

Ohio Fiscal Academy Case Study: State of Ohio Travel



Travel Dragons

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Table of Contents

EXECUTIVE SUMMARY	4
INTRODUCTION	5
Background	5
Research Strategies	5
RESEARCH	7
STMPColorado	7
<i>Travel Services</i>	7
<i>Airline Price Agreements</i>	7
<i>Auto Rental Agreements</i>	8
<i>Lodging Agreements</i>	8
<i>Travel Management Companies (TMC)</i>	8
<i>Usage</i>	9
<i>Funding</i>	9
<i>Savings</i>	9
Texas STMP	10
<i>Travel Services</i>	10
<i>Airline Price Agreements</i>	10
<i>Auto Rental Agreements</i>	10
<i>Lodging Agreements</i>	10
<i>Travel Management Companies (TMC)</i>	11
<i>Usage</i>	11
State of Utah Travel Office	11
<i>Travel Services</i>	11
<i>Airline Price Agreements</i>	11
<i>Auto Rental Agreements</i>	12
<i>Lodging Agreements</i>	12
<i>Travel Management Companies</i>	12
<i>Savings</i>	12
<i>Funding</i>	13
State of Ohio Travel	13
<i>Travel Services</i>	13

<i>Travel by Air</i>	13
<i>Travel by Vehicle</i>	14
<i>Lodging</i>	15
<i>Travel Management Companies (TMC)</i>	15
RECOMMENDATIONS	15
Create Office of Travel Management	15
Contract with Travel Agency	16
Establish Travel Contracts	16
Eliminate Reimbursements	17
Program Implementation	17
CONCLUSION	17
REFERENCES	19

EXECUTIVE SUMMARY

This report was commissioned to provide analysis and evaluation of the prospective cost savings should the State of Ohio adopt a centralized State Travel Management Program (STMP) for all state employees.

Research shows that the State of Ohio averages over \$7 million annually on travel service expenses in recent years. The annual travel expenses include airfare, lodging, auto rentals, and many miscellaneous fees and penalties associated with traveling.

The findings within this report demonstrate the unanimous result of cost and resource savings for several states that currently employ contracted travel services through a Travel Management Company (TMC). A few examples of savings are:

- Drastically reduced travel reimbursements to state employees by utilizing state issued purchasing card (Pcard). Ohio currently reimburses over \$4M annually.
- Creating contracts will ensure “lowest cost” travel services by preventing employees from utilizing their preferred vendor for personal gain (e.g. frequent flyer miles).
- Revenue from rebates – the State will receive revenue through auto/airfare rebates, and reimbursements of the TMC.

After evaluating the current methods and costs associated with travel, it is recommended that the State of Ohio implement a STMP for its employees. The state should seek out a qualified individual with knowledge of program policies and contract negotiations, and implement monitoring procedures that ensures the integrity of the program. Based upon our research and the success of other states currently utilizing STMPs, the State of Ohio has the potential for substantial cost savings and significantly improved efficiencies.

This report also investigates the fact that the analysis conducted has limited financial data from each state mentioned within. Actual cost savings per state could not be identified with certainty and the positive outcomes from each state fluctuates depending on the volume of travel services.

INTRODUCTION

Background

Historically, when a state employee's job has required travel, the State of Ohio has depended on the employee to pay for travel services and then seek reimbursement. In recent years, some agencies have begun paying for airline reservations and, to a limited degree, hotel reservations on behalf of employees, using either direct bill or the State of Ohio payment card (Pcard). The state does not currently leverage this spend in order to negotiate for the best available pricing.

In fiscal years 2013 and 2014 the State of Ohio spent over 7 million dollars, annually, on travel services (Table 1). In each of these years, state employees have been reimbursed over 4 million dollars for travel services. Our research indicates that the State of Ohio can reduce the burden to state employees for the up-front cost of travel services, while also reducing the overall cost of state travel.

	SPEND by CATEGORY/FISCAL YEAR			
	AIR RELATED TOTAL	AUTO RENTAL	LODGING TOTAL	GRANT TOTAL
FY13	\$ 2,272,217.65	\$ 113,739.78	\$ 5,048,611.19	\$ 7,434,568.62
FY14	\$ 2,264,963.52	\$ 135,392.71	\$ 4,889,758.69	\$ 7,290,114.92

Table 1

Research Strategies

Our strategy for research was to determine whether any State of Ohio agency was conducting or had already completed research into a State Travel Management Program (STMP). Next, we searched the internet to find other state governments that have already implemented an STMP. From that group of states, we chose three states from which to seek information (Utah, Colorado, and Texas). A list of approximately eleven questions (see below) was created for interviews with each state.

We learned that Ohio Shared Services (OSS) had completed preliminary research into the possible benefits and cost savings of becoming a Certified Travel Department (CTD) in order to establish an STMP. We sought information from OSS to determine the feasibility of this approach for Ohio.

In order to determine the state's current travel position, we needed reports detailing mode of travel, cost and destinations. We used reports available in the Ohio Administrative Knowledge System, Business Intelligence module (OAKS-BI) to make these determinations.

The following questions were used when interviewing each state about their travel policies:

- When did you implement your travel program?
- Do you have contracts for:
 - Hotel

- Air Travel
 - Rental Car
 - Travel Agency
- Is your travel program administered in-house or through a third party?
- Who do you offer services to?
 - Universities
 - Municipalities
- Is it mandatory?
- How many staff are needed to administer your program?
- Are there any other discount offers / how does this reduce costs or make the state money?
- How are you funded?
- How much has your program saved your state in travel cost?
- If in house, do you have any special accreditations / certifications?
- How do you pay?

RESEARCH

STMPColorado

One of the travel programs that we have researched is the State Travel Management Program of Colorado (STMPColorado). This program provides travel services to government agencies, including state agencies, institutions of higher education, local government and certified non-profit organizations. It is currently only mandatory for State Agencies. STMPColorado is administered by the State Purchasing Office at the Department of Personnel and Administration and operates at no cost to the taxpayers of Colorado. The program offers contracted travel services such as rental cars, airline bookings and lodging.

Travel Services

STMPColorado has direct contracts with various “travel supplier partners including airlines, automobile rental companies, travel management companies (TMC) and lodging.” (Colorado Division of Finance & Procurement 2013, 2) The State Purchasing Office “recommends necessary contract amendments, extensions and/or new solicitation opportunities that would be in the best interest of the State.” (Colorado Division of Finance & Procurement 2013, 2) There is no guaranteed volume or spending through the contracts. The program also participates in WSCA/NASPO auto rental contract. WSCA stands for the Western State Contracting Alliance.

Airline Price Agreements

STMPColorado has direct contracts with several major airlines, including Frontier Airlines, Great Lakes Airlines and United Airlines. Southwest Airlines also participates through the WSCA contract. These contracts include numerous city-pair destinations under a two-tiered structure. This structure offers both unrestricted fares and capacity-controlled fares.

Unrestricted Fares

- Fully refundable, without additional fees
- Fully changeable, without additional fees
- Last-seat availability fares
- Bi-directional fares

Capacity-Controlled Fares

- Fully refundable, without additional fees
- Fully changeable, without additional fees
- Limited number of available seats
- Bi-directional fares

These contracts also provide various waived ancillary fees, depending on the airline. This can include 1st and/or 2nd checked baggage and ticket service fees. STMPColorado participating

agencies are required to use established airline contracts unless certain criteria for an alternate carrier are met. Potential criteria include lack of seating, lower public cost, and cancelled flights. Airline bookings are made online through one of several Travel Management Companies (TMC) or through WSCA.

Auto Rental Agreements

STMPColorado has direct contracts with Avis/Budget. Hertz and Enterprise/National are also participating auto rental groups through WSCA. These contracts provide collision damage waiver (CDW) insurance and liability insurance coverage at no additional cost. Auto rental reservations can be made through either WSCA or basic self-ordering processes.

Lodging Agreements

STMPColorado has established direct contracts with Choice Hotels International (Clarion, Comfort Inns, EconoLodge, Quality Inns, Rodeway Inns and Sleep Inns) and La Quinta. The STMPColorado Lodging Directory houses all available properties for review and selection by customers. While all properties must be at or below location dependent GSA rates, the Lodging Directory also classifies properties that are lower than the required GSA rate as Economically Preferable. It also classifies properties that meet a minimum of 10 Green Seal Environmental Standards for Lodging Properties as Environmentally Preferable.

Through WSCA, STMPColorado customers also have the option to reserve accommodation with Intercontinental Hotel Group (Candlewood Suites, Crowne Plaza, Holiday Inns and Intercontinental). WSCA properties must also be at or below location dependent GSA rates. In addition, properties cannot charge the following fees:

- Change/Cancellation Fee (if received prior to 4:00pm on the day of check-in)
- Booking deposit or reservation fee
- Short notice reservation fee
- Early departure fee
- Flat city tax

Most lodging reservations are confirmed and paid for by using the CCardColorado program (similar to the Ohio Pcard program). This eliminates the need for customers to use their own personal credit card for reservations and also eliminates most lodging reimbursements. Lodging reservations can be made through either TMCs or basic self-ordering processes.

Travel Management Companies (TMC)

STMPColorado have contracts with several Travel Management Companies. The TMCs were selected through a Request for Proposal bidding process. These companies provide the online booking tools required for these services. For STMPColorado, each TMC requires a travel authorization number before it will make a reservation for any of the travel service providers.

Usage

In CY2013, the expenditures through STMPColorado were as follows:

Airline Price Agreements (Colorado Division of Finance & Procurement 2013, 35)
All Customers - \$11,192,427 (100%)

Auto Rental Agreements (Colorado Division of Finance & Procurement 2013, 7,8)
All Customers - \$3,392,160 (100%)

Lodging Agreements (Colorado Division of Finance & Procurement 2013, 36)
State Agencies - \$5,722,104 (51%)
Higher Education - \$4,106,360 (36%)
Local Government - \$1,495,982 (13%)
All Customers - \$11,324,446 (100%)

Funding

Lenora Kingston, state travel manager of Colorado, confirmed during a phone interview on December 2, 2014 that STMPColorado is fully funded through a combination of auto rental rebates and a partial reimbursement of the TMC service fee. Revenue from rebates and reimbursements fully support 1 full-time equivalent employee (1 FTE) and miscellaneous administrative costs (Kingston 2014). The auto rental rebate is a percentage of the total fee which is then reimbursed back to the state on a regular basis. The TMC reimbursement is where the TMC charges their service fee + \$3 per airline ticket and then reimburses the \$3 per ticket back to the state.

Every quarter, STMPColorado receives approximately \$32,000 in revenue from auto rental rebates (Colorado Division of Finance & Procurement 2013, 21,23) and \$15,000 in revenue from TMC reimbursements (Colorado Division of Finance & Procurement 2013, 21,23). Annually, both rebate programs provide combined revenue to STMPColorado of approximately \$188,000.

Savings

STMPColorado had total airline sales of \$11,192,427 in CY2013. They estimate the regular (list) price of total sales to be \$19,044,118. The total cost savings for airfares in CY2013 is estimated to be \$7,851,691. (Colorado Division of Finance & Procurement 2013, 35)

STMPColorado had total auto rental sales of \$3,392,160 in CY2013 (Colorado Division of Finance & Procurement 2013, 7,8). Through the inclusion of collision damage waiver insurance, \$107,561 in claims were paid in CY2013 through the program that would have originally been a liability to the State (Colorado Division of Finance & Procurement 2013, 6). An additional \$23,783 in liability claims were paid through the program in CY2013 that would have also been a liability to the State. (Colorado Division of Finance & Procurement 2013, 7) This number would

have been higher except that Enterprise/National were not able to provide data at the time of the report.

Texas STMP

The Texas State Travel Management Program (Texas STMP) provides travel services to government agencies, including state agencies, institutions of higher education, and local government. It is currently only mandatory for State Cabinet Agencies. Texas STMP is administered by the State Purchasing Office at the Texas Comptroller of Public Accounts. The program offers contracted travel services such as rental cars, airline bookings and lodging. (Texas Comptroller of Public Accounts Office n.d.)

Travel Services

Airline Price Agreements

Texas STMP has direct contracts with major airlines, including American Airlines and Jet Blue Airlines. These contracts include numerous city-pair destinations under a two-tiered structure, based upon unrestricted and capacity-controlled fares.

Auto Rental Agreements

Texas STMP has direct contracts with Avis Rent A Car System, Inc and Enterprise Rent-A-Car. These contracts provide Loss/Damage Waiver or comprehensive and liability insurance coverage at no additional cost. Auto rental reservations can be made through either a designated travel agency or by contacting the rental car company directly.

Lodging Agreements

Texas STMP has established direct contracts with various well known hotel providers. The Texas STMP Lodging Directory houses all available properties for review and selection by customers. All properties are contracted to be at or below location dependent GSA rates. Travelers may use hotels not listed in the Texas STMP hotel directory, but the rate is not to exceed \$85.00 for in-state travel or \$83.00 for out-of-state travel. (Texas Comptroller of Public Accounts Office n.d.)

It is preferred that travelers utilize the corporate travel charge card to pay for state travel hotel stays, eliminating the need for customers to use their own personal credit card for reservations and also eliminating most lodging reimbursements; however, use of the card is not mandatory. (Texas Comptroller of Public Accounts Office n.d.) Lodging reservations can be made through either Travel Management Companies (TMCs) or by contacting the hotel directly.

Travel Management Companies (TMC)

Texas STMP has contracts with National Travel Systems and Short's Travel Management. These companies provide an online booking tool as well as full service assistance as required for travel reservation services.

Usage

The State of Texas has not tracked usage or savings for the Texas STMP program. The program was initiated in 1987 with the idea that cost savings would be realized through cost avoidance; however, steps have not been taken to validate whether the cost savings goal has been attained. (Hernandez 2015)

State of Utah Travel Office

Tami Nelson, Utah State Travel Manager, provided information during an interview December 16, 2014 about the State of Utah and its travel programs from a finance perspective. The State of Utah Travel Office was placed in service in November, 1992 and is managed by two state employees. (Nelson 2014) The Travel Office is a department of the Utah Department of Administrative Services (DAS). Its primary purpose is to save taxpayer dollars used for Utah State business travel. The State of Utah Travel Office provides travel services to government agencies, including state agencies, institutions of higher education, local government and certified non-profit organizations. (Nelson 2014) It is currently only mandatory for State Agencies. (Nelson 2014) More than 50 percent of the travel processed by the State of Utah Travel Office is for higher education institutions. (State of Utah 2014) This is especially surprising given the small number of universities located in Utah compared to other states.

Travel Services

The State of Utah Travel Office currently has contracts with two major airlines. (State of Utah 2014) The negotiated airfares are unrestricted, which means they are refundable and changeable with no penalties. They also have contracts with three major rental car companies. (State of Utah 2014) Other services include assistance with rail, buses, lodging, catering and group gathering facilities. Through economies of scale, the state of Utah has been able to secure rates far below any rate a single state entity would receive. (Nelson 2014)

Airline Price Agreements

The State of Utah has contracts with Delta Airlines and Southwest Airlines for unrestricted fares to various cities throughout the world. (State of Utah 2014) These fares do not require an advance purchase and are refundable and changeable without penalties. The contract with

Delta states the rates to be charged for various locations in the contract. The Southwest contract offers a percentage discount off of the published fares.

Auto Rental Agreements

The State of Utah has direct car rental contracts with Enterprise Rent-A-Car, Hertz, and National. These contracts all provide full insurance coverage for travel within the 50 states and the District of Columbia at no additional charge. (State of Utah 2014) Hertz, and National also offer Express service programs at no cost that allow travelers to save time and get on the road quickly without the lines and paperwork.

Lodging Agreements

The State of Utah Travel Office has no direct contracts for lodging with hotels. (Nelson 2014) The Utah Travel Office works with hotels to set up direct billing as much as possible to guarantee GSA rates and relieve employees of any financial hardship of the reimbursement process. If a Utah State traveler books his/her own lodging, reimbursement is limited to the GSA rate. If a Utah State traveler has the State of Utah Travel Office handle lodging reservations, reimbursement is limited to actual costs.

Travel Management Companies

The State of Utah has contracted with Christopherson Business Travel to provide five professional travel agents to handle all of the actual booking and reservations for state travelers. (State of Utah 2014) Every Utah State entity that uses the Utah State travel services must have an in-house person that has been trained by the State of Utah Travel Office to process travel requests through Christopherson Business Travel. The in-house travel representative communicates the travel itinerary details directly to Christopherson Business Travel which then manages the approval process set up by the State of Utah Travel Office.

Savings

The State of Utah Travel Office has booked 27,728 airline tickets for a total airline travel savings of \$1,374,200.00 (Based on \$49.56 average savings per ticket) since it was placed in service in November, 1992. (Nelson 2014) No other statistical analysis have been completed.

Funding

The Christopherson Business Travel Company pays for all prepaid expenses such as airfare upfront and sends an invoice weekly to the State of Utah Travel Office that is broken out by state entity. Utah DAS bills each state entity for the actual cost of expenses plus a fee that ranges from \$18.50 to \$25.00 per transaction. The State of Utah Travel Office keeps a portion of the transaction fee to pay for the payroll of the two full time employees and the rest of the fee goes to Christopherson Business Travel to pay for the service. (State of Utah 2014)

State of Ohio Travel

Currently, the State of Ohio does not have a structured travel management program. The State of Ohio uses a reimbursement method for most travel, but does reserve and pay for airfare and lodging using the state's purchasing card (Pcard), or direct bill, in some cases. If contracts were to be awarded for travel services, the state's Office of Procurement Services at the Ohio Department of Administrative Services would be responsible for all new contracts, as well as any amendments or extensions.

Travel Services

Travel by Air

In fiscal years 2013 and 2014 the State of Ohio spent an average of 2.25 (Bartholow 2015) million dollars for travel services related to air travel. These services included airfare, baggage fees and ground transportation to and from an airport. The state does not have contracts with any airlines or ground transportation services. As a result, the state is subject to all ancillary fees, including 1st and/or 2nd checked baggage and ticket service fees. Air travel services are either paid for by the employee, who later seeks reimbursement, or someone from the employee's agency books the travel and uses the state's Pcard to pay for the air travel or related service.

During these fiscal years, State of Ohio employees averaged more than one-hundred trips to five different cities (Chart 1) within the continental United States. Seven additional cities averaged more than thirty trips during this time.

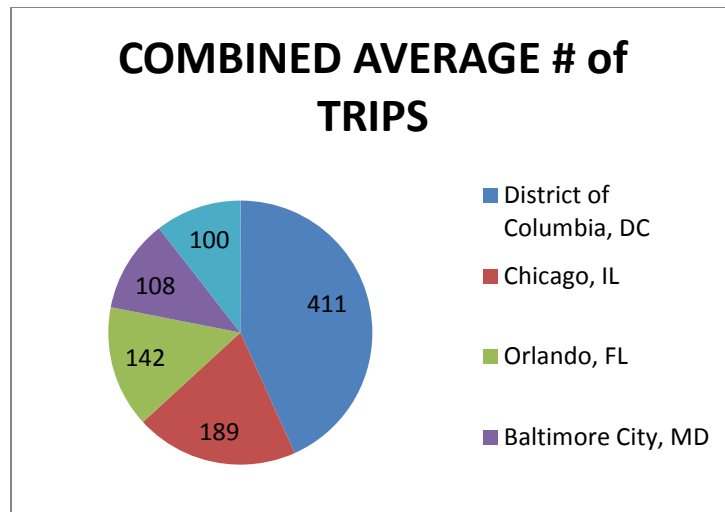


Chart 1

Travel by Vehicle

The State of Ohio employs a large fleet of state-owned vehicles that are utilized for most in-state, and some out-of-state, vehicle travel. The state also reimburses employees for the use of their personal vehicle when traveling on state business. The state is self-insured for liability when employees travel in a state vehicle. The agency that owns the vehicle covers the cost of any repair when the employee is at fault for vehicle damage. Some agencies do purchase separate comprehensive insurance through the state's Office of Risk Management. Employees who travel in their personal vehicle need to seek a rider with their vehicle insurance company when traveling on state business to ensure that they are properly covered for liability.

The state has a contract with Enterprise Holdings, Inc (State of Ohio, Office of Procurement Services 2014) available to all State of Ohio employees for vehicle rentals. The contract includes set pricing for passenger vehicles and pick-up trucks from Enterprise Rent-A-Car and National Car Rental. Liability coverage meeting the requirements of Ohio Revised Code, Chapter 109, is included in the cost of the vehicle rental. The contract allows additional charges "for re-fueling, optional services or features purchased by the renter, local and state sales and federal excise taxes, airport concession fees, city surcharges or city differential fees applicable in certain cities". (State of Ohio, Office of Procurement Services 2014)

In fiscal years 2013 and 2014, the state averaged about \$125,000 in vehicle rental charges; however, what portion of these expenditures is attributable to the above cited contract is unknown as this expense is only tracked by expense account code and not by individual vendor. The most recently published mileage reimbursement data from the Ohio Department of Administrative Services, fiscal year 2012, indicates the state paid approximately 4.5 million dollars in mileage reimbursement to approximately 5,800 employees. (Ohio Dept of Administrative Services, Office of Fleet Mgmt 2013, 3)

Lodging

In fiscal years 2013 and 2014 the State of Ohio spent an approximate average of 5 million dollars annually on all types of lodging. Lodging expenses included conference, international, and domestic lodging and associated taxes. Domestic lodging and taxes account for 80% of the state's lodging expenses. 75% of the domestic lodging expenses were paid as reimbursements to state employees. (Bartholow 2015)

The state does not have contracts with hotels for individual lodging, but does require that an amount not-to-exceed the GSA rate is paid. A waiver can be granted in those locations where the GSA rate is unobtainable. Because the state does not contract for lodging, the state is subject to all lodging fees associated with change/cancellation, booking deposit or reservation, short notice reservation, and early departure.

As noted above, the state primarily reimburses employees for lodging. In cases where the state pays for lodging directly, the charges are either paid with a state Pcard, or in limited cases, the state has a direct-bill relationship with hotels.

Travel Management Companies (TMC)

The state does not have an enterprise contract with a travel agency, but at least one state agency has a contract with Uniglobe Travel Designers, in Columbus, OH. Several agencies use Uniglobe as well as at least one other local travel agency, Kenley Konnection, for travel reservations.

RECOMMENDATIONS

After evaluating how the State of Ohio manages business travel, compared to other states with an organized travel program, administered by an office responsible for state travel, we offer the following recommendations for the State of Ohio.

Create Office of Travel Management

Each of the state programs evaluated in our research has an office responsible for the management and monitoring of the state's travel management program (STMP). The State of Ohio should create such an office, responsible for:

- issuing, extending and amending all contracts associated with business travel
- management of the state's relationship with travel agents responsible for booking business travel

- working with other state's STMP program offices to ensure that Ohio's program offers the best opportunities for efficiency and cost savings
- monitoring use of the STMP to ensure the program is used in accordance with all existing statutes and policies

Contract with Travel Agency

Travel agencies are the professionals in the travel industry. They know how things work and where cost savings can be found. The state should hire a professional company to manage travel reservations, based upon current statute and policy.

The Ohio Shared Services (OSS), a division of the Ohio Office of Budget and Management, researched the possibility of becoming a certified Corporate Travel Department (CTD) through the Airlines Reporting Corporation (ARC), and industry leader in travel agency certification. OSS found that becoming a CTD is not a good fit for Ohio as the program restricts the CTD from recouping its administrative cost, and requires staffing and training that are unrealistic for the state. A licensed and certified for-profit travel agency will provide Ohio with professional service that the state can't feasibly provide in-house.

The travel agency should be required to provide an online booking tool that only allows reservations that meet the state's travel requirements for cost. Additionally, the travel agency should provide 24-hour customer service for emergency needs of travelers. Finally, the state should require that the travel agency's, transaction fee, include an amount, refunded to the state, adequate to fund the state's Travel Management Office. The state's portion of the transaction fee should be determined by the state on an annual basis.

Establish Travel Contracts

Contracts with airlines, hotel providers and rental car companies are vital to the success of a state travel program. These contracts guarantee pricing and eliminate fees. We recommend the following provisions within contracts for each travel related service:

Airlines

- Guaranteed pricing for at least the top 10 city pairs
- Prohibition of baggage fees
- Require fully refundable, fully changeable fares, without exception, free of charge

Lodging

- Rates at all domestic locations guaranteed to meet, or beat, GSA rates
- Prohibition of all fees, to include
 - Change/Cancellation fee (if received prior to 4:00pm on the day of check-in)
 - Booking deposit or reservation fee

- Short notice reservation fee
- Early departure fee
- Flat city tax

Rental Car

- Include full coverage (liability and comprehensive) insurance in the standard rental rate
- Require a rebate to the state based on revenue to the rental car company

Eliminate Reimbursements

Historically, the state has required state employees to pay for travel and then seek reimbursement for the portion of the travel cost that is reimbursable. The state can increase its credit card rebate and eliminate this burden on state employees. The state should issue corporate liability travel cards to state employees who travel frequently for the payment of airfare, lodging and rental cars, as well as any associated fees for which the state is responsible. Reimbursements should be reserved for per diem costs and infrequent travelers who cannot utilize a state travel or Pcard for their travel needs.

Program Implementation

Our recommendation is to build a state travel program for the State of Ohio from the ground up, which means change is required. It is a foregone conclusion that change is never easy; and so, our recommendation is that the state takes the time necessary to implement a program that will be successful and easily adopted by agencies. The state should seek out a qualified individual to create the program's policies, negotiate contracts that provide the state with cost savings and service assurance, and implement monitoring procedures, controls and training that ensure the integrity of the program.

Once the program has the tools to be successful, we recommend rolling the program out to cabinet level agencies in waves. New programs need to be perfected over time to ensure success, so a small number of agencies should pilot the program before bringing all agencies into the program. Other states have successfully extended their programs to higher education and political subdivisions, increasing the buying power of their programs and driving travel costs for their entire state lower. Ohio should, once the program is proven effective, extend its program to all publically funded entities in the state.

CONCLUSION

Based upon our research and the success of other states, we believe that by implementing the stated recommendations, Ohio has the potential for substantial cost savings and increased efficiency in state travel, while eliminating the cost burden to state employees. While the state

does not track all fees, a Denver Post article from 2013 quotes Michael Boyd, chairman of consulting firm, Boyd Group International, estimating that fees “on average add approximately 15 percent to the base fare of a one-way trip”. (Painter 2013) For Ohio, this represents a potential savings of \$315,000 annually. A structured travel management program will provide to the state, this and many other savings and efficiencies.

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