

The Auditor-General
Audit Report No.19 2000–2001
Financial Control and Administration Audit

Management of Public Sector Travel Arrangements—Follow-up audit

Australian National Audit Office

© Commonwealth
of Australia 2000
ISSN 1036-7632
ISBN 0 642 44238 X

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,
Legislative Services,
AusInfo
GPO Box 1920
Canberra ACT 2601
or by email:
Cwealthcopyright@dofa.gov.au

Canberra ACT
4 December 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a Financial Control and Administration audit in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of Public Sector Travel Arrangements—Follow-up audit*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* 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.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7798
Email webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Contents

Summary and Recommendations

1.	Summary	9
	Cluster contract management	10
	Cluster contractual arrangements	11
	Re-engineering travel management arrangements	12
	Reimbursement of actual costs	13
	Employer-sponsored charge card system for frequent travellers	14
	Frequent flyer reward schemes	14
	Taxation issues	16
	Internal control structure	17
	Better practice noted in this audit	18
	Recommendations	20
2.	Introduction	24
	Public sector travel	24
	Background to the audit	25
	Previous audit coverage	25
	This audit	27
	Audit objective	27
	Audit scope and focus	27
	Audit evaluation criteria	28
	Structure of the Remainder of the Audit Report	29
3.	Travel contract cluster arrangements	30
	Introduction	30
	Audit Report No.28 of 1997–98	30
	Cluster contractual arrangements	31
	Cluster contract management	32
	Term of the contract	32
	Common contractual provisions	33
	Access to contract information	34
	Management information	35
	Information sharing	36
4.	Official travel by public sector employees	38
	Introduction	38
	Audit Report No.14 of 1997–98	38
	Efficient and effective travel administration	39
	Travel process re-engineering	40
	Employer-sponsored charge card system for frequent travellers	42
	Cost-effective travel direct costs	43
	Travel entitlements	44
	Frequent flyer reward schemes	45
	Management and control of frequent flyer points	46
	Purchasing the ‘right’ to use frequent flyer points	46

5.	Official travel and emerging taxation issues	50
	Introduction	50
	GST and official travel	50
	Other taxation issues	51
6.	Internal control framework	52
	Risk assessment	52
	Introduction	52
	Business benefits of risk assessments	53
	Audit findings	53
	Risk assessment—recommendation	54
	Control environment	55
	Introduction	55
	Business benefits of an effective control environment	55
	Audit findings	55
	Control environment—recommendations	58
	Control activities	59
	Introduction	59
	Business benefits of control activities	59
	Audit findings	59
	Control activities—recommendations	63
	Information and communication	64
	Introduction	64
	Business benefits of effective information and communication	64
	Audit Findings	65
	Information and communication—recommendation	66
	Monitoring and Review	67
	Introduction	67
	Business benefits of effective monitoring and review	67
	Audit Findings	67
	Appendices	
	Appendix 1: About the audit	71
	Introduction to Financial Control and Administration audits	71
	Audit objectives	71
	Audit evaluation criteria	71
	Performance information	73
	Appendix 2: Better practice in travel management	74
	Appendix 3: Audit recommendations—Audit Reports No.14 and 28	76
	Index	81
	Series Titles	82
	Better Practice Guides	84

Summary and Recommendations

1. Summary

1.1 The ability of Commonwealth Government organisations to manage business travel, including management of the delivery of travel services provided under contract, is often fundamental to achieving efficiently and effectively an organisation's outputs and outcomes. The strategic importance of travel to an organisation means the travel management function should generally be regarded as a key business support activity.

1.2 While it is not possible to obtain accurate figures for overall Commonwealth public sector travel expenditure the 'best estimate' by the Australian National Audit Office is that it is around \$600 million annually.

1.3 In 1997–98, the ANAO undertook the following audit reviews of travel arrangements in the Commonwealth Public Sector:

- Audit Report No.14—*Official Travel by Public Sector Employees*¹; and
- Audit Report No.28—*Contracting Arrangements for Agencies' Air Travel*².

These Reports identified potential savings in excess of:

- \$30 million in the cost of administration (indirect costs) and \$45 million in direct costs each year, by re-engineering travel processes and through an overhaul of the present entitlement-based allowance system and the introduction of a charge card for frequent travellers; and
- \$15 million each year (based on 4 per cent of domestic airfares with an upper potential of 9 per cent) that could be achieved through adoption of 'better practices' and greater use of discounted airfares.

1.4 To provide the necessary administrative framework for these savings, it was recommended that organisations:

- enter into group purchasing arrangements for air travel with other organisations that have complementary requirements in air travel; and
- re-engineer their travel management arrangements through the implementation of a reimbursement system for travel expenses based on actual costs incurred and introduce a charge card system for all frequent travellers.

¹ Audit Report No.14, 1997–98, *Official Travel by Public Sector Employees*, ANAO.

² Audit Report No.28, 1997–98, *Contracting Arrangements for Agencies' Air Travel*, ANAO.

1.5 The objective of this follow-up audit was to provide assurance to the Parliament on the cost-effectiveness of public sector travel by:

- ascertaining the degree of acceptance, and the extent of implementation, of the previous audit recommendations and better practice principles; and
- establishing whether organisations were managing travel effectively, taking into consideration recommendations and findings detailed in the above Audit Reports and the Better Practice Guide—*Public Sector Travel*³.

1.6 Consistent with the previous audits, there was no evidence of systematic abuse of official travel in the organisations reviewed.

Cluster contract management

1.7 Up until April 1998, public sector travel was arranged through a common-use arrangement as detailed in the then Buyers Guide (BG83)—Travel Services—Domestic and International.

1.8 In May 1998, the Department of Finance and Administration (DOFA) advised organisations that the previous whole of government approach was no longer being pursued and that organisations should enter into negotiations with travel service providers⁴ either collectively or individually under their own responsibility.

1.9 In late 1998, the first group of organisations (cluster) signed a contract with a travel management company for the provision of travel services to the cluster. Since late 1998, some eight clusters have been formed, covering 57 organisations. As well, several organisations have signed individual contracts for the provision of travel services.

1.10 The four per cent (with an upper potential of nine per cent) potential cost saving in airfares identified in Audit Reports No.14 and 28 has been markedly exceeded. The audit found that, since late 1998, significant savings on airfares, in the form of rebates⁵ in excess of those

³ Better Practice Guide December 1997, *Public Sector Travel*, ANAO, Canberra.

⁴ The term travel service provider was used in the two previous audits to describe the various organisations providing services, including booking of travel. This Report uses the term travel management company to describe these organisations.

⁵ The negotiated reductions in price on the basis of competitive tenders on overall agency travel turnover are termed 'rebates' in this report to distinguish them from the 'discount' fares available under certain conditions from the airlines on particular trips. Some of the general price reductions that are termed 'rebates' can have the characteristic of an across-the-board discount at the point of sale, in addition to any discounted fare.

available through BG83, have been achieved by organisations both through negotiation with travel management companies as part of a cluster and when contracting alone. The significant rebates primarily arise when organisations use the travel management companies owned and affiliated domestic airlines.

1.11 To a degree, the level of savings being obtained in cluster contract negotiations also reflect the changing market for travel services. It was also noted that the real beneficiaries of the new cluster arrangements were the smaller organisations.

Cluster contractual arrangements

1.12 While BG83 set minimum terms and conditions and offered a starting point with which organisations could then negotiate with nominated travel service providers, cluster contracts establish the terms and conditions for all members of the cluster.

1.13 The audit found there were no significant differences in the services identified for organisations participating in a cluster contract to those services identified in a travel service contract for a single organisation. Potential advantages can accrue through the development of common management information systems and reports and obtaining scale advantages in travel contract management, provided that the capacity exists for the different needs of each member of the cluster to be acknowledged in the contract.

1.14 In 2000, the audit found that organisations placed a significant emphasis on savings possible under the cluster arrangements, and less emphasis on developing a strategic relationship that went beyond that provided for in the cluster contract.

1.15 A review of the travel services contracts examined as part of this audit revealed that none of the contracts referred to possible access by the Auditor-General to private sector held information which is directly related to the contract. The level of access would generally be equivalent to that which would reasonably be specified by the contracting organisation in order to fulfill its own performance management and administrative responsibilities.

1.16 The audit also found that while organisations used the generic management information and reports provided by the travel management company, there was limited evidence of organisations modifying the information and reports to reflect the organisational structure, or management needs, of the organisation.

1.17 The ANAO review found that, generally, cluster contracts continue to include provisions that require that confidential information be treated as such. The audit also found that a number of contracts contain provisions that specifically allow for the disclosure of information to any other governmental contract authority, provided that the nature of any confidentiality is also disclosed. However, contracts that include the above type of provision specifically exclude authority to disclose any information in relation to the rebates included in the contract.

1.18 As a result of the audit, the ANAO made a number of recommendations directed towards improving the management of official travel. They reflected, in particular:

- the need to develop a positive relationship with the travel management company that supports individual organisations' travel needs and management reporting requirements; and
- the inclusion of standard access clauses in cluster contracts and clarification of undertakings in respect to the sharing of travel information, including the level of rebates, with other Commonwealth organisations.

Re-engineering travel management arrangements

1.19 As part of this audit, a review was conducted of five organisations as well as a survey of 46 Commonwealth organisations to assess action taken to re-engineer and improve travel processes following the publication of Audit Report No.14 and the ANAO Better Practice Guide—*Public Sector Travel*.

1.20 The audit found that organisations have taken only limited action to re-engineer their travel management processes. For example, in some organisations:

- policy and procedural manuals combined travel policies with detailed procedural requirements and did not address behavioral issues such as the travel culture of the organisation. Better practice suggests that a travel policy should be a succinct statement of principles that is supplemented by procedures that are documented separately;
- formal, documented pre-travel approval is still being required on a per-trip basis, notwithstanding that better practice suggests that efficiencies and savings can be obtained through the elimination of this process while still meeting statutory requirements;
- billing processes were administratively complex because individual areas of organisations established separate systems to manage the payment of accounts. Better practice suggests that responsibility for

arranging travel should be devolved to individual work units with the processing of payments for travel being centralised;

- payment for travel continues to be based on individual invoices for trips, necessitating time-consuming reconciliations between invoices and statements prior to payment. Better practice suggests that the development of a relationship with the travel management company enables organisations to develop more efficient payment processes; and
- significant effort is still expended on the calculation of up-front entitlements and, as a consequence, further effort is then required for the acquittal of the expenditure on completion of the travel. Better practice organisations have moved away from up-front entitlement based systems to a reimbursement system based on actual costs.

1.21 The audit results indicate that organisations have taken only limited advantage of the opportunities available to re-engineer and improve their travel management processes, such as the negotiation of new travel management contracts, the implementation of new financial management information systems, the development of Chief Executive Instructions and in the re-negotiation of organisations' Certified Agreements.

1.22 Consequently most of the estimated savings of \$30 million in indirect costs, proposed in Audit Report No.14, continue to be available.

Reimbursement of actual costs

1.23 Audit Report No.14 concluded that ongoing organisational savings from the introduction of a reimbursement system could be as much as \$45 million annually.

1.24 The audit survey results indicate that, over the last two years, the number of Commonwealth organisations adopting a reimbursement-based actual cost system had doubled from eight in 1997–98 to 16 in 1998–99. While the increase is substantial, the use of a reimbursement-base actual cost system continues to be mainly in statutory authorities. The substantial savings in direct travel costs will be achieved when the larger departments take up the available opportunities to introduce a reimbursement-based actual costs system. In addition, benchmark information obtained as part of the audit indicated that, in comparison to the private sector, significant savings continued to be available.

1.25 Given the ongoing focus on performance information and the fact that it is now open to agencies to vary the traditional approach, it is timely to reassess agency policies on the manner in which official travel expenses are reimbursed.

1.26 As in Audit Report No.14, it is again recommended that organisations undertake a cost-benefit analysis of their existing systems in comparison with a reimbursement system and, if justified, consider implementing a reimbursement system based on actual costs incurred as the opportunity arises.

1.27 A number of organisations have implemented this approach during the negotiation of their Certified Agreement and have begun to achieve some of the savings foreshadowed.

Employer-sponsored charge card system for frequent travellers

1.28 International, and increasingly Commonwealth public sector, experience indicates that significant indirect cost savings flow from the use of charge cards. The use of a charge card system complements the earlier recommendation for introduction of a reimbursement system based on actual costs.

1.29 The audit showed that in the Commonwealth's case, savings come from reductions in processing costs, associated travel allowance calculations and acquittals, the consolidation of all travel expenses onto one invoice, while enhancing the role of supervisors in approving expenditure and the opportunity to undertake random audit processes after reimbursement.

1.30 The audit survey results indicate that, over the last three years, the number of Commonwealth organisations using employer-sponsored charge cards had increased markedly. In 1997–98 the use of charge cards for official travel was generally limited to Commonwealth statutory authorities and Commonwealth owned companies. Since then, a number of departments have begun to use charge cards, in a limited way, for official travel.

1.31 A reimbursement system, based on actual costs incurred combined with the introduction of a charge card, promote significant initiatives to deliver the potential savings in both direct and indirect travel costs.

Frequent flyer reward schemes

1.32 The audit did not find any indications of official frequent flyer points being used for private purposes.

1.33 In addition, the audit found that organisations had little success in negotiating with the airlines to introduce procedures and processes that would provide sufficient information to enable them to control and manage the use of frequent flyer points. As a result, the issue of frequent flyer points continues to be a difficult control and management challenge for organisations. Whether, and to what extent, points were being used for official travel could not be reliably measured by most organisations. The reasons continue to be the same as noted in Audit Report No.14.

1.34 There are indications that a number of organisations, including in the public sector, have negotiated arrangements with their travel management company where frequent flyer points are no longer provided on official travel⁶. These arrangements have generally been agreed as part of the negotiation of new contracts. This is one option available to resolve the management and control issues surrounding frequent flyer points and achieve some public benefit.

1.35 As part of this audit the ANAO obtained legal advice on a Commonwealth agency's power to give a direction to employees about the use of frequent flyer points, given that the points accrue to individual employees in accordance with the terms of a contract between the employee and the airline.⁷

1.36 Legal advice indicated that:

- a direction in accordance with subsection 13(5) of the *Public Service Act 1999* that an employee use frequent flyer points earned in the course of performing his/her duties for Commonwealth business, places a legal obligation upon the APS employee to comply with the direction over and above any rights that the APS employee may have arising from his/her contract with the airline; and
- if a constructive trust were established, the rights of the Commonwealth as a beneficiary of that trust continue after the APS employee ceases to be employed by the Commonwealth, subject to any contrary arrangement that might have been made at the time of separation.

1.37 The audit found that some organisations had instituted a system whereby employees were able to purchase (based on legal advice) the 'right' to use loyalty program points accrued on official travel upon departure from the APS.

⁶ Business Travel Monthly, May 2000, page 9.

⁷ See para 2.129 of Audit Report No 14 of 1997-1998.

1.38 The PSMPC is concerned that Agencies who enter into any arrangements that give employees access to frequent flyer points for personal use at less than their commercial value would be running counter to the spirit of Government policy. If employees were able to purchase the points at less than commercial value, there could be an incentive for employees to travel more often than necessary. Employees who undertake unnecessary travel would be in breach of the Code of Conduct that is legally binding under the Public Service Act.

1.39 The PSMPC also indicated that, the Agency Head who permitted this conduct may be in breach of section 44 of the *Financial Management and Accountability Act 1997* relating to the efficient, effective and ethical use of Commonwealth resources. The PSMPC indicated that to avoid purchasing arrangements from providing a benefit to an employee, the cost of the points being offered would have to be set at the full market rate.

1.40 The issue that arises when an employee leaves the APS and the points gained can no longer be used by the agency, represents a potential loss to the Commonwealth. This is one reason that the PSMPC has encouraged agencies to use, rather than accumulate, frequent flyer points. The PSMPC also indicated that the issue of making appropriate use of accumulated points presents a number of problems for agencies, and that the time may be right for agencies to be advised to take a stronger stand with the airlines when negotiating new contracts with providers, particularly now that more airlines are entering the market.

1.41 In addition, on the basis of legal advice, it is important that agencies ensure that directions are issued in accordance with subsection 13(5) of the *Public Service Act* that are consistent with the government policies and the guidance provided by the PSMPC on the use and management of accrued points.

1.42 A further consequence of this approach to the management of frequent flyer points is that a tax liability may arise if one party to the sale of the 'right' obtains a financial benefit.

Taxation issues

1.43 The introduction of the Goods and Services Tax (GST) adds additional weight to the recommendations made in Audit Report No.14 concerning the introduction of a reimbursement system based on actual costs. GST is payable by individuals for accommodation and meals. The Australian Taxation Office (ATO) has advised that its view is that where organisations provide entitlement-based allowances GST (input tax credits) cannot be claimed. Where a reimbursement system based on

actual cost (which requires the presentation of invoices to the organisation) is in place, organisations can claim the input tax credit from the ATO. Such a system would also reduce the pressure to increase travel allowance to cover the GST.

1.44 In addition to the GST, a number of other taxation issues impact on an entitlement-based allowance system and need to be considered by organisations when deciding on retaining their current system or moving towards a reimbursement system for travel expenses based on actual costs incurred. These include the following:

- travel allowance is assessable income and must be disclosed in the employees tax return;
- employees need not substantiate travel allowance where the ATO considers that the expenses claimed against the allowance are reasonable; and
- travel allowance paid are not subject to Fringe Benefit Tax (FBT) as they fall within the definition of a salary and wage which are not subject to FBT.

Internal control structure

1.45 The audit also examined the travel management internal control structure and identified a number of issues in travel management which need to be addressed by organisations. The issues included the following:

- **risk assessment**—strategic and operational risk assessments associated with official travel and travel management required improvement;
- **control environment**—the standard and documentation of travel policies, procedures and practices required improvement. A common feature of those organisations which had better quality policies and procedures, better management information and a better working relationship with their travel management company was the existence of a designated ‘travel manager’;
- **control activities**—the implementation of automated systems within many organisations had simply created electronic versions of existing manual processes and, as a result, the opportunities available to re-engineer travel processes to improve efficiency had not been taken. In addition, organisations’ internal systems continued to be unable to provide information on travel costs, other than at an extremely high level of detail, or a dissection of accommodation and meal costs. These inadequacies limited an organisation’s ability to monitor and manage the direct cost of travel or to provide information able to be used in negotiations with service providers;

- **information and communication**—while organisations had devolved the management of travel, the management information provided by the travel management company was at a highly aggregated level and consequently, did not enable management review of business travel at operational and/or cost-centre levels. In addition, as not all travel arrangements were made with the travel management company (i.e. accommodation and road transport), the reports provided did not address all travel expenditure); and
- **monitoring and review**—in respect to the performance of the travel management companies all contracts provide a variety of ways in which performance can be monitored, including reports on air fare savings, reports on the timely provision of data required under the contract and quarterly review meetings where review of feedback is undertaken. The audit found that organisations were primarily focused on establishing whether the savings identified have been realised. Customer surveys, which are an important way to gauge client satisfaction, have not yet been undertaken.

1.46 As part of the audit, comprehensive reports, including recommendations for improved performance and benchmark information, were provided to each of the five organisations reviewed. The reports detailed assessments of the organisations' performance against each of the audit criteria. The benchmark information provided to organisations indicated some scope for cost savings if process re-engineering was undertaken. Organisations responded positively to the recommendations made.

1.47 In summary, in relation to the objectives of this follow-up audit, the establishment of cluster travel contracts has delivered significant savings on airfares. However, organisations have taken only limited action to re-engineer their travel management processes in response to the Audit Report recommendations and the ANAO Better Practice Guide.

Better practice noted in this audit

1.48 A number of organisations reflected examples of better practices in travel management, which are summarised in Table 1.1 below. General guidance on better practice can be found in the ANAO publication: Public Sector Travel⁸.

⁸ Ibid., Better Practice Guide, 1997.

Table 1.1
Examples of better practices in travel management

Control framework component	Better practice
Risk assessment	<ul style="list-style-type: none"> • a newly negotiated contract (which was not in force at the time of the audit), required a risk assessment to be undertaken as part of the contracted service delivery; and • improved awareness of the need to undertake business travel risk assessments across the organisation.
Control environment	<ul style="list-style-type: none"> • one organisation in which travel policies were directly linked to the organisation's strategic purchasing direction; • organisations provided policies and practices to all staff electronically; • policies address training responsibilities; • organisations had maintained devolved authority, in respect of organising travel; and • where travel managers had been appointed, organisations had begun to develop improved relationships with their travel management company.
Control activities	<ul style="list-style-type: none"> • organisations had established a centralised travel management cell; • organisations had assistance from the travel management company on site; • organisations had their travel management company provide an analysis on the most frequently visited destinations to enable future negotiations with other travel providers; and • organisations received monthly accounts electronically.
Information and communication	<ul style="list-style-type: none"> • organisations held training and information sessions on a regular basis to keep staff, and newcomers to the organisation, abreast of new and emerging issues in relation to official travel; • changes to travel policies and travel procedures were documented and disseminated to staff either via the organisations' intranet or paper-based staff circulars; and • regular meetings were held between the organisation and the travel management company to ensure emerging issues were considered in a timely manner.
Monitoring and review	<ul style="list-style-type: none"> • organisations with comprehensive statements of performance measures covering all aspects of business travel; and • organisations with regular reporting on contract performance.

Recommendations

The following recommendations are made in response to the findings of the audit and reflect the ANAO's research into better practice in travel management generally. The audit findings and the issues that lead to these recommendations are discussed in detail in the following chapters. Recommendations 4, 5 and 6 concerning the re-engineering of travel processes are the highest priority because implementation of these recommendations should have a direct impact on the ongoing cost of both travel expenditure and the administration of travel.

**Common
contractual
provisions**
**Recommendation
No.1**
Para. 3.21

In addition to organisations providing input to the effective management of the cluster contract, it is recommended that organisations develop a positive relationship with the travel management company that supports its individual travel needs and management reporting requirements.

**Access to contract
information**
**Recommendation
No.2**
Para. 3.25

It is recommended that organisations consider inclusion of appropriate, standard access clauses in contracts that allow the organisation, as well as the Auditor-General, to have sufficient access to records and premises to fulfil their respective accountability obligations.

**Management
information**
**Recommendation
No 3**
Para. 3.31

It is recommended that organisations cooperate with their travel management company to improve the usefulness of existing management reports and develop reports which address specific organisational needs.

**Information
sharing**
**Recommendation
No.4**
Para. 3.37

It is recommended that, to facilitate the exchange of information within the Commonwealth, organisations clarify the undertakings with their travel management company to ensure the maximum scope for sharing travel information, including the level of rebates, with other Commonwealth organisations, subject to any reasonable commercial considerations affecting the service providers' businesses.

**Travel process
re-engineering
Recommendation
No.5
Para. 4.11**

It is recommended that, as part of any re-engineering of travel processes, organisations:

- review their existing policies and procedures to ensure the latter adequately address all key aspects of travel;
- 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; and
- centralise billing processes, while at the same time devolving the activities associated with travel arrangement to appropriate work units within the organisation.

**Employer-
sponsored charge
card system for
frequent travellers
Recommendation
No.6
Para. 4.18**

It is recommended that organisations progressively introduce an employer-sponsored charge card system for all frequent travellers.

**Travel
entitlements
Recommendation
No.7
Para. 4.26**

As in Audit Report No.14, it is recommended that organisations:

- first undertake a cost-benefit analysis of their existing system in comparison to a reimbursement system; and then,
- subject to the results of that analysis, as the opportunity arises, implement a reimbursement system for travel expenses based on actual costs incurred.

Legal implications associated with frequent flyer points
Recommendation No.8
Para. 4.49

It is recommended that, for the time being, organisations continue to work with their travel management company to develop systems which separately identify frequent flyer program points accumulated through official travel and, as the opportunity arises, renegotiate the arrangements under the cluster contract with a view to eliminating, if possible, the accumulation of further frequent flyer points.

Risk assessment
Recommendation No.9
Para. 6.10

It is recommended that organisations review and strengthen their risk management framework directly to address the risks associated with business travel, travel management and contract management with appropriate monitoring and review arrangements.

Control environment
Recommendation No.10
Para. 6.28

It is recommended that organisations review their policies and procedures to ensure they provide for an appropriate level of information to facilitate cost effective travel management.

Recommendation No.11
Para. 6.29

It is recommended that those organisations, that have not already done so, consider designating a position as travel manager to coordinate their travel arrangements without unnecessary duplication and overlap of contract administration arrangements.

Control activities
Recommendation
No.12
Para. 6.47

It is recommended that organisations:

- review their current systems, both electronic and manual, that are used to collect information on, and manage, official travel with a view to maintaining only those that are critical to the effective corporate management of travel;
- review the adequacy and usefulness of the travel information available from both internal systems and the travel management company to facilitate monitoring of compliance with the approved travel policy and to permit effective cost control; and
- centralise as much of the billing payment processes as possible to improve overall effectiveness and efficiency.

Information and communication
Recommendation
No.13
Para. 6.55

It is recommended that organisations review their management information requirements at business unit levels as well as ensuring appropriate information is collected internally and received in a timely fashion from the travel management company.

Organisations generally agreed with the recommendations.

2. Introduction

Public sector travel

2.1 The last audit reviews undertaken of travel arrangements in the Commonwealth public sector were:

- Audit Report No.14, 1997–98, Official Travel by Public Sector Employees; and
- Audit Report No.28, 1997–98, Contracting Arrangements for Agencies' Air Travel.

2.2 These audits followed the official review of travel arrangements undertaken in 1987 as part of the 'Block' Efficiency Scrutinies⁹.

2.3 These audits were undertaken after a period of significant change in the public sector that provided the conditions for a fundamental re-assessment of travel arrangements which would lead to significant savings and improved program and service delivery outcomes. The changes which have occurred since these audits, and the current reform program within the public sector, including the impact of the introduction of the goods and services tax (GST), provide the climate and opportunity for a further reassessment of travel management arrangements.

2.4 Some key statistics highlighting the importance of travel are:

- travel expenses are one of the three largest controllable costs¹⁰ in most organisations, after personnel and information technology costs;
- between 1986 and 1997 travel expenditure by Commonwealth organisations increased significantly in real terms. Air travel costs in 1986 were estimated to be around \$106 million for 'core' government organisations rising to \$200 million in 1997. Air travel costs in 1999 were estimated by the ANAO to be in excess of \$250 million for 'core' government organisations in today's dollars;
- total direct travel (transport, accommodation and meals) by the wider Commonwealth public sector (including 'core' government organisations) was estimated by the ANAO to be around \$600 million in 1997; and
- the 'hidden' processing and administration costs of travel are likely to be around 10 per cent of direct costs.

⁹ Australian Public Service Travel Scrutiny, March 1987.

¹⁰ 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.

Background to the audit

Previous audit coverage

2.5 The ANAO undertook two audits in 1997 relating to the management of public sector travel.

2.6 Audit Report No.14 in 1997–98 reviewed official travel by public sector employees and found high levels of compliance with current government and organisational travel rules and regulations as well as a low risk of widespread abuse or fraud in relation to official travel. The audit also found that organisations have progressively negotiated better across-the-board rebates and have achieved real cost savings as a result. It was considered that additional savings, of a least \$9 million annually, could be realised primarily through greater use of discounted airfares.

2.7 The entitlement-based allowance system was 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. It was estimated 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. In particular, the above audit found¹¹:

- one critical control procedure, that is, the level and adequacy of post-travel checking by an independent officer was not operating effectively;
- the level of management attention given to review of travel expenditure required improvement to achieve the available efficiencies;
- in many instances, organisations were unable to obtain detailed information on total travel expenditure from their then travel service providers as well as information on travel behaviour, patterns or compliance with travel policy;
- the Commonwealth public sector was well below recognised best practice in pro-active contract management, including clarification and enhancement of travel managers' role within organisations;
- the use of an entitlement-based travel allowance system had high inherent costs associated with the need to process entitlements on a 'per trip' basis;

¹¹ Op. cit, Audit Report No.14, pp. xiii to xv.

- effective control of frequent flyer program points accumulated on official travel by public servants had been largely illusory;
- frequent flyer program point redemption rates were very low; and
- a number of factors conspired to defeat better management of these points including the private nature of frequent flyer point schemes, limited airline seat availability and stringent terms and conditions on travel times and notice.

2.8 Audit Report No.28, 1997–98¹², which reviewed contracting arrangements for agencies air travel found that selected agencies¹³ realised increasingly significant financial benefits in the course of their air travel contracting over the five years (1992 to 1997). It was also estimated that an upper potential of about nine per cent savings was possible if agencies were to move to the ‘best practice’ achieved by some of the agencies reviewed. If the lower level of savings noted, of some four per cent, were achieved this would equate to a total of \$6 million annually. In particular that audit found¹⁴:

- agencies should not enter into travel arrangements or confidentiality agreements that place the Commonwealth as a whole at a commercial disadvantage;
- the terms and conditions of BG83 were providing agencies with a minimum coverage of issues for inclusion in their contracts. The then system of commissions was not producing the most effective administration of common-use arrangements for air travel in terms of aligning benefits with costs incurred under the (then) cost recovery arrangements;
- reconsideration of the common-use arrangements for travel offered the opportunity to negotiate with the promoters of reward schemes at a whole of government level, and/or by agency user groups, to achieve effective management systems and benefits for agencies;
- there was scope to improve agencies’ ability to use the provision of discount fares;

¹² Op. cit., Audit Report No.28, p. xii.

¹³ The term ‘agencies in Audit Report No.28 referred to departments and agencies that are not legally separate from the Commonwealth and which operate on the Commonwealth Public Account. These agencies are subject to the provisions of *the Financial Management and Accountability Act 1997*.

¹⁴ Op. cit., Audit Report No.28, p. xii to xiii.

- there were advantages in specifying common travel management information that would allow performance benchmarking across agencies; and
- facilitation of group purchasing could occur by encouraging agencies to share experiences and describe common or complementary features in their travel procurement

2.9 A number of recommendations were made in the two Audit Reports that addressed the above findings. In addition, a Better Practice Guide¹⁵ was developed and distributed to assist organisations in reengineering their travel management.

This audit

Audit objective

2.10 The audit objective was to provide assurance to the Parliament on the cost-effectiveness of public sector travel by:

- ascertaining the degree of acceptance, and the extent of implementation, of the previous audit recommendations and better practice principles; and
- establishing whether organisations were managing travel efficiently and effectively, taking into consideration recommendations and findings detailed in the above Audit Reports and the Better Practice Guide.

Audit scope and focus

2.11 The audit comprised the following three principal components:

- *Survey*—a survey of 46 organisations to provide information on travel management arrangements and develop an overall picture of business travel and travel management in the Commonwealth;
- *Fieldwork*—fieldwork in five organisations to evaluate the extent of compliance with organisational travel policies. This involved detailed analysis of:
 - travel expenditure;
 - travel activity;
 - travel management;
 - management information;

¹⁵ Op. cit., Public Sector Travel, Better Practice Guide.

- management of contracts with travel management companies; and
- frequent flyer schemes.
- *Travel management workshop*—a travel management workshop attended by approximately 60 staff involved in travel management from 40 Commonwealth organisations. The workshops objectives were to:
 - facilitate sharing of information and experiences in travel management;
 - discuss possible solutions for improved travel management; and
 - discuss potential audit recommendations which may assist in future management action.

Audit evaluation criteria

2.12 Audit evaluation criteria were developed to assess the effectiveness of travel management within an internal control framework. Management is responsible for establishing an internal control framework with cohesive policies, processes and procedures which collectively ensure risks are well managed and business objectives are met in an effective, efficient and ethical manner.

2.13 The audit evaluation criteria were developed for travel management against the five key components of the internal control framework proposed in the ANAO's *Better Practice Guide to Effective Control*¹⁶. In summary, they covered the following aspects:

- risk assessment—implementation of an effective risk management framework addressing the strategic and operational risks of business travel, travel management and contract management;
- control environment—a demonstrated understanding of management responsibilities and the application of pro-active management and continuous improvement;
- control activities—management of business travel and management of contracted travel services is effective;
- information and communication—information exchanged between the organisation, travellers and travel management company is clear and effective; and
- monitoring and review—financial and performance monitoring of business travel and travel management, including contract management, is effective.

¹⁶ *Better Practice Guide to Effective Control*, 'Controlling Performance and Outcomes', ANAO, 1997.

2.14 The audit evaluation criteria are detailed in Appendix 1 to this Report.

Structure of the remainder of the audit report

2.15 Chapter 3 of this Report addresses the new travel contract cluster arrangements, contract management and issues raised in Audit Report No.28. Chapter 4 of the Report follows up the issues raised in Audit Report No.14 and issues that have emerged since that Report. Chapter 5 of the Report addresses emerging taxation issues and Chapter 6 the key components of the internal control framework. Appendix 1 provides additional information about the audit. Appendix 2 outlines some of the better practices identified as part of the audit and research undertaken during the audit. Appendix 3 provides an update on the recommendations made in Audit Reports No.14 and No.28.

3. Travel Contract Cluster Arrangements

Introduction

Audit Report No.28 of 1997–98

3.1 The ANAO's Audit Report on air travel¹⁷ found, in the absence of a whole-of-government airfare, that there was continued scope for further efficiency gains in the periodic negotiation of travel contracts. These efficiency gains would arise from organisations grouping with others (referred to as a cluster) to offer attractive air travel turnover to air travel service providers as part of the negotiation of travel contracts.

3.2 The audit concluded that significant savings would be realised through clustered travel contract negotiations, including:

- efficiency gains in air travel procurement through exchanging information between organisations, enhancing competitiveness amongst providers, more effective management of booking procedures jointly with service providers and better education of staff; and
- savings in the order of some \$6 million (based on achieving an additional four per cent in rebates and discounts). This estimate was based on an upper potential saving of about nine per cent, given constraints on discounting by airlines.

3.3 The Audit Report therefore recommended (Recommendation No.6)¹⁸ that, under the arrangements for agencies' air travel:

- contracting agencies seek to increase their attractiveness to travel service providers by entering into group purchasing arrangements for air travel with other agencies that have complementary requirements in air travel; and
- in conjunction with lead agencies, DOFA assists formation of the voluntary groups, including by information dissemination and by seeking interest in specific-purpose tenders, for example for international travel.

¹⁷ Op. cit., Audit Report No.28, 1997-98, p. xii.

¹⁸ Ib. id., p. 36.

3.4 Agencies qualified their agreement to this recommendation on the basis that it needed to be recognised that agencies can have different business needs and impacts with respect to their specific travel and management information requirements. In addition, there was a tendency in group purchasing for a loss of value added savings and customising that can be achieved in individual tenders.

3.5 DOFA, in response to the recommendation, indicated that the travel contract was being renegotiated and a range of options being considered in light of agency experience and the ANAO findings. At the time of the Audit Report, no decision had been made on the most appropriate method of purchasing air travel services. The objective was to seek the best possible outcome for the Commonwealth. This may mean using group purchasing arrangements or it may result in a whole of government arrangement.

Cluster contractual arrangements

3.6 In late 1997 and early 1998, DOFA examined the possibility of a whole of government approach to the provision of business travel. As DOFA was developing a strategic common-use arrangement for travel, it requested organisations to, if possible, review current arrangements to extend contracts until new arrangements were in place. Many organisations were coming to the end of existing travel contracts at various stages during 1998. Some had begun negotiations, as part of a travel cluster, or individually, with travel management companies. DOFA advised organisation not to go to tender during its negotiations as it could undermine the whole government approach.

3.7 In May 1998, DOFA advised organisations that the whole of government approach was no longer being pursued and that organisations should enter into negotiations with travel service providers either collectively or individually under their responsibility.

3.8 In late 1998, the first group of organisations signed a contract with a travel management company for the provision of travel services to the cluster. Since late 1998, some eight clusters have been formed, covering 57 organisations. As well, several organisations have signed individual contracts for the provision of travel services.

3.9 The nine per cent estimated cost saving in airfares identified in Audit Report No.28 has been markedly exceeded. The audit found that, since late 1998, significant savings, in the form of rebates on airfares, have been achieved by organisations, both through negotiation with travel management companies as part of a cluster and when contracting alone. It is also evident that the savings correspond well with the size of the organisation, irrespective of whether they are a member of a cluster or not. To a degree, the level of savings being obtained in cluster contract negotiations also reflect the changing market for travel services.

3.10 It was noted that the real beneficiaries were the smaller organisations that were members of a cluster.

Cluster contract management

3.11 The scope of the audit did not extend to an examination of probity or propriety issues associated with tender processes. However, tender processes were reviewed to consider their overall contributions to contract management.

3.12 Tender selection processes reviewed were comprehensive and efficient. However, some delays were experienced in finalising contracts after the tender decisions had been announced. These delays potentially increased the operational risks in travel management and may have slowed the development of an effective relationship with the travel management company early in the life of the contract.

3.13 Organisations have particular characteristics and needs, leading to differences in contractual features which any consolidation of organisations in negotiations with travel management companies would need to recognise. Most tenders submitted did not emphasise the development of a relationship aimed at delivering long-term benefits, such as improved performance, shared risks and rewards and, ultimately, a reduction in the overall costs of business travel to the organisation. While individual organisations have moved to establish strategic relationships with the travel management company that maximises the benefits obtained from the contracts, several factors have detracted from organisations' capacity to achieve this and these are addressed below.

Term of the contract

3.14 Audit Report No.28¹⁹ noted that the common-use arrangements for travel services, as detailed in the then *Buyers' Guide (BG83)—Travel Services—Domestic and International*, enabled organisations to enter into a common-use contract with a nominated travel service provider for the

¹⁹ Op. cit., Audit Report No.28, p. 11.

provision of services for between one and three years. BG83 set minimum terms and conditions and offered a starting point with which organisations could then negotiate with nominated travel service providers. As organisations gained experience with the common-use arrangements and air travel contracting, they made greater use of competitive negotiations to achieve improved outcomes above the standing offer. Since the mid-1990s, most agencies achieved a significant increase in rebates through competitive tendering amongst the travel service providers under BG83. In several instances the increase in domestic rebates was more than double that indicated as a starting point in the BG83 standing offer.

3.15 BG83 commenced in 1992 for a three-year period, was renewed in 1994 for a further three years and extended for a further six months to 30 April 1998. During the six and a half years that BG83 was in place a number of organisations achieved benefits significantly beyond the minimum terms stated in BG83.

3.16 In contrast, the audit found that contracts under the cluster arrangements were for relatively short periods. Generally the term of the contracts were only two to three years and, as a result, some limitations have been placed on the capacity of both parties to develop a relationship which will deliver mutual benefits. The experience with BG83 highlighted the importance of time in the development of an understanding of the travel needs of an organisation.

Common contractual provisions

3.17 A common feature of the then BG83 and the current cluster contracts is that they both establish common contractual arrangements for the provision of travel services for a number of organisations. BG83 for Commonwealth Public Account agencies and the cluster contracts for members of the cluster. However, while BG83 set minimum terms and conditions and offered a starting point with which organisations could then negotiate with nominated travel service providers, cluster contracts establish the terms and conditions for all members of the cluster.

3.18 The audit found there were no significant differences in the services identified for organisations participating in a cluster contract to those services identified in a travel service contract for a single organisation. The level of savings may have been slightly different, but all members of the cluster, and the single organisation, relied on similar management arrangements to meet their needs. Potential advantages can accrue through the development of common management information systems and reports and obtaining scale advantages in travel contract management, provided that the capacity exists for the different needs of each member of the cluster to be acknowledged in the contract.

3.19 In 1997 Agencies, in response to Audit Report No.28²⁰, emphasised the importance they placed on being able to forge direct relationships with their travel service provider to provide enhanced services. This reflected, in part, the shift in focus of air travel contracting from concentration on up-front rebates to ensuring the overall realisation of savings from improved contract management practices. In 2000, the audit found that organisations place a significant emphasis on savings possible under the cluster arrangements, and less emphasis on developing a strategic relationship that went beyond that provided for in the cluster contract.

3.20 It is considered that in addition to the services to be delivered, the essential elements of the relationship between the organisation and its travel management company should be specified in the contract. It is on this basis that the relationship can develop and the goal of effective travel management and reduced costs will be achieved through a commitment to success from both parties.

Recommendation No.1

3.21 In addition to organisations providing input to the effective management of the cluster contract, it is recommended that organisations should develop a positive relationship with the travel management company that supports its individual travel needs and management reporting requirements.

Access to contract information

3.22 The ANAO considers it is important that contracting organisations ensure the contract allows for:

- sufficient access to records and information of the contracting parties to allow them to ensure their accountability expectations are met; and
- the Auditor-General to have sufficient access to ensure the accountability requirements of the Parliament are met.

3.23 For its purposes, the ANAO considers the level of access would generally be equivalent to that which would reasonably be specified by the contracting organisation in order to fulfil its own performance management and administrative responsibilities.

3.24 A review of the travel services contracts examined as part of this audit revealed that none of the contracts referred to possible access by the Auditor-General to private sector held information which is directly related to the contract.

²⁰ lb. id., p. 12.

Recommendation No.2

3.25 It is recommended that organisations should consider inclusion of appropriate, standard access clauses in contracts that allow the organisation, as well as the Auditor-General, to have sufficient access to records and premises to fulfil their respective accountability obligations.

3.26 In practice this will require consideration of the risk and significance of the contracted activity to organisational outputs.

Management information

3.27 Audit Report No.28²¹ noted that under BG83 agencies expected to receive most of their travel management information from their contracted provider of travel services. The way common-use arrangements operated was that the travel service providers specified what management information and reports were available to agencies. Agencies were then able to accept the standard information or to specify particular enhancements they required.

3.28 At the time it was considered that benefits would arise from the development of a standard specification of information that agencies should have. Each agency could then further specify any particular requirements over and above this. A set of standardised information to be provided across all agencies would result in the Commonwealth being far better placed to benchmark performance between agencies.

3.29 In 2000, the audit found that contracts entered into by clusters detailed a comprehensive list of the type of management information that would be provided by the travel management company

3.30 However, the audit also found while organisations used the generic management information and reports provided by the travel management company there was limited evidence of organisations modifying the information and reports to reflect the organisational structure, or management needs, of the organisation.

Recommendation No 3

3.31 It is recommended that organisations cooperate with their travel management company to improve the usefulness of existing management reports and develop reports which address specific organisational needs.

²¹ Op. cit., Audit Report No 28, pp. 28 to 30.

Information sharing

3.32 Audit Report No.28 noted that travel service providers were concerned to protect the confidentiality of the arrangements that they had entered into with individual agencies, given the commercial value of the information within and outside the Commonwealth. There was significant uncertainty about the extent to which agencies could legally share information within the Commonwealth, both under the terms of the common-use arrangements and under resulting agency-specific agreements. As part of the previous audit, the Australian Government Solicitor (AGS) advised the ANAO that the then existing confidentiality clause of BG83 could be amended. As indicated in Audit Report No.28, AGS proposed an amendment which would 'enable the Commonwealth to disclose within the Commonwealth any information owned or provided by the travel service provider, and given in connection with the contract to the Commonwealth, whether or not that information was identified or marked with a classification indicating its confidentiality'.²²

3.33 The ANAO recommended²³ that, to facilitate the exchange of information within the Commonwealth, agencies clarify the undertakings that they entered into with their travel service providers to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' business. In addition, it was recommended DOFA amend the standard confidentiality clause that it promulgates in the standing offer for air travel.

3.34 Agencies generally agreed with these recommendations.

3.35 As part of the 2000 audit, the ANAO reviewed the confidentiality provisions of a selection of contracts with travel management companies to establish whether appropriate consideration had been given to the previous audit recommendations. The audit found that, generally, contracts continue to include provisions which require that confidential information identified as having, or marked with, a classification indicating its confidentiality, be treated as such. However, these contracts do allow for the disclosure of information that relates to details required for publication in the Commonwealth of Australia Gazette or are required by law.

²² Op. cit., Audit Report No.28, p. 20.

²³ Ib. id., Audit Report No.28, p. 21.

3.36 The audit also found that a number of contracts contain provisions that specifically allow for the disclosure of information to any other governmental contract authority, provided that the nature of any confidentiality is also disclosed. However, contracts that include the above type of provision specifically exclude authority to disclose any information in relation to the rebates included in the contract.

Recommendation No.4

3.37 It is recommended that to facilitate the exchange of information within the Commonwealth, organisations clarify the undertakings with their travel management company to ensure the maximum scope for sharing travel information, including the level of rebates, with other Commonwealth organisations, subject to any reasonable commercial considerations affecting the service providers' businesses.

4. Official Travel by Public Sector Employees

Introduction

Audit Report No.14 of 1997–98

4.1 The ANAO's Audit Report on official travel by public sector employees²⁴ suggested that Commonwealth organisations paid too much for travel and travel-administration. The Report noted that it was probable that savings in the order of \$84 million (\$30 million in indirect costs and \$54 million in direct costs)²⁵ each year could be realised by adopting better practices.

4.2 The Report noted that to achieve savings in indirect costs would require a fundamental overhaul of current travel administrative arrangements, including those related to:

- travel contracts, collating and disseminating travel management information and preparing and updating travel policies and procedures; and
- arranging, approving and acquitting travel, paying suppliers and updating management and financial information.

4.3 In respect to the major direct costs associated with travel, the Report noted that these relate to transport, accommodation and meals and, to achieve significant savings, organisations should:

- routinely analyse their air travel costs to determine whether any additional efficiencies could be achieved; and
- undertake a cost-benefit analysis of their existing system for the payment of accommodation, meal and other allowances in comparison with a reimbursement system for travel expenses based on actual costs.

4.4 The Report also noted that the use of frequent flyer points for official travel was a potential source of additional savings for any organisation that could effectively manage these points.

²⁴ Op. cit., Audit Report No.14, 1997-98, p. xii.

²⁵ Direct costs are those costs which, by their nature, are capable of being traced or assigned to an activity or good/service, and typically include employee related costs, depreciation, printing/stationery and consultancy. Indirect costs are those costs necessarily incurred in the provision of the whole organisation's functions and which need to be attributed across its activities or goods/services. This includes for example, utility, building and corporate support costs.

Efficient and effective travel administration

4.5 In recent years a number of studies have been undertaken that provide an insight into the level of indirect costs associated with the administration of organisations' travel. Audit Report No.14 indicated that:

- an audit of travel administration²⁶ undertaken by the United States General Accounting Office (GAO), the ANAO's USA equivalent, found travel administration costs to be as high as 30 per cent of direct travel costs in Federal agencies employing the allowance system. Better practice data obtained by the GAO in 1995 indicated that a benchmark figure of six per cent was achievable for reimbursement systems;
- the 'Block Efficiency Scrutinies' undertaken in 1987 estimated indirect costs in the Australian context to be of the order of 15 per cent of direct costs under the allowance system; and
- a recent American Express survey of business travel indicated that the private sector norm was between eight per cent and 10 per cent of direct travel costs. Best in class private sector organisations had reduced this to less than three per cent, which was below the implied target of five per cent used by the Block review. This sector almost exclusively uses a reimbursement system.

4.6 Audit Report No.14 suggested that organisations had the potential to realise ongoing savings of at least \$30 million²⁷ (based on five per cent of the direct travel costs) if better practice travel administration were adopted. As a result, it was recommended²⁸ that organisations 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 was not adversely affected; and
- introduce an employer-sponsored charge card²⁹ system for all frequent travellers.

²⁶ Travel Process Re-engineering', US GAO, March 1995.

²⁷ Op. cit., Audit Report No.14, 1997-98, p. 16.

²⁸ Ib. id., p. 15.

²⁹ A charge card differs from a credit card. Payment of the outstanding monthly balance is required in full.

Travel process re-engineering

4.7 As part of this audit, a review was conducted of five organisations to assess action taken to consider and, where appropriate, re-engineer their travel processes following the publication of Audit Report No.14 and the ANAO Better Practice Guide—Public Sector Travel. This guide provided practical guidance on the implementation of better practices.

4.8 In addition, the audit included a survey of 46 Commonwealth organisations. The purpose of the survey was to establish a broader view of the action taken by organisations to re-engineer their travel management processes as a result of the earlier Better Practice Guide.

4.9 The survey found, and the audit confirmed, that organisations have taken only limited action to re-engineer and improve their travel management processes. For example, the audit found in some organisations:

- policy and procedure manuals were adequate. However, most travel manuals combined travel policies with detailed procedural requirements and did not address behavioural issues such as the travel culture of the organisation. Better practice suggests that a travel policy should be a succinct statement of principles that is supplemented by procedures that are documented separately;
- formal, documented pre-travel approval is still being required on a per trip basis, notwithstanding that better practice suggests that efficiencies and savings can be obtained through the elimination of this process while still meeting statutory requirements. To implement this better practice, it will be necessary for organisations subject to the *Financial Management and Accountability Act 1997* to consider how they could continue to meet the requirement to obtain authorisation to expend public moneys prior to the liability being incurred;
- billing processes were administratively complex because individual areas of organisations established separate systems to manage the payment of accounts. Better practice suggests that responsibility for arranging travel should be devolved to individual work units with the processing of payments for travel being centralised;
- payment for travel continues to be based on individual invoices for trips, necessitating time consuming reconciliations between invoices and statements prior to payment. Better practice suggests that the development of a relationship with the travel management company enables organisations to develop more efficient payment processes. As a result, processes that did not contribute significantly to 'value-adding' could be reduced; and

- significant effort is still expended on the calculation of the up-front entitlements and, as a consequence, further effort is then required for the acquittal of the expenditure on completion of the travel. Better practice organisations have moved away from up-front entitlement based systems to a reimbursement system based on actual costs.

4.10 The previous audit of travel management suggested that significant savings in travel management indirect costs could be realised if organisations re-engineered their travel management processes. This audit confirmed this view. Based on the audit results it is evident that organisations have taken only limited advantage of the opportunities available to re-engineer and improve their travel management processes, such as the negotiation of new travel management contracts, the implementation of new financial management information systems, the development of Chief Executive Instructions and the re-negotiation of organisations' Certified Agreements. Consequently, most of the estimated savings of \$30 million in indirect costs, proposed in Audit Report No.14, continue to be available.

Recommendation No.5

4.11 It is recommended that, as part of any re-engineering of travel processes, organisations:

- review their existing policies and procedures to ensure the latter adequately addresses all key aspects of travel;
- 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; and
- centralise billing processes, while at the same time devolving the activities associated with travel arrangement to appropriate work units within the organisation.

4.12 Audit Report No.14 made a number of suggestions concerning implementing the better practice of removing pre-trip approvals. These include the following:

- delegate limited authority to 'self-approve' designated travel on the basis of the level of officer travelling, their program responsibilities, and the nature of travel; and/or
- general authorisations to spend travel moneys could be approved at the beginning of each year, based on approved budgets.

4.13 These controls within an appropriate risk management framework, combined with the authorisation to spend moneys which should be in place where a charge card is used, would facilitate the implementation of the above audit recommendation.

4.14 A key to maintaining effective control under such an approach is a rigorous budgetary system that 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. The recommended approach also requires strong expense reimbursement controls and an effective travel management information system to quickly detect and flag any possible abuses.

Employer-sponsored charge card system for frequent travellers

4.15 International, and increasingly Commonwealth public sector, experience indicate that the most significant re-engineering initiative undertaken by organisations is the introduction of a charge card for official travel by frequent travellers³⁰.

4.16 Audit Report No.14 noted that significant indirect cost benefits flow from the use of charge cards, including the fact that a separate allowance need not be calculated and paid for each trip. It also eliminated the possibility of double processing in the situation where a pre-trip allowance was paid and subsequently a post travel reimbursement for additional costs was made or recovery of the allowance was sought due to itinerary changes. It also enabled travellers to consolidate all travel expenses on to one invoice, while enhancing the role of supervisors in approving expenditure. It also enabled a random audit process after reimbursement to vouch actual receipts to be introduced and provided one account from the card provider for official travel. That is, the introduction of an employer-sponsored charge card for frequent travellers had the potential to significantly reduce the indirect costs associated with managing frequent travellers.

4.17 The audit survey results indicate that, over the last three years, the number of Commonwealth organisations using employer sponsored charge cards had increased markedly. In 1997–98, the use of charge cards for official travel was generally limited to Commonwealth statutory authorities and Commonwealth owned companies. Since then, a significant number of departments have begun to use charge cards, in a limited way, for official travel.

³⁰ The US federal government defines a frequent traveller as someone who will travel more than twice a year.

Recommendation No.6

4.18 It is recommended organisations progressively introduce an employer-sponsored charge card system for all frequent travellers.

Cost-effective travel direct costs

4.19 Audit Report No.14³¹ indicated that the payment of allowances to compensate for costs incurred while on official travel was then a condition of service for public sector employees. The allowances include accommodation, meals, incidental expenses and other direct travel costs such as transportation. The benefits of an entitlement-based allowance system included:

- a reduction in the possibility of a traveller being out of pocket;
- certainty in respect of what were considered to be 'reasonable' costs for accommodation, meals and incidentals;
- greater flexibility for the traveller; and
- in general, set a maximum cost of travel for the organisation.

4.20 However, there were risks inherent in the entitlement-based system, including:

- the creation of a culture where minimising the cost of travel to the organisation 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 could be, and was, abused and that it provided unfair and unnecessary 'perks'.

4.21 Audit Report No.14 also noted that conditions relating to travel by Commonwealth public servants not in the Senior Executive Service, were contained in the General Employment Conditions Award 1995 (GECA) and the Continuous Improvement Agreement 1995–96. The then terms and conditions in GECA continued to apply after 1 July 1998, unless varied by a Certified Agreement or Australian Workplace Agreement. In addition, the Audit Report noted that the new Public Service Act provided the head of an organisation with the power to make his/her own determinations in relation to travel entitlements.

³¹ Op. cit., Audit Report No.14, 1997-98, p. 9.

Travel entitlements

4.22 Audit Report No.14 highlighted that the entitlement-based allowance system led to higher accommodation costs when compared to the reimbursement system. It further noted that one organisation that introduced a reimbursement-based actual cost system had made savings of 10 per cent in accommodation costs and meal costs were 32 per cent less than those that would have been incurred under an entitlement-based allowance system. This also was the experience of the private sector. The Report concluded that ongoing organisational savings from the introduction of a reimbursement system could be as much as \$45 million annually.

4.23 This audit confirmed that the current entitlement system impacts directly on the ability of organisations to effectively manage travel costs because they lack data on actual accommodation and meal costs. In respect of accommodation costs the lack of data also limits the degree of leverage organisations can apply to suppliers of accommodation.

4.24 The audit survey results indicate that, over the last two years the number of Commonwealth organisations adopting a reimbursement-based actual cost system had doubled from eight in 1997–98 to 16 in 1998–99. While the increase is substantial, the use of a reimbursement-based actual cost system continues to be mainly in statutory authorities. The substantial savings in direct travel costs will be achieved when the larger departments take up the available opportunities to introduce a reimbursement-based actual costs system.

4.25 Given the ongoing focus on performance information and the fact that it is now open to agencies to vary the traditional approach, it is timely to reassess agency policies on the manner in which official travel expenses are reimbursed.

Recommendation No.7

4.26 As in Audit Report No.14, it is recommended that organisations:

- first undertake a cost-benefit analysis of their existing system in comparison with a reimbursement system; and then,
- subject to the results of that analysis, as the opportunity arises, implement a reimbursement system for travel expenses based on actual costs incurred.

4.27 The audit noted that organisations that have moved towards a reimbursement system based on actual costs have done so through the negotiation of terms and conditions of employment as part of the Certified Agreement process.

Frequent flyer reward schemes

4.28 Commonwealth public servants are not permitted to use the benefits from airline loyalty programs, including frequent flyer points, resulting from official travel, for private purposes. In 1997 the Prime Minister indicated that:

‘the Government in July 1996 adopted the policy that frequent flyer points accrued in the course of official travel by ministers, senators and members were to be used only for further official travel. That policy has applied in the Australian Public Service for some years....’

4.29 In addition, the Public Service and Merit Protection Commission (PSMPC) has provided advice³² to Agencies over a number of years of the Government’s policy in this area along the following lines:

- the Commonwealth may benefit from the use of the points: indeed, where they can be legitimately used to bring savings to departmental travel budgets, their use is encouraged; and
- individuals must not gain personal benefit from the use of points accumulated from travel undertaken for official purposes.

4.30 The following elements of Section 13 of the *Public Service Act 1999* (Australian Public Service (APS) Code of Conduct) are relevant:

“(An APS employee must not make improper use of...) the employee’s duties, status, power or authority; in order to gain, or seek to gain, a benefit or advantage for the employee or for any other person.” (subsection 10b);

“An APS employee must use Commonwealth resources in a proper manner.” (subsection 8); and

“An APS employee must comply with any lawful and reasonable direction given by someone in the employee’s Agency who has authority to give the direction.” (subsection 5).

4.31 The use of frequent flyer points for official travel is a potential source of savings for any organisation that can effectively manage these points. Audit Report No.14³³ estimated that in 1997 the scale of points that had been accrued was in excess of 100 million in the organisations reviewed and noted that redemption rates were very low in most organisations.

³² PSC/PSMPC Circulars 1991/11, 1992/12, 1994/2, 1996/16, 1997/11 and 1999/6.

³³ Op cit, Audit Report No.14, p. 17.

4.32 Both Audit Report No.14 and No.28 referred to difficulties associated with the control, management and use of these points; control from the point of view of ensuring that the points were not misused; and management, given the inflexibility in their use, from the point of view of ensuring that the maximum possible number of points were redeemed for official travel. Both Reports noted that effective control of frequent flyer points accumulated on official travel by public servants had, to date, been largely illusory. The reasons for this were:

- the 'private' nature of points, in that the points accrued only to the loyalty program card holder (or their family) and could only be used by the card holder (or family). This was a contractual condition of scheme membership;
- confidentiality and privacy concerns limited airlines from directly providing employers with information on accumulated points and usage of these points by their employees;
- frequent flyer schemes did not readily distinguish between points earned from official expenditures and points earned from private expenditures; and
- airlines placed a number of restrictions, including non-transferability, on redemption of these points and limited seat availability, which made it difficult for the business traveller to readily avail themselves of the potential savings.

4.33 In relation to the difficulties associated with the control and management of these points the public sector is not alone, either when compared to other levels of government³⁴ or the private sector.

4.34 As a result of the findings from the previous audit, the ANAO recommended that organisations:

- seek to establish systems which separately identify loyalty program points accumulated through official travel or other official functions; and
- in the re-negotiation of government air travel services, seek to have an increased rebate on official travel, where practicable, as an alternative to taking part in frequent flyer reward schemes.

4.35 The management and control of frequent flyer points was reviewed as part of this audit and the findings are detailed below.

³⁴ 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.

Management and control of frequent flyer points

4.36 The audit did not find any indications of official frequent flyer points being used for private purposes.

4.37 In addition, the audit found that organisations had little success in negotiating with the airlines to introduce procedures and processes that would provide sufficient information to enable them to control and manage the use of the frequent flyer points. As a result, the issue of frequent flyer points continues to be a difficult control and management challenge for organisations. Whether, and to what extent, points were being used for official travel was not able to be reliably measured by most organisations. The reasons continue to be the same as noted in Audit Report No.14.

4.38 One option to manage the use of these points, available at the time of the previous audits, was the issue by the airlines of separate 'private' membership. It was evident that while the airlines had entered into arrangements in the past where additional separate 'private' membership had been provided, it now appears that this option is no longer being offered.

4.39 There are indications that a number of organisations, including in the public sector, have negotiated arrangements with their travel management company where frequent flyer points are no longer provided on official travel³⁵. These arrangements have generally been agreed as part of the negotiation of new contracts. This is one option available to resolve the management and control issues surrounding frequent flyer points and achieve some public benefit.

Legal implications associated with frequent flyer points

4.40 As part of this audit the ANAO obtained legal advice on a Commonwealth agency's power to give a direction to employees about the use of frequent flyer points, given that the points accrue to individual employees in accordance with the terms of a contract between the employee and the airline.³⁶

³⁵ Business Travel Monthly, May 2000, p. 9.

³⁶ See para 2.129 of Audit Report No 14 of 1997-1998.

4.41 Legal advice indicated that:

- a direction in accordance with subsection 13(5) of the *Public Service Act 1999* that an employee use frequent flyer points earned in the course of performing his/her duties for Commonwealth business, places a legal obligation upon the APS employee to comply with the direction over and above any rights that the APS employee may have arising from his/her contract with the airline; and
- if a constructive trust were established, the rights of the Commonwealth as a beneficiary of that trust continue after the APS employee ceases to be employed by the Commonwealth, subject to any contrary arrangement that might have been made at the time of separation.

Purchasing the ‘right’ to use frequent flyer points

4.42 The audit found that some organisations had instituted a system whereby employees were able to purchase (based on legal advice) the ‘right’ to use loyalty program points accrued on official travel upon departure from the APS.

4.43 The PSMPC is concerned that Agencies that enter into any arrangements that give employees access to frequent flyer points for personal use at less than their commercial value would be running counter to the spirit of Government policy. If employees were able to purchase the points at less than commercial value, there could be an incentive for employees to travel more often than necessary. Employees who undertake unnecessary travel would be in breach of the Code of Conduct that is legally binding under the *Public Service Act*.

4.44 In addition, the Agency Head who permitted this conduct may be in breach of section 44 of the *Financial Management and Accountability Act 1997* relating to the efficient, effective and ethical use of Commonwealth resources. The PSMPC indicated that to avoid purchasing arrangements from providing a benefit to an employee, the cost of the points being offered would have to be set at the full market rate.

4.45 The issue that arises when an employee leaves the APS and the points gained can no longer be used by the agency, represents a potential loss to the Commonwealth. This is one reason why the PSMPC has encouraged agencies to use rather than accumulate, frequent flyer points. The PSMPC also indicated that the issue of making appropriate use of accumulated points presents a number of problems for agencies, and that the time may be right for agencies to be advised to take a stronger stand with the airlines when negotiating new contracts with providers, particularly now that more airlines are entering the market.

4.46 A further consequence of this approach to the management of frequent flyer points is that a tax liability may arise if one party to the sale of the 'right' obtains a financial benefit.

Conclusion

4.47 In the light of separate 'private' membership no longer being offered and the continuing restrictions placed on the redemption of points by the airlines, it was clear that, to improve redemption rates, organisations need to negotiate a solution with their travel management company, such as arrangements where frequent flyer points are no longer provided on official travel.

4.48 In addition, on the basis of legal advice, it is important that agencies ensure that directions are issued in accordance with subsection 13(5) of the *Public Service Act* that are consistent with the government policies and the guidance provided by the PSMPC on the use and management of accrued points.

Recommendation No.8

4.49 It is recommended that, for the time being, organisations continue to work with their travel management company to develop systems which separately identify frequent flyer program points accumulated through official travel and, as the opportunity arises, renegotiate the arrangements under the contract with a view to eliminating, if possible, the accumulation of further frequent flyer points.

5. Official Travel and Emerging Taxation Issues

Introduction

5.1 Taxation has become increasingly important in the management and control of business travel in Commonwealth organisations. Several taxation issues are relevant to official travel by public servants, but the most significant is the introduction of the goods and services tax (GST).

5.2 The introduction of the GST will have a significant impact on the costs of travel to an organisation and travellers.

5.3 Notwithstanding that the GST is a broad based consumption tax directed at the final consumer, it is charged to, and collected by, all organisations involved in the supply chain. Generally where a registered organisation makes a taxable supply, it will be able to claim back the GST paid on business inputs (input tax credits) either as a refund from the ATO or as an offset against GST charged on the goods or services it supplies. It is essential therefore that each organisation be in a position to claim input tax credits in an efficient and timely manner to minimise the impact upon cash flow and avoid a real increase in operating costs.

5.4 As a result, it is also likely that organisations will need to consider re-engineering their travel processes.

GST and official travel

5.5 The audit did not review organisations' readiness for GST, but examined GST preparedness in relation to official travel. The audit found that, at the time of the audit, very few organisations were in a position to properly manage the impacts of the GST on business travel.

5.6 In the context of official travel, GST is payable on airfares, accommodation and some meal expenditure. However, generally where a registered organisation makes a taxable supply, it will be able to claim back the GST paid on business inputs (input tax credits) either as a refund from the ATO or as an offset against GST charged on the goods or services it supplies. The mechanism for claiming input tax credits either monthly or quarterly in relation to these expenses is the receipt of a complying tax invoice.

5.7 Therefore, an organisation that operates on a reimbursement or full acquittal basis in respect of business related travel expenditure has

access to the required documentation as opposed to an organisation that pays a predetermined non-acquittable travel allowance to employees. In the latter circumstance, an organisation is not able to claim an input tax credit. The ATO has advised that in its view a predetermined 'acquittable' travel allowance, where the employee is not required to repay any unexpended amounts is treated in the same manner—that is, the employer is not entitled to input tax credits.

5.8 The ATO further advised that where an employer pays an allowance, whether or not the employee is required to acquit, the employer will not be entitled to any input tax credit in relation to that allowance. The fact that an employee may provide or be required to provide tax invoices as proof of expenditure of part or all of the allowance does not, in the ATO view, result in the allowance changing its character. A fundamental issue in future travel management will be the ability of the organisation to collect and process the necessary information to maximise claims for input tax credits associated with official travel expenses.

Other taxation issues

5.9 In addition to the GST, a number of other taxation issues impact on an entitlement-based allowance system and should be considered by organisations when deciding on retaining their current system or moving towards a reimbursement system for travel expenses based on actual costs incurred. These include the following:

- travel allowance is assessable income and must be disclosed in the employee's tax return. It is the employee's responsibility to disclose this income and claim an appropriate deduction. Organisations are required to include part day travelling allowance on an employee's group certificate;
- employees need not substantiate travel allowance expense where the ATO considers that the expenses claimed against the allowance are reasonable. However, if a travel allowance paid by an organisation exceeds the reasonable allowance, an employee who claims a deduction for the whole of that amount or a deduction which exceeds the reasonable allowance has to substantiate the whole claim; and
- travel allowances paid are not subject to Fringe Benefit Tax (FBT) as they fall within the definition of a salary and wage which are not subject to FBT.

6. Internal Control Framework

This Chapter discusses the findings and recommendations of the audit against each component of the internal control framework. Control is a process, effected by the governing body of an organisation, senior management and other employees, designed to provide reasonable assurance that risks are managed to ensure the achievement of the organisation's objectives³⁷.

Risk assessment

Introduction

6.1 A documented framework of policies and procedures covering identification, analysis and assessment of the risks to travel management activities provides the basis for effective risk management for travel. Risk management activities generally depend on high quality policies and procedures and, in their absence, risk management practices are prone to be inadequate and applied inconsistently. However, as noted in the MAB/MIAC publication³⁸:

'In managing risk you need to strike a balance between the cost of managing the risk and the benefits to be gained. Recognising that a risk-free environment is impossible (if not uneconomic) to achieve, you need to decide what level of risk is acceptable'.

6.2 It is therefore important that the assessment and management of risks in travel management processes balance the cost of control against the likely benefits.

6.3 Generally, official travel in the Commonwealth is construed as a simple procurement activity. This is reasonable at one level—as arranging travel, and the associated processes (such as payment of travelling allowances) are routine and assumed to be well-understood by most people. However, official travel has business risks warranting consideration beyond those of traditional procurement and payment activities. These include the reputation risk of any perception of misuse or abuse and the management of insurance arrangements.

³⁷ Based on COSO Internal Control—Integrated Framework as amended by NSW Treasury, Statement of Best Practice, Internal Control and Internal Audit, June 1995.

³⁸ *Guidelines for Managing Risk in the Australian Public Service*, Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC), Report No.22, October 1996.

Business benefits of risk assessments

6.4 Risk assessments undertaken against an established risk framework that takes account of the costs and benefits of controls, assists an organisation to apply consistent and defensible approaches to business travel risk management.

6.5 Risk assessments also enable appropriate management procedures and resources to be applied to the management of business travel costs, travel management support activities and the contracts with the travel management company and travel service providers.

Audit findings

Table 6.1

Implementation of an effective risk assessment framework

Principle	Implementation of an effective risk assessment framework
Audit evaluation criteria	Strategic and operational risks are identified, assessed and adequately managed in respect of: <ul style="list-style-type: none"> • business travel; • travel management; and • contract service delivery.
Audit findings	Of the five organisations reviewed, the audit found: <ul style="list-style-type: none"> • all organisations used an appropriate level of professional advice in contract tender processes and developing the contract; • in four organisations, formal risk assessments had not been undertaken that addressed business travel, travel management or contract service delivery; and • some risks associated with business travel had been considered as part of the development of fraud control plans.
Better practice noted	The audit noted: <ul style="list-style-type: none"> • in a newly negotiated contract (which was not in force at the time of the audit), a risk assessment was required to be undertaken as part of the contracted service delivery; and • all organisations awareness of the need to undertake business travel risk assessments across their organisation had improved.

6.6 These findings relate primarily to strategic risk management practices and activities that were observed during the audit. The adequacy of risk management of the operational aspects of travel management is discussed in the audit findings under the heading 'Control environment'.

6.7 The audit observed that organisations generally only considered business travel risk in the context of the development of their fraud control plans, that is, risks associated with travellers' misuse of official travel. Consequently, the audit found there was limited consideration of the contract management risks associated with travel contract administration and performance monitoring. Overall risk assessment activities and practices, as they relate to the management of business travel, required improvement.

6.8 In the absence of a framework of policies and procedures requiring risks to be identified, assessed and managed, organisations appeared to place a high reliance on the experience and knowledge of travel managers, where they had been appointed, or contract managers to minimise the possible risks. The ANAO was unable to establish, in some instances, whether the approach to the management of business travel and the travel contract with travel management companies was based on a proper assessment of the risks.

6.9 Most organisations advised the ANAO that business travel and the management of the travel contract were considered to be low risk, particularly from a financial perspective. The ANAO acknowledges this represents a balanced approach to addressing the risks associated with business travel and travel contract administration. However, the ANAO found limited consideration had been given to the risks inherent in the day to day administration of business travel and travel contract administration.

Risk assessment—recommendation

Recommendation No.9

6.10 It is recommended that organisations review and strengthen their risk management framework to directly address the risks associated with business travel, travel management and contract management with appropriate monitoring and review arrangements.

Implementing the recommendation

6.11 The strategic importance of business travel, the nature and desirable length of the travel services contracts and the relatively high cost of the travel management function, indicate there are risks associated with travel management which should be formally identified and managed. In addition, the sensitivity of business travel by Commonwealth employees presents unique risks that need to be addressed by management.

6.12 Travel management risk frameworks need to be determined from an overall organisation perspective; addressing:

- business travel;
- travel management; and
- contract service delivery.

6.13 The extent of risk assessments and the resources committed to risk management should reflect the costs and strategic importance of business travel activity to the organisation.

Control environment

Introduction

6.14 A critical component of an effective control environment is management's commitment and attitude to the implementation and maintenance of an effective internal control structure. The level of positive support by management strongly influences the design and operation of control policies and procedures.

6.15 Senior management should establish a control environment that clearly sets out official travel and travel management responsibilities and promotes principles of pro-active management and continuous improvement. Comprehensive and up-to-date policies are fundamental to achieving such an environment.

6.16 Contract management is also fundamental to the success of travel management in the organisation and will be a major factor in delivering savings to the organisation. Management therefore should ensure travel contract managers are appropriately equipped to manage contracts in a professional and accountable manner. Mechanisms to better align travel contract management with corporate objectives and directions include:

- establishing effective travel policies and procedures;
- providing travel contract managers with appropriate training and skills; and
- ensuring appropriate industry, legal and technical advice is readily available.

Business benefits of an effective control environment

6.17 An effective control environment will ensure official travel policies, procedures and practices are aligned with the overall corporate objectives and directions. Further, it will ensure the organisation is well positioned to reduce the costs associated with official travel and travel management, including contract administration costs.

6.18 A process of continuous improvement in travel management and contract management should result in better practice over time.

Audit findings

6.19 The audit findings in this section, summarised in Tables 6.2 and 6.3 below, deal with:

- a demonstrated understanding of travel management responsibilities; and
- pro-active management and continuous improvement.

Table 6.2**A demonstrated understanding of travel management responsibilities**

Principle	A demonstrated understanding of travel management responsibilities
Audit evaluation criteria	<ul style="list-style-type: none"> • Policies and procedures are established that cover the management of travel and the travel contract. • Professional advice is utilised where appropriate. • Travel management is well understood and travel managers have an appropriate level of skill. • Contracts for the provision of travel services support corporate objectives and aim to reduce costs.
Audit findings	<p>Of the five organisations reviewed, the audit found that:</p> <ul style="list-style-type: none"> • all organisations had policies and procedures that covered the management of travel although they were inconsistent in detail and content and required improvement; • in two organisations travel management skills required improvement; • two organisations had appointed dedicated full time travel managers. A third organisation appointed a travel manager after the audit was completed; • all organisations, when going to tender for travel services, identified that cost savings were the most important reason for the selection of the travel management company; • all organisations used an appropriate level of professional advice in contract tender processes and developing the contract; and • all contracts supported corporate objectives and reduction of costs.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • one organisation in which travel policies were linked to the organisation's strategic purchasing direction; • all organisations provided policies and procedures to staff electronically; and • two organisations had policies which addressed training responsibilities.

Policies, procedures and processes

6.20 The audit found that travel policies and procedures were inconsistent in detail and content across organisations. To some extent this was not unexpected, as organisations have devolved responsibility for travel management to program and administrative support areas. However, the standard and documentation of travel policies, procedures and practices required improvement.

6.21 Policies and procedures were disseminated to staff in both electronic and printed form.

6.22 The audit found most policy documents relating to travel and travel management was detailed and procedural based. In addition, elements of the policy were often held in a variety of documents covering personnel policy and procedures and, separately, administrative and finance policy and procedures.

6.23 Policies and procedures addressing the assessment, documentation and management of risks also required improvement. As noted in the risk assessment section above, managing the risks associated with travel contracts relies on a sound framework of policies and procedures. A poor framework will lead to poor management practices and inconsistent treatment of risk. This, in turn, could leave the organisation exposed to unnecessary risks or, alternatively, may mean it is committing unnecessary resources to managing risks. It is, however, important that the policy framework 'fits the purpose' and balances the management of identified risks associated with official travel with the cost of control and the likely benefits.

Travel managers

6.24 Audit Report No.14 noted that a common feature of those organisations which had better quality policies and procedures, better management information and a better working relationship with their travel management company was the existence of a designated 'travel manager'.

6.25 The role of the travel manager extends beyond the management of the contract with the travel management company, although this is certainly important, to:

- maintaining the currency of travel policies and procedures and ensure they are effectively promulgated to all staff;
- collating management information; to monitor and report on compliance with the approved travel policy; and
- monitor and report on key performance measures.

6.26 The survey conducted as part of this audit indicated that 56 per cent of surveyed organisations had appointed a travel manager. This was a significant improvement on the previous position. Of the travel managers appointed 11 were full time; two spent between 25 and 50 per cent of their time managing travel; while 13 spent up to 25 per cent of their time.

Training

6.27 The audit found that training in the management of contracts was limited and usually the responsibility of individual contract managers. However, some organisations had identified the required contract management skills and were addressing training needs through in-house and/or external training programs.

Table 6.3**Pro-active management and continuous improvement**

Principle	Pro-active management and continuous improvement
Audit evaluation criteria	<ul style="list-style-type: none"> • Travel management problems are anticipated and resolved promptly at the lowest practicable level. • Continuous improvement is an essential part of travel management.
Audit findings	<p>Of the five organisations reviewed, the audit found:</p> <ul style="list-style-type: none"> • all organisations had in place formal mechanisms for managing the treatment and resolution of problems with travel contracts; • one organisation reviewed its travel function as part of its performance improvement cycle; • one organisation, as part of new contract obligations, required its travel management company to review its travel processes to increase efficiency; • two organisations needed to improve the level of training and guidance provided; and • some organisations had appointed travel managers while others relied on contract managers to supervise delivery of the services specified in the contract.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • all organisations had maintained devolved authority in respect of organising travel; and • where travel managers had been appointed, organisations had begun to develop improved relationships with their travel management company.

Control environment—recommendations**Recommendation No.10**

6.28 It is recommended that organisations review their policies and procedures to ensure they provide for an appropriate level of information to facilitate cost effective travel management.

Recommendation No.11

6.29 It is recommended those organisations, which have not already done so, consider designating a position as travel manager to coordinate all their travel arrangements without unnecessary duplication and overlap of contract administration arrangements.

Implementing the recommendations

6.30 Travel management policies, guidance and training requirements and the designation of a position as travel manager should be considered from an overall organisational perspective in light of the risks faced by the organisation from its travel activities. The costs and benefits of improved policies and procedures and the appointment of a designated travel manager need to be considered.

Control activities

Introduction

6.31 Control activities in an effective control framework mitigate unacceptable risks and assist the achievement of business objectives.

6.32 Organisations should ensure that travel management arrangements continue to reflect and meet user needs and requirements. The nature, timing and extent of control activities should reflect the potential loss (monetary or otherwise) to the organisation if the risks eventuate. The cost of implementing a particular control procedure needs to be measured against the priority attached to mitigating the risk.

6.33 Control activities should be clearly documented in procedure manuals and job descriptions, and be available to staff responsible for their implementation. Control activities are either preventative or detective and are broadly categorised as management, organisational, authorisation, operational or computing controls.

Business benefits of control activities

6.34 Travel management control activities require policies and procedures which facilitate the continuing relevance and 'effectiveness and efficiency' of services.

Audit findings

6.35 The audit findings in this Section, summarised in Tables 6.4, 6.5, and 6.6, deal with the following:

- effective management of business travel;
- business travel costs are monitored and contained; and
- the time, cost and quality of contracted service delivery are monitored.

Table 6.4**Effective management of business travel**

Principle	Management of business travel is effective
Audit evaluation criteria	<ul style="list-style-type: none"> • Business travel activities are well understood. • Travel policy compliance is monitored and enforced.
Audit findings	<p>Of the five organisations reviewed, the audit found:</p> <ul style="list-style-type: none"> • two organisations hold regular training and information sessions on travel arrangements; • in all organisations, travel processes were not applied consistently across business areas; • four organisations used their travel management company to enforce the travel policy; and • several instances on non-compliance with travel policies were noted.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • two organisations had established a centralised travel management cell; and • two organisations had assistance from the travel management company on site.

Travel management processes

6.36 Organisations have established systems to assist in the management of travel and these varied significantly, including the use of electronic systems (e.g. FMIS and Enterprise Resource Planning (ERP), Lotus Notes and Microsoft Access) and manual processes. The audit found, however, that the implementation of automated systems within many organisations had simply created electronic versions of existing manual processes and, as a result, the opportunities available to re-engineer travel processes to improve efficiency had not been taken.

6.37 In addition, most decentralised travel processing areas created and maintained subsidiary, manual records relating to travel and, were as a result, increasing the indirect cost of travel management, reducing the reliability of management information and limiting the ability to properly control payments and reconciliations. In most organisations, travel processes were not applied consistently across the organisation's business areas. Consequently, organisations were supporting a number of markedly different processes and systems.

Non-compliance with organisational travel policies

6.38 *The Financial Management and Accountability Act 1997* provides the authority for Chief Executive Officers (CEOs) to issue policies and procedures in respect to official travel. The audit found several instances

where travel policies and procedures had not been complied with by organisations, including:

- officers approving their own travel;
- travel undertaken without approval; and
- approval for travel undertaken after the travel had occurred.

Table 6.5

Travel costs are monitored and contained

Principle	Travel costs are understood and monitored
Audit evaluation criteria	<ul style="list-style-type: none"> • Travel costs are understood and monitored. • Travel management costs are understood and monitored.
Audit findings	<p>Of the five organisations reviewed, the audit found:</p> <ul style="list-style-type: none"> • two organisations had a sound understanding of their travel activities and trends, with a third organisation gaining an understanding of travel costs with the appointment of a travel manager; • all organisations had difficulty extracting data on travel costs from their FMIS. Organisations had to rely on information from their travel management company to enable monitoring of air travel. However, other costs associated with travel could not be obtained from organisational systems; and • all organisations had difficulty determining their total costs associated with travel.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • two organisations had their travel management company provide an analysis on the most frequently visited destinations to enable future negotiations with other travel providers.

Management information—cost of travel

6.39 Audit Report No.14 noted that the costs captured in a general ledger of the FMIS was only a sub-set of the total information required for an organisation to effectively manage its travel spend. Travel costs need to be dissected into components to provide data that would be useful:

- when negotiating with travel service provider, as part of contract renewal, and with suppliers of transport or accommodation;
- for monitoring performance against travel service contracts;
- for monitoring compliance with approved travel policies; and
- for benchmarking travel performance.

6.40 The information necessary for the above purposes should ideally separate international and domestic travel and categorise expenditure between fares, accommodation, meals and incidentals and between the various business units or activities of the organisation.

6.41 The audit found that the amount and nature of information on travel costs continued to be as extremely limited as was identified in Audit Report No.14. While organisations were able to identify travel costs associated with airfares, with assistance from their travel management company, organisation's internal systems continued to be unable to provide information on travel costs other than at an extremely high level of detail. In particular, there continued to be little or no dissection of total travel costs, including accommodation and meal costs. This was also confirmed from the results of the audit survey undertaken by the ANAO.

6.42 Consequently the ability of organisations to monitor and manage the direct costs of travel and compliance with travel policies is extremely limited.

Table 6.6

Monitoring of time, cost and quality of contracted travel service delivery

Principle	Time, cost and quality of contracted travel service delivery are monitored
Audit evaluation criteria	Travel administrative arrangements are appropriate and effective.
Audit findings	Of the five organisations reviewed, the audit found: <ul style="list-style-type: none"> • four organisations regularly monitored the service delivery of their travel management company; and • all organisations required improvement in the area of billing and reconciliation of accounts provided by suppliers under contract.
Better practice noted	The audit noted: <ul style="list-style-type: none"> • one organisation received monthly accounts electronically.

Billing

6.43 Billing activities include receiving and reconciling supplier invoices and paying invoices associated with official travel. Billing covers payments for air travel, ground transport (e.g. Cabcharge and car rental) and other expenses incurred as part of official travel in the organisation.

6.44 Billing is a key aspect of contract administration. Successful and efficient billing and payment requires cooperation of both the contracting organisation and the travel management company. Where invoices are received from a number of suppliers, the billing process requires a considerable commitment of resources, and coordination of those resources, to manage the process efficiently.

6.45 The audit found that the billing processes used by organisations required improvement. Issues that impacted on the effectiveness of the billing process included the proliferation of separate systems and the level of decentralisation. Billing processes were administratively complex as individual areas of organisations established separate systems to manage the payment of accounts. In addition, organisations continue to pay for travel based on individual invoices for trips and undertake time consuming reconciliations between invoices and statements prior to payment.

6.46 Better practice suggests that responsibility for arranging travel should be devolved to individual work units, but the processing of payments for travel should be centralised. In addition, the development of a relationship with the travel management company enables organisations to develop more efficient payment processes. As a result, processes that did not contribute significantly to 'value-adding' could be reduced.

Control activities—recommendations

Recommendation No.12

6.47 It is recommended that organisations:

- review their current systems, both electronic and manual, that are used to collect information on, and manage, official travel with a view to maintaining only those that are critical to the effective corporate management of travel;
- review the adequacy and usefulness of the travel information available from both internal systems and the travel management company to facilitate monitoring of compliance with the approved travel policy and to permit effective cost control; and
- centralise as much of the billing payment processes as possible to improve overall effectiveness and efficiency.

Implementing the recommendation

6.48 These recommendation are directed toward:

- identifying redundant and duplicate systems across the organisation, including in devolved environments, and re-engineering the current information systems so that the minimum number are maintained into the future;
- placing organisations in a better position to assess whether the organisation, as a whole, and individual business units within the organisation have undertaken official travel at the least cost to the organisation;
- enabling organisations to negotiate with service providers, including accommodation and road transport providers on the basis of better information; and
- streamlining the bill payment process while not impacting on the devolution of approval and authorisation of official travel and, as a result, releasing resources to perform other 'value added' work.

Information and communication

Introduction

6.49 Information and communication are critical for performance reporting, decision making, both within the organisation and externally, and the achievement of strategic objectives. Performance information needs to be identified, captured, analysed and communicated on a timely basis. It needs to be in a form that enables people to carry out their responsibilities. Accordingly, information systems (both computer and manual) need to be in place to capture and process data in meaningful ways.

Business benefits of effective information and communication

6.50 Effective information and its communication help managers establish whether resources are being directed towards the achievement of desired outcomes in the most efficient, effective and ethical way. It also enables staff to undertake and monitor their own operational responsibilities.

Audit findings

6.51 The audit findings, summarised in Table 6.7, deals with whether communication between the organisation and the travel management company was effective and whether the management and performance information available to the organisation and provided by the travel management company assisted in the effective management of official travel.

Table 6.7
Information and communication

Principle	Communication of information between organisations, travellers and the travel management company is effective
Audit evaluation criteria	<ul style="list-style-type: none"> • The respective responsibilities of the organisation and travel management company are well understood. • Travellers are aware of policies and procedures. • Changes to policies / procedures are documented and disseminated. • There is regular communication between the organisation, travel management company and preferred suppliers.
Audit findings	<p>Of the five organisations reviewed, the audit found:</p> <ul style="list-style-type: none"> • all organisations were aware of their own, and the travel management company's responsibilities, in relation to deliverables stated in the contract for the provision of travel services; • two organisations, with the assistance of their travel management company, held regular information sessions for staff in relation to the air travel contract; • for most organisations, while contract performance measures for time and cost were clear, measures in relation to quality were stated generically and difficult to measure; and • organisations needed to improve practices in relation to contract performance monitoring.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • one organisation held training and information sessions on a regular basis to keep staff, and newcomers to the organisation, abreast of new and emerging issues in relation to official travel; • in all organisations, changes to travel policies and travel procedures were documented and disseminated to staff either via the organisation's intranet or paper based staff circulars; and • regular meetings were held between the organisation and the travel management company to ensure emerging issues were considered in a timely fashion.

Management performance information

6.52 Organisations receive most of their travel management information from their travel management company. The cluster contracts specify what management information and reports are available to organisations and that organisations can specify particular information enhancements they require.

6.53 The audit found that while the contracts included a significant number of reports to enable organisations to manage official travel the effectiveness of these reports was limited as a result of the way in which organisations had set up their internal processes. While organisations had devolved the management of travel, the management information provided by the travel management company was at a highly aggregated level and, consequently, did not enable management review of business travel at operational and/or cost centre levels. In addition, as not all travel arrangements were made with the travel management company (i.e. accommodation and road transport) the reports provided did not include all travel expenditure. Internal reports, as indicated previously, were also unable to provide a complete picture of the total travel spend.

6.54 A review of the contracts indicated that they commonly included detailed time and cost performance measures. However, quality service measures were generally stated in broad and/or generic terms that were difficult to measure or assess either qualitatively or quantitatively.

Information and communication—recommendation

Recommendation No.13

6.55 It is recommended that organisations review their management information requirements at business unit levels as well as ensuring appropriate information is collected internally and received in a timely fashion from the travel management company.

Implementing the recommendation

6.56 The purpose of the above recommendation is to enable organisations to better manage their total travel spend. While air travel is a significant component of official travel it does not represent all travel expenditure. Without information in respect of all travel expenditure, including accommodation and road transport, at both the organisational and business unit level, organisations are unable to measure the cost effectiveness of their travel spend.

Monitoring and review

Introduction

6.57 A critical component of the internal control framework is the ability to monitor and review its operations. The effectiveness of the control structures put in place by the organisation also needs to be monitored and reviewed to ensure that it is operating effectively.

6.58 Monitoring and review can be undertaken in two ways, by ongoing monitoring and by separate reviews and evaluations.

6.59 Essential to performance monitoring is the input of, and assessment by, clients and stakeholders of the contracted services.

Business benefits of effective monitoring and review

6.60 Monitoring and review provides assurance on whether program objectives are being achieved efficiently and effectively. It also provides an on-going check on the effectiveness of the control structure.

Audit Findings

6.61 The audit findings in this section, summarised in Table 6.8, deal with monitoring and review of official travel internal control structures and the performance of the travel management company.

Table 6.8

Monitoring and review of internal control structures and the performance of the travel management company

Principle	Monitoring and review processes are in place and working effectively
Audit evaluation criteria	<ul style="list-style-type: none"> • Performance measures are regularly reviewed to ensure their continuing applicability. • Ongoing performance monitoring and reporting occurs over the life of travel management contract.
Audit findings	<p>Of the five organisations reviewed, the audit found:</p> <ul style="list-style-type: none"> • in all organisations limited formal review activity had been undertaken of client satisfaction with the revised travel management arrangements or the internal control processes employed; and • performance monitoring has generally concentrated on assessments of whether the savings, through rebates, have been delivered.
Better practice noted	<p>The audit noted:</p> <ul style="list-style-type: none"> • one organisation with comprehensive statements of performance measures covering all aspects of business travel; and • two organisations with regular reporting on contract performance.

Monitoring and review

6.62 As indicated previously, organisations have not, as part of the establishment of the cluster contracts, taken the opportunity to re-engineer or review their current travel processes. While travel processes are subject to internal review, through the work program of organisations' internal audit units, no formal reviews with the objective of ensuring the internal control structures in place, are the most cost effective and address the risks identified have been carried out.

6.63 In respect of the performance of the travel management companies, all of the contracts provided a variety of ways in which performance is monitored; including reports on air fare savings, reports on the timely provision of data required under the contract and quarterly review meetings where review of feedback is undertaken. The audit found that currently organisations were primarily focused on establishing whether the savings identified have been realised. Customer surveys, which are an important way to gauge client satisfaction, have not been undertaken.



Canberra ACT
4 December 2000

P. J. Barrett
Auditor-General

Appendices

Appendix 1

About the audit

Introduction to Financial Control and Administration audits

Financial Control and Administration (FCA) audits are concerned with improving the quality of public administration³⁹. 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 respect of financial management and administration; and
- they report generically, in as much as individual organisations included in the review are not identified in the public report.

Audit objectives

The audit objective was to provide assurance to the Parliament on the cost-effectiveness of public sector travel by:

- ascertaining the degree of acceptance, and the extent of implementation, of the previous audit recommendations and better practice principles; and
- establishing whether organisations were managing travel effectively, taking into consideration recommendations and findings detailed in the Audit Reports and the Better Practice Guide; and

Audit evaluation criteria

Table 1 shows the audit evaluation criteria mapped against the components of the internal control framework. The organisations’ management of travel was assessed against these criteria.

³⁹ FCA audits are general performance audits undertaken and reported under the provisions of Sections 18 and 19 of the *Auditor-Generals Act 1997*, respectively.

Table 1**Audit evaluation criteria**

Control framework component • <i>Associated principles</i>	• Audit evaluation criteria
Risk assessment Implementation of an effective risk management framework.	Strategic and operational risks are identified, assessed and adequately managed in respect of: <ul style="list-style-type: none"> • business travel; • travel management; and • contracted service delivery.
Control environment A demonstrated understanding of travel management responsibilities. Pro-active management and continuous improvement.	Policies and procedures are established that cover management for travel and the contract. Travel management is well understood and travel managers have an appropriate level of skill. Contracts for the provision of travel services support corporate objectives and aim to reduce costs. Professional advice is utilised where appropriate. Travel management problems are anticipated and resolved promptly at the lowest practicable level. Continuous improvement is an essential part of travel management.
Control activities Management of travel is effective. Travel costs are understood and monitored. Time, cost and quality of contracted travel service delivery is monitored.	Travel activities are well understood. Travel policy compliance is monitored and enforced. Travel costs are understood and monitored. Travel management costs are understood and monitored. Travel administrative arrangements are appropriate and effective.
Information and communication Communication of information between organisations, travellers and TMC is effective.	The respective responsibilities of the organisation and TMC are well understood. Travellers are aware of policies and procedures. Changes to policies/procedures are documented and disseminated. There is regular communications between the organisation, TMC and preferred suppliers.
Monitoring and review Monitoring and review processes are in place and working effectively.	Performance measures are regularly reviewed to ensure their continuing applicability. Ongoing performance monitoring and reporting occurs over the life of travel management contracts.

Better practice developments in travel management were also investigated as part of development of the audit evaluation criteria. These are discussed in Appendix 2.

Performance information

Planning for this audit commenced in November 1999 with research into travel management practices and private industry experience. Fieldwork was undertaken as follows:

- **survey**—distributed in late December 1999—last response received in May 2000;
- **in-depth fieldwork**—commenced in February 2000 and was completed in May 2000; and
- **travel management workshop**—was held on 3 May 2000, and the results returned to participating agencies on 4 May 2000.

The elapsed time from the commencement of the audit to tabling this Report was 12 months.

The total cost of the audit was \$350 000. The average cost of fieldwork in each agency was \$70 000, which included the benchmarking studies.

Appendix 2

Better practice in travel management

As part of the research into, and development of, the audit criteria, the following elements of better practice in relation to aspects of travel management were identified.

Better practice in travel management depends on establishing an effective strategic relationship between the organisation and its travel management company. The relationship needs to be flexible enough to adapt to changes in the organisation and the travel industry and support an environment that allows managers to effectively manage risks and costs associated with business travel.

The following identifies some key issues to be considered in establishing better practice in travel management in an organisation.

Elements of better practice in travel management

<i>Issues</i>	<i>Discussion</i>
Policy and procedure manuals.	Travel policy should be a succinct statement of principles that is supplemented by procedures that are documented separately.
Travel expenditure	Organisations have moved away from up-front entitlement based systems to a reimbursement system based on actual costs.
Approval of travel.	Efficiencies and savings can be obtained through the elimination of this process while still meeting statutory requirements.
Appoint a travel manager.	Nominate a single person in the organisation who is responsible for travel management, including: <ul style="list-style-type: none">• risk management of travel and travel management;• design, implementation and monitoring of travel policies, procedures and practices; and• management of contract relationships with travel management company.
Establish a centralised travel processing cell/function.	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.
Payment for travel.	The development of a relationship with the travel management company enables organisations to develop more efficient payment processes. International, and increasingly Commonwealth public sector, experience indicates that significant indirect cost savings flow from the use of charge cards for the payment of all travel costs. <i>continued next page</i>

Issues	Discussion
Obtain management information from a single MIS or as few sources as possible.	Minimise the number of sources and systems used to obtain management information. Where possible source as much information from the travel management company or charge card providers. Ensure that the manner in which your information is recorded, both internally and externally, matches your management information needs. If you require information at a work unit level then your chart of accounts, travel booking arrangements with the travel management company and charge card statements need to reflect your information needs and organisation structure.
Establish and maintain a strategic relationship with travel management company. Use travel management company to assist in negotiations with suppliers.	The extent to which the service provider can add greater value to an organisation by, for example, the provision of management information, assisting in development of travel policies and procedures, negotiating on behalf of the organisation or advising the organisation in its direct negotiations with suppliers; will largely be determined by the quality of the relationship between the service provider and the organisation.
Staff awareness.	Staff should be aware of: <ul style="list-style-type: none"> • the travel management company's role and responsibilities; • contract and preferred supplier relationships; and • policies and procedures—particularly their own rights and responsibilities.
Contract management style that promotes continuous improvement in the time, cost and quality of service delivery.	Contracts entered into with the travel management company should: <ul style="list-style-type: none"> • support a flexible management style; • clearly specify contract services; • identify service levels which correlate to specified services; • establish service levels which are simple and efficient to measure; and • require service levels to be reviewed regularly, measured and reported.

Appendix 3

Audit recommendations— Audit Reports No.14 and 28

The following table details the recommendations in the above Reports and provides information on performance achieved to date.

Audit Report No.14 of 1997–98

<i>Recommendation</i>	<i>Comment</i>
<p>In relation to the payment of travel allowance it is recommended that entities:</p> <ul style="list-style-type: none"> • undertake a cost-benefit analysis of their existing processes in comparison with reimbursement system; • subject to the result of this analysis, as the opportunity arises, implement a reimbursement system for travel expenses based on actual costs incurred; • implement new, or redesign existing, controls to facilitate removal of the requirement to obtain formal pre-travel approval on a per-trip basis; and • introduce a charge card system for all frequent travellers. 	<p>The ANAO survey results indicate that over the last two years the number of Commonwealth organisations surveyed adopting a reimbursement-based actual cost system had doubled from eight in 1998 to 16 in 1999. While the increase is substantial, the use of a reimbursement-base actual cost system continues to be mainly in statutory authorities. The real savings in direct travel costs will be achieved when the larger departments take up the available opportunities to introduce a reimbursement-based actual cost system.</p> <p>Organisations continue to require formal, documented pre-travel approval is on a per trip basis, notwithstanding hat better practice suggests that efficiencies and savings can be obtained through the elimination of this process while still meeting statutory requirements. To implement this better practice it will be necessary for organisations subject to the <i>Financial Management and Accountability Act 1997</i> to consider how they could continue to meet the requirement to obtain authorisation to expend public moneys prior to the liability being incurred. Paragraphs 4.12 to 4.14 of this Report provides suggestions on ways in which the above can be achieved.</p> <p>The audit survey results indicated that, over the last three years, the number of Commonwealth organisations using employer-sponsored charge cards had increased markedly. In 1997–98, the use of charge cards for official travel was generally limited to Commonwealth statutory authorities and Commonwealth owned companies. Since then, a significant number of departments have begun to use charge cards, in a limited way, for official travel.</p> <p style="text-align: right;"><i>continued next page</i></p>

Recommendation	Comment
<p>In relation to the control of other direct travel costs it is recommended that entities:</p> <ul style="list-style-type: none"> • routinely analyse their air travel costs to determine whether any additional efficiencies can be achieved and to ensure ongoing compliance with their approval policies; • review existing contracts with travel service providers; 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. 	<p>Organisations appear to be working with their travel management company to develop approaches to monitor compliance with policies and procedures.</p> <p>Since the 1997–98 Report, many organisations have entered into new contracts with travel management companies.</p> <p>The audit found that organisations had little success in negotiating with the airlines to introduce procedures and processes that would provide sufficient information to enable them to control and manage the use of frequent flyer points. As a result, management of these points continues to be a difficult management issue for organisations. Whether, and to what extent, points were being used for official travel was not able to be reliably measured by most organisations.</p>
<p>In relation to the control framework within entities it is recommended that management:</p> <ul style="list-style-type: none"> • review their existing policies and procedures to ensure the latter adequately address all key aspects of travel; • review the adequacy and usefulness of the travel management information available to executive management; and • appoint or formally designate an internal position as ‘travel manager’. 	<p>Of the 46 organisations surveyed, 38 (82.6 per cent) had a formal travel policy. 36 (78.2 per cent) organisations indicated they only updated their travel policy on an ‘as needed basis’.</p> <p>The audit found that contracts entered into by clusters detailed a comprehensive list of the type of management information that would be provided by the travel management company. However, the audit also found that the routine reports specified in the contracts were not received regularly and, when ultimately received, were often difficult to interpret.</p> <p>Of the 46 agencies surveyed, 26 (56.5%) had an officially appointed travel manager.</p>

Audit Report No.28 of 1997–98

Recommendation	Comment
<p>The ANAO recommends that, under the Commonwealth arrangements for air travel contracting, agencies;</p> <ul style="list-style-type: none"> periodically and systematically test the market, with regular competitive tendering of travel service providers; actively manage contracts with travel service providers to maximise contractual benefits, such as through joint development of cost-effective booking procedures, staff education as to travel policy and contractual benefits, and monitoring of travel service provider performance through performance measurement and service level agreement; and undertake benchmark of travel activities between cost centres and with other agencies. 	<p>In May 1998, DOFA advised organisations that the whole of government approach was no longer being pursued and that organisations should enter into negotiations with travel service providers either collectively or individually under their own responsibility.</p> <p>In late 1998, the first group of organisations signed a contract with a travel management company for the provision of travel services to the cluster. Since late 1998, some eight clusters have been formed, covering 57 organisations. As well, several organisations have signed individual contracts for the provision of travel services.</p>
<p>The ANAO recommends that, to facilitate the exchange of information within the Commonwealth:</p> <ul style="list-style-type: none"> agencies clarify the undertakings that they enter into with their travel service providers to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' businesses; and the Department of Finance and Administration amends the standard confidentiality clause that it promulgates in the standing offer for air travel. 	<p>The ANAO review found that, generally, cluster contracts continue to include provisions that require that confidential information be treated as such. The audit also found that a number of contracts contain provisions that specifically allow for the disclosure of information to <u>any other</u> governmental contract authority, provided that the nature of any confidentiality is also disclosed. However, contracts that include the above type of provision specifically exclude authority to disclose any information in relation to the rebates included in the contract.</p> <p style="text-align: right;"><i>continued next page</i></p>

Recommendation	Comment
<p>The ANAO recommends that, the Department of Finance and Administration:</p> <ul style="list-style-type: none"> • improve strategic coordination of agencies procurement of air travel services; • strengthen administration of the collection of travel service provider commission payment; and • reviews the effectiveness of cost recovery arrangements for air travel procurement, as a means of achieving better value for money'. 	<p>See earlier comment concerning DOFA advice of May 1998.</p>
<p>The ANAO recommends that, the Department of Finance and Administration, in conjunction with lead agencies, negotiate with travel service providers for development and specification of services and systems in areas of interest to agencies, including:</p> <ul style="list-style-type: none"> • access and assembles key information on agencies' air travel contracting into a management information system at a whole-of-government level where this would be cost effective to assist in the procurement of air travel services; and • analyse the cost-effectiveness of alternative approaches for the procurement of air travel, such as the proposal for a system of fixed government fares for domestic travel. 	<p>Above comment applies.</p> <p><i>continued next page</i></p>

Recommendation	Comment
<p>The ANAO recommends that, under the arrangements for agencies' air travel contracting:</p> <ul style="list-style-type: none"> • agencies seek to increase their attractiveness to travel service providers by entering into group purchasing arrangements for air travel with other agencies that have complementary requirements in air travel; and • in conjunction with lead agencies, the Department of Finance and Administration assists formation of the voluntary groupings, including by information dissemination and by seeking interest in specific-purpose tenders, for example for international travel. 	<p>As per the 1997–98 recommendation, many Commonwealth agencies started forming cluster arrangements for travel services, in the later part of 1998.</p>

Index

A

acquittal 13, 14, 41, 50
Audit Report No.14—*Official Travel by Public Sector Employees* 9, 12-16, 21, 24, 25, 29, 38-47, 57, 61, 62, 76
Audit Report No.28—*Contracting Arrangements for Agencies' Air Travel* 9, 24, 26, 29, 30, 32, 34-36, 78
Australian Taxation Office (ATO) 16, 17, 50, 51

B

better practices 9, 18, 19, 29, 38, 40, 71
billing processes 12, 21, 40, 41, 63
Block Efficiency Scrutinies 39
business travel 9, 15, 18, 19, 22, 27, 28, 31, 32, 39, 46, 47, 54, 56-59, 64, 73, 75, 76, 78

C

Certified Agreements 13, 41, 83
charge card 9, 14, 21, 39, 41-43, 75, 76
cluster contract 10-12, 20, 22, 31-34, 66, 68
clusters 10, 31, 35, 77, 78
Code of Conduct 16, 45, 48
common-use arrangements 26, 32, 33, 35, 36
contract management 10, 11, 22, 25, 28, 29, 32-34, 53-55, 57, 75

D

domestic airfares 9

E

entitlement based systems 13, 41
evaluation criteria 28, 29, 71, 72, 73

F

frequent flyer points 14-16, 22, 38, 45-49, 77

frequent travellers 9, 14, 21, 39, 42, 43, 76

Fringe Benefit Tax (FBT) 17, 51

G

Goods and Services Tax (GST) 16, 17, 24, 50, 51

M

management information 11, 13, 17, 18, 20, 23, 27, 31, 33, 35, 38, 41, 42, 57, 60, 61, 66, 75, 77

P

performance 11, 13, 18, 19, 27, 28, 32, 34, 35, 44, 53, 57, 58, 61, 64-68, 71-73, 76, 78
policy and procedural manuals 12
pre-travel 12, 21, 39-41, 76
Public sector travel 9, 10, 12, 18, 24, 25, 27, 40, 46, 71
Public Service and Merit Protection Commission (PSMPC) 16, 45, 48, 49

R

re-engineering 9, 12, 18, 20, 21, 39-42, 50, 64
recommendations 10, 12, 16, 18, 20, 21, 23, 27-29, 36, 52, 58, 59, 63, 71, 76
reimbursement system 9, 13, 14, 16, 17, 21, 25, 38, 39, 41, 44, 51, 74, 76
risk assessments 17, 19, 53, 54

T

travel contracts 18, 30, 31, 38, 57, 58
travel management company 10-13, 15, 17-20, 22, 23, 28, 31, 32, 34, 35, 37, 40, 47, 49, 53, 56-58, 60-63, 65-67, 74, 75, 77
travel managers 19, 25, 54, 56-58
travel service providers 10, 11, 25, 30, 31, 33, 35, 36, 53, 78

Series Titles

Titles published during the financial year 2000–01

Audit Report No.18 Performance Audit
Reform of Service Delivery of Business Assistance Programs
Department of Industry, Science and Resources

Audit Report No.17 Performance Audit
Administration of the Waterfront Redundancy Scheme
Department of Transport and Regional Services
Maritime Industry Finance Company Limited

Audit Report No.16 Performance Audit
Australian Taxation Office Internal Fraud Control Arrangements
Australian Taxation Office

Audit Report No.15 Performance Audit
Agencies' Performance Monitoring of Commonwealth Government Business Enterprises

Audit Report No.14 Information Support Services Report
Benchmarking the Internal Audit Function

Audit Report No.13 Performance Audit
Certified Agreements in the Australian Public Service

Audit Report No.12 Performance Audit
Passenger Movement Charge - Follow-up Audit
Australian Customs Service

Audit Report No.11 Performance Audit
Knowledge System Equipment Acquisition Projects in Defence
Department of Defence

Audit Report No.10 Performance Audit
AQIS Cost-Recovery Systems
Australian Quarantine and Inspection Service

Audit Report No.9 Performance Audit
Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative

Audit Report No.8 Performance Audit
Amphibious Transport Ship Project
Department of Defence

Audit Report No.7 Performance Audit
The Australian Taxation Offices' Use of AUSTRAC Data
Australian Taxation Office

Audit Report No.6 Performance Audit
Fraud Control Arrangements in the Department of Health & Aged Care
Department of Health & Aged Care

Audit Report No.5 Performance Audit
Fraud Control Arrangements in the Department of Industry, Science & Resources
Department of Industry, Science & Resources

Audit Report No.4 Activity Report
Audit Activity Report: January to June 2000—Summary of Outcomes

Audit Report No.3 Performance Audit
Environmental Management of Commonwealth Land—Follow-up audit
Department of Defence

Audit Report No.2 Performance Audit
Drug Evaluation by the Therapeutic Goods Administration—Follow-up audit
Department of Health and Aged Care
Therapeutic Goods Administration

Audit Report No.1 Performance Audit
Commonwealth Assistance to the Agrifood Industry

Better Practice Guides

AMODEL Illustrative Financial Statements 2000	Apr 2000
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.47 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Life-cycle Costing (in Audit Report No.43 1997–98)	May 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997
Return to Work: Workers Compensation Case Management	Dec 1996
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996