 In this case entities have the potential to realise additional savings, probably in excess of 5 percent of their direct travel costs. Based on the earlier estimate of $600 million this would translate into ongoing savings of at least $30 million each year Commonwealth-wide.

2.110 When combined with the direct cost savings likely to be realised through the use of a reimbursement-based, actual cost system the total, ongoing savings to Commonwealth entities could, over time, be as high as $75 million each year.

Better Management

2.111 It was noted during the audit that a common feature of those entities which had better quality policies and procedures, better management information, and a better working relationship with their travel service provider was the existence of a designated 'travel manager' position.

2.112 The role of an effective travel manager would extend beyond the management of the contract with the travel service provider—although this is certainly important in itself.

2.113 In this regard, in a number of entities, it was noted that certain services specified in the contracts with travel service providers were not being delivered at the agreed standard. It was also noted in one entity that particular discounts and other cost savings due were not being taken.

2.114 The evidence that contracts with service providers are not always being effectively managed adds weight to the justification for a dedicated travel manager.

2.115 In addition to contract management, the travel manager position would also be responsible for maintaining the currency of travel policies and procedures and ensuring

they are effectively promulgated to all staff; for collating management information; for monitoring and reporting on compliance with the approved travel policy; and for monitoring and reporting on key performance measures.

2.116 It is **recommended** those entities that have not already done so consider designating a position as travel manager.

2.117 The occupant of this position would ideally be familiar with the travel industry, in particular with air travel conditions. Their status would be at least commensurate with the relative importance of the travel expenditure of an entity and the size of the potential savings to be made through re-engineering travel.

2.118 It is further **recommended** that entities routinely review existing contracts with their travel service providers. This review should, in part, establish whether the service providers are satisfactorily meeting their commitments under those contracts.

Frequent Flyer Points

2.119 The audit considered the use made by entities of frequent flyer points accumulated on official travel.

2.120 Current Public Service Regulations[10] prohibit the use of such points for private purposes .

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[10] PS Reg. 37(1)

2.121 Their use for official travel is a potential source of additional savings for any entity which can effectively manage these points.

2.122 There are therefore two key issues to address when considering the use of these points—control and management; control from the point of view of ensuring that the points are not misused; and management from the point of view of ensuring that the maximum possible number of points are redeemed for official travel.

2.123 The audit found that, to date, **Commonwealth entities have had limited success in controlling and managing these points**.

2.124 However, in both respects, they are not alone, either when compared to other levels of government[11] or indeed to the private sector.

2.125 The private sector has found control and management of these points to be so intractable that it, for the most part, allows its employees to utilise them for private purposes. The private use of these points is also viewed generally in the private sector as a form of 'bonus' for employees to compensate them for having to be away from home and as a small recognition for travel

undertaken out of normal business hours.

2.126 A survey on this matter[12] indicated that approximately 85 percent of private sector corporations have adopted this approach, a marginal increase from a previous study.

2.127 Consideration of the nature of these points provides one indication as to why the private sector has taken this tack.

2.128 Firstly, and most importantly, the points accrued are private in nature—they accrue only to the cardholder (or their family) and may only be used by the cardholder (or family).

2.129 This is a contractual condition of scheme membership and has been confirmed in a recent Federal Court Ruling[13] and in separate legal advice obtained by the ANAO for this audit.

2.130 Confidentiality and privacy concerns are the reason that the loyalty schemes cannot directly provide employers with information on accumulated points and usage of these points by their employees.

2.131 To overcome this problem an entity would need to give a direction to its employees to provide copies of frequent flyer statements or to have

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[11] Report No. 7, September 1995 '*Public Sector Travel*', Office of the Auditor General—Western Australia; Special Report No. 17 '*Air Travel*', Tasmanian Audit Office, April 1997 refer.

[12] '*Survey of Business Travel Management*', American Express, 1997.
[13] Payne v CofT (1995), 96 ATC 4407.

them sent directly to the entity's travel manager.

2.132 The ANAO has obtained legal advice that such a direction may lawfully be made by the Chief Executive of a Commonwealth entity and that employees would need to comply with this direction.

2.133 However, to overcome privacy issues and to establish effective control, it may be necessary to quarantine points accumulated and/or used by the employee in relation to private travel.

2.134 As the present frequent flyer schemes cannot readily distinguish between points earned from official expenditures and points earned from private expenditures, this would necessitate establishing a separate system to achieve this.

2.135 One possibility is that an entity pays for membership of the frequent flyer scheme (either directly or as part of their lounge membership) and instructs their employees only to use this membership for official travel. This would however prevent these employees from accruing private points from their private travel, unless the scheme was prepared to issue a separate 'private' membership.

2.136 It is understood that certain Commonwealth entities had, in the past, been able to negotiate such an arrangement. However, it is now

understood, based on discussions with airline representatives, that this option will no longer be made available.

2.137 If an entity was able to establish a system that effectively separates private and official points and was also able to obtain access to the frequent flyer statements of employees, which show use of official points, this would provide the basis for effective control. The entity would be able to identify and monitor use of officially accrued points and thereby detect any abuses.

2.138 However, the above arrangements will inevitably result in an additional administration cost. Such costs, which could be significant, may be ameliorated to some extent by targeted monitoring of those frequent travellers who have accumulated a significant number of points.

2.139 While an entity may be able to better control the (mis-)use of points, it does not necessarily follow they will be able to better manage these points under such an arrangement.

2.140 Airlines place a number of restrictions on redemption of these points which make it difficult for the business traveller to readily avail themselves of the potential savings.

2.141 As mentioned above, the points are non-transferable, so that while in total the points accrued by

the employees of an entity may appear significant; only a proportion of travellers will have accrued sufficient points to obtain free air travel.

2.142 An alternative use of points, becoming more prevalent, is to purchase a lower class airfare and utilise the points to upgrade the class of travel. However, this is an option only for those employees entitled to the higher class of travel.

2.143 In addition to the problems associated with the non-transferability of points, the number of airline seats actually available for frequent flyer redemption on most flights is limited, and on certain flights, such as in peak periods, is nil.

2.144 This means that the more entities attempt to manage their points and redeem seats the less chance they will have of being able to find a seat, particularly on the busy routes where most travel, by definition, occurs.

2.145 Such a 'Catch-22' situation inevitably means there will be a saturation point where it will no longer be cost-effective for entities to pro-actively manage the redemption of these points.

2.146 In view of the above analysis it is **recommended** entities seek to establish systems which separately identify loyalty program points accumulated through official travel or other official functions.

2.147 As a counterpoint to the above discussion, the ANAO has also obtained legal advice that, given their private nature, an entity cannot direct its staff to either join a loyalty scheme or compel them to actually use the points accrued for official travel. Efforts to improve redemption rates therefore need to go beyond simply issuing instructions to staff.

2.148 This requires consideration of the pre-conditions that will encourage and facilitate redemption of such points.

2.149 It is those factors, discussed previously, which impact on the travel culture of an entity; such as the level and degree of budgetary discipline applied to travel costs; and the empowerment of staff to make travel decisions; which are more likely to lead to improved redemption rates.

Part Three

Appendix

Appendix 1

Better Practice Guide

This appendix is based on extracts from the better practice guide travel handbook produced as part of this audit.

Setting The Travel Culture

"Travel is not an end in itself—it is undertaken to fulfil program objectives."

Management's attitude and operating philosophy in relation to the travel undertaken by employees is a major determinant of the travel culture of an entity. In turn these attitudes and styles of management are based on underlying assumptions or paradigms - these are the embarkation point for reform of travel.

It is likely that a system premised on prevention of any possible abuse, by treating all travellers as potential abusers, will be inherently more costly to maintain than one which assumes that most travellers are honest and which seeks only to detect the few percent (or less) of 'dishonest' travellers.

Entities seeking to reform travel need to adopt a pragmatic, risk-managed approach to control of travel expenditures while at the same time seeking to influence positively the behaviour of their travellers. Such an approach will encompass a shift away from rules of entitlement and administration to rules, or principles, of appropriate behaviour.

Better practice organisations empower their staff to make travel decisions commensurate with their management responsibilities and accountabilities.

The existence of a travel policy; the quality of travel management information and the use to which this is put; the existence of mechanisms to monitor and enforce compliance with the travel policy; and the existence of a travel manager and their status in the entity - all are clear sign-posts to employees of management's attitude and philosophy. They are the foundation of better program outcomes through improved resource-use efficiencies.

Travel Policies and Procedures

**"Develop, communicate and enforce a formal travel policy
encompassing all aspects of the travel process".**

Controlling travel expenditure begins with an effective travel policy. To be
effective the policy must:

- **have the total support and commitment of executive management.**

  *This commitment can be demonstrated in practice through the inclusion
  of a broad statement indicating management support. In an FMA agency
  the policy could be provided additional authority by being part of, or
  supplementary to, the Chief Executive Instructions.*

- **remain current** and reflect the terms of conditions of any contractual
  arrangements with suppliers or travel service providers.

  *Travel policies should be reviewed at least once annually to detect whether any
  changes in the travel industry (eg new fare or ticketing arrangements) impact on
  the current policy. To further assist in maintaining its currency the policies
  should be given an 'end date'—this will usually coincide with the end of the
  period of the current travel service contract (where one exists). This end date
  should be stated in the policy.*

- **be promulgated** to key stakeholders including management, staff and
  the service provider.

  *On-line access to the travel policy by staff and the service provider is
  the most desirable approach. Electronic storage facilitates changes and
  timely advice of these changes. It may be desirable to also produce a
  consolidated hard-copy of the policy in booklet form.*

Allocating Responsibility

**"Assign a corporate travel manager to oversee travel policy
administration and to manage contracts with
the service provider and preferred suppliers."**

What role is there for a 'centralised' travel manager position in a public sector
environment which encourages devolution of authority?

One way this question may be answered is by indicating what their role should
not be. If an entity is to change its travel culture it must extend the
responsibility of its line management for decision-making and their

accountability for outcomes to include program-support costs. This will be the case in particular where travel is 'mission-critical' to achieving program objectives.

Those supervisors responsible for program delivery should be clearly identified as the 'owners' of the entity's travel process. It is by empowering supervisors to carry out travel policies and by entrusting employees to travel in the most efficient and effective manner that an entity can eliminate costly administrative processes.

An entity should resist the temptation to centralise control and ownership in a travel manager position - they should instead seek to establish a position which supports travellers and decisions-makers by providing the necessary information on which to base decisions and by establishing and monitoring contracts with service providers and suppliers.

Traditionally the travel 'manager' in the public sector has been regarded as a glorified travel clerk or has limited activity to contract negotiation and management as part of day-to-day duties in a procurement cell.

For entities with a significant travel spend, and therefore the opportunity to make significant savings, it is appropriate to consider establishing a designated position of travel manager with some or all of the following responsibilities:

- negotiating contracts with suppliers and service providers;

- managing contractual relationships and monitoring performance;

- developing, monitoring, enforcing and interpreting travel policy;

- developing a travel management and traveller profile databases;

- producing and analysing management reports;

- monitoring travel industry trends and changes;

- fleet management;

- administration of corporate charge card program; and

- frequent flyer point management

Managing Information

"Develop an integrated information management system for collecting, tracking, processing and disseminating travel spend and behavioural data."

For entities which have a significant travel spend it will be worthwhile investing in some form of in-house automated 'travel management system'.

These may be rudimentary systems used to record travel details and the payment of entitlements to employees either pre-travel, or as part of expense report acquittal and processing, post-travel.

The more sophisticated systems beginning to emerge offer significantly more functionality including on-line booking facilities; integration of the travel policy as part of the business rules of the systems; and automated expense processing and authorisation. They may also have some internal management reporting functionality or the ability to export data to other software programs for this analysis.

Another key source of data will be the travel service provider. To reduce the cost of management reporting one aim should be to capture as much as possible of an entity's total travel expenditure in one source. For the travel service provider to be this source, it is important that all staff use the service provider to book all travel (ie leakage from the contract is minimised), and, as well, to use the service provider to book all air and ground transport requirements and accommodation.

The source which has the greatest potential to capture almost the entire travel spend of an entity (transport, accommodation and meals) is the corporate charge card.

The features and implementation of such a card are discussed in greater depth later in this guide.

The combination of the use of the card for all expenditure, with the provision of electronic data from the card supplier would greatly facilitate the efficient extraction, summarisation and reporting of useful information at various levels of detail.

Strategic Alliances

**"Control purchasing by consolidating travel management
services and using preferred vendors."**

The trend toward centralisation of processing, as advances in technology permit, is a feature of travel management in better practice organisations.

The features of this approach typically include a centrally controlled and maintained travel management system; a central travel management group to oversee travel and establish, monitor and enforce travel policies; and a single organisational unit for processing supplier payments and expense reimbursements.

This form of centralisation, being technology driven, should not be confused with the generally accepted approach to devolution of authority, nor should it be construed as a call to the past to reinstate travel clerks and centralise booking of travel.

One attraction of centralising processing of travel arrangements is that it has the potential to make travel policy enforcement more effective across an organisation. It also maximises the opportunity for staff, who specialise in travel, to obtain the best airfare. However, this benefit can be realised where the booking process is out-sourced to a travel service provider. The travel service provider provides industry expertise. The extent to which they can monitor and enforce compliance with an entity's travel policy is a matter for consideration when negotiating the contract with the service provider.

It also maximises the opportunity for staff, who specialise in travel, to obtain the best airfare. However, this benefit can also be realised where the booking process is out-sourced to a travel service provider. The travel service provider provides industry expertise. The extent to which they can monitor and enforce compliance with an entity's travel policy is a matter for consideration when negotiating the contract with the service provider.

The processing efficiencies to be achieved by divesting the routine, low value processing tasks to an out-sourced service provider were recognised as part of the Block Efficiency Scrutinies in the late 1980s. Most Commonwealth entities now use a single service provider for arranging and booking travel.

The extent to which the service provider can add greater value to an entity by, for example, the provision of management information, assisting in development of travel policies and procedures, negotiating on behalf of the entity or advising the entity in its direct negotiations with suppliers; will largely

be determined by the quality of the relationship between the service provider and the entity.

Simplified Administration

> **"Mandate use of a multi-purpose, employer-sponsored charge card for all travel-related expenditure."**

Simplification, streamlining and automation are the catch words of process re-engineering. When looking at leading, better practice organisations in travel administration, we see the following common elements repeated:

- empower staff to decide when travel is necessary—staff are not required to obtain supervisory approval prior to travel;

- eliminate formal front-end authorisation and documentation of travel—in concert with the above approach, staff are not required to complete an authority for travel or seek specific approval to commit expenditure for each trip. This could be implemented by providing a series of formal open and restricted authorisations to staff. The extent to which it is implemented will also depend on the strength of the budgetary control process and the controls over the post-travel certification process;

- mandate the use of a corporate charge card—frequent travellers are required to use corporate cards.

The use of a 'corporate' charge card is the key to more efficient administration. Key features of the use of the card include:

- it is issued to all frequent travellers—the US federal government defines a frequent traveller as someone who will travel more than twice in a year. In the US the 'travel card' was introduced in 1989 and there are now over 1.4 million cards on issue for Federal employees;

- it is used for all expenditure—staff use their card to purchase air tickets, through the travel service provider, to pay for accommodation and for meals, where practical;

- a cash facility—access to cash is provided through Automated Teller Machines, generally with daily and monthly limits;

- joint liability—the card is 'sponsored' by the employer (a corporate card) but the liability of the employer for charges made to the card is limited to official travel;

- monthly payment—unlike credit cards, the balance owing at the end of each month must be paid in full.

The use of a charge card overcomes the need to pay an up-front entitlement. This complements the move to dispensing with pre-trip documentation.

Other features of a reimbursement system, based on the use of a charge card, and aimed at simplifying administration and lowering costs could include:

- establishing a lower limit for substantiation of expenses below which receipts are not required (the U.S. uses $75 based on I.R.S limits);

- giving clear guidance on what constitutes a receipt for this purpose (the ATO substantiation rules could be adopted for this);

- requiring staff to retain receipts for a predetermined period (the card statement being the 'primary' source for travel expense claims);

- implementing a random audit process after reimbursement to vouch actual receipts;

- paying the card provider for official expenses in one consolidated monthly payment for all employees, by direct credit; and

- paying employees by direct credit for all other official expenditure incurred directly by them;

Automation

"Fully automate travel booking, approval and expense processing."

Emerging opportunities for greater automation in arranging, booking and approving travel and in expense report processing provide a significant avenue for cost reduction.

On-line air travel booking tools are becoming more commonplace, particularly with the marked increase of services provided through the Internet.

Tools which permit real-time access to reservation data and which permit an entity to highlight its own travel policy or, better still, which only display flights that meet all travel policy requirements are benchmarks against which such systems should be measured.

A reimbursement-based system is likely to result in lower direct travel costs when compared to the current entitlement system. However, it has the potential to be at least as costly to administer, if not more so, than the current

entitlement system. Taking advantage of opportunities for automation will avoid this result.

One major process to consider is the completion and submission of expense reports by the traveller. This could take up considerable employee time, creating an 'opportunity' cost, and could also lead to undue delays in cycle times to process, approve and pay the claim.

The features of an automated system, which should overcome these problems, include:

- electronic forms (not simply spreadsheets), preferably pre-populated with expense data from charge card transactions;

- 'built-in' data completeness, accuracy and other integrity tests;

- integration with travel policy to highlight departures and seek explanations; and

- electronic transmission to, and approval by, a supervisor, and then to accounts area.

The extent to which the data from the expense report processing can integrate or interface with an entity's financial management information system will also impact on the efficiency of administration.

Appendix 2

The 'Block' System

The Travel Efficiency Scrutiny was undertaken in 1987. Changes to the travel allowance system and air travel arrangements arising from this review were introduced on 1 January 1988.

The following table summarises the key recommendations of that scrutiny and tracks their implementation.

Recommended Initiative	Savings	Implementation
Appoint travel agents to realise market place opportunities for discounted airfares and provision of travel management support.	Projected:- $8 million (7% of airfares) Realised:- Yes	Overtaken by BG83 - entities now use travel service providers to book commercial transport and for some support. Demonstrated savings include achieving rebates and other discounts in excess of levels provided for in BG83.
Negotiate accommodation packages to realise market place opportunities for discounted rates, streamline accounting and restructure travel allowance.	Projected:- $10 million (22% of accommodation costs) Realised:- No	Not implemented. Whereas many hotel/motel chains offer 'government' rates, entities have insufficient data to be able to effectively negotiate further discounts. Few entities have 'bill back' arrangements with accommodation providers and most travellers therefore continue to receive an allowance.
Introduce a secure, accountable credit system to reflect current commercial funds management practice.	Projected:- $25 million (71% of administration costs)	Use of credit cards is not mandated and as a result there is a very low level of usage. Most entities have however replaced cash advances with direct crediting of allowances.
Simplify APS travel administration processes to remove unnecessary work, duplication and unproductive checking.	Realised:- Partly	Change from advance to entitlement system. However not all entities have implemented a risk-managed approach to acquittal.
Divest low value, routine administrative tasks to private sector service providers.		Approach taken varies. In many entities much of the administration continues to be 'in-house'. Further scope for improvement exists.

Appendix 3

Audit Scope, Objectives and Methodology

Introduction

The Financial Control and Administration audit program was implemented in 1995. This is the fourth FCA audit report. Key features of this form of audit include:

- they are 'across-the-board' reviews;

- they focus on particular 'corporate' functions or processes which support the delivery of government programs;

- they seek to identify or develop better practices in aspects financial management and administration; and

- they report 'generically', in as much as individual entities included in the review are not identified in the public report.

Scope

This audit dealt with **domestic** and **international** travel undertaken by public sector employees as part of **temporary duty** away from headquarters. This covers travel of any duration that involves the payment of a travel allowance.

It did not cover travel that involves the payment of temporary accommodation allowance (TAA) or other allowances relating to temporary or term transfers. Nor did it cover relocation costs to take up duty on permanent transfer or promotion.

The audit considered all travel-related expenditures—including those for transport, accommodation, meals and incidental expenditure whether paid to the employee or to another party (eg airline or travel agent).

The period of examination was travel undertaken and acquitted in the twelve month period ending 30 June 1997.

Objectives

The primary objectives of the audit were to determine whether, and to what extent:

- travel undertaken complies with policy and prescribed procedures; and

- agency travel policies and procedures accord with best practice.

In particular, the audit program was designed to enable the ANAO to form an opinion on:

- the adequacy and effectiveness of each agency's control environment as it relates to travel, including:

  - whether existing travel policy and procedures are complete, up-to-date, appropriately documented and promulgated;

  - whether management information on travel is relevant and reliable; and

  - the extent to which executive management monitor compliance with travel policy.

- the effectiveness of operation of key internal controls over travel, including controls over:

  - approval and authorisation of travel itineraries and variations to itineraries;

  - review and approval of expenditure associated with travel;

  - detection of travel variations; and

  - payment of travel expenditure.

- whether travel policy and practices operate to ensure the best cost outcome for the particular business needs of each agency.

In addition to these agency specific objectives the audit was designed to identify and/or develop best practices in travel management and administration.

Methodology
The review of existing travel management and administration processes commenced with a study of the current travel policies and procedures in the public sector.

These are encapsulated in:

- the General Employment Conditions Award in relation to allowances;

- the Finance Regulations and Directions as they relate to air travel and the completion of movement requisitions;

- Buyers Guide 83 for the contracting of travel services; and

- generally in the Government Traveller's Handbooks for International and Domestic Travel issued in 1987 by the APS Travel Reform Team.

The identification of best practices commenced with a review of the United States General Accounting Offices' Report on Travel Re-engineering in March 1995. This study included a detailed investigation of private sector practice in the United States and was the basis for the better practice model in Appendix 1.

Detailed discussions with the current travel service providers were also held and with consultants in the travel industry. Research also included attending an Australian Business Travel Association Conference on better practice and attending a 'closed' seminar on travel reform run by one of the travel service providers for their private sector clients.

The ANAO also held discussions with a number of large private sector corporations in Australia to determine their general approach top travel management and administration. From these discussions ICI Limited was identified as a better practice entity and further more detailed meetings were conducted with this organisation.

The ANAO gratefully acknowledges the valuable assistance of ICI, the travel service providers and the other private sector entities in the development of the better practice model.

Audit field work was carried out in 12 Commonwealth entities at 15 locations. These included government departments and budget-dependent agencies that operate in a fashion similar to departments. It also included statutory authorities, both commercial and non-commercial. The audit did not include any Government Business Enterprises—it is Government policy that these entities are not subject to this form of audit.

Field work included a review of each entity's policies and procedures; their management information; and a detailed examination of a sample of 30 travel claims in each location.

The samples of trips audited are considered to be representative of the situation existing within each entity. However, it does not necessarily follow that the results for the twelve entities are representative of the entire public sector.

Key Performance Indicators

The total cost of the audit was $490 000. This included $19 000 for the use of consultants and for legal advice. The average cost of the field work undertaken in each entity was $25 000.

If the findings of the audit have general application it is estimated that ongoing savings of at least $84 million per annum will be achieved based on current activity levels.

A total of 81 recommendations were made in relation to the findings arising from the fieldwork in each entity. Of this all but 2 were accepted.

This report contains 9 recommendations which are considered to have general relevance to the entire Commonwealth public sector

Planning for the audit commenced in March 1997 and testing in selected entities commenced in May. The time elapsed from commencement of planning to tabling of the report exceeds the six month benchmark used by the ANAO as a performance measure of the timeliness of reporting FCA audits.