Audit Report

OPPORTUNITIES TO IMPROVE
THE FEDERAL ACQUISITION SERVICE'S
CITY PAIR PROGRAM THROUGH DATA ANALYSIS
REPORT NUMBER A110065/Q/9/P12002

JANUARY 20, 2012

Office of Inspector General
General Services Administration

Office of Audits

OPPORTUNITIES TO IMPROVE THE FEDERAL ACQUISITION SERVICE'S CITY PAIR PROGRAM THROUGH DATA ANALYSIS

REPORT NUMBER A110065/Q/9/P12002

JANUARY 20, 2012

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

Date: January 20, 2012

Reply to
Attn of: Regional Inspector General for Auditing (JA-9)

Subject: **FINAL REPORT:**
Opportunities to Improve the Federal Acquisition Service's City Pair Program Through Data Analysis
Report Number A110065/Q/9/P12002

To: Steven J. Kempf
Commissioner, Federal Acquisition Service (Q)

This report presents the results of the General Services Administration (GSA) Office of Inspector General's (OIG) audit of the Federal Acquisition Service's (FAS) City Pair Program.

The objective of this audit was to determine whether the Federal Acquisition Service is missing opportunities to improve the City Pair Program. If so, determine what methods are available that could improve the travel program and generate potential cost savings.

Based on the scope of the audit, we determined that FAS is missing opportunities to improve the City Pair Program. These improvements could achieve potential Government cost savings of $35.2 million. By collecting more comprehensive data, conducting regular data analysis, and using better/comparable performance benchmarks, FAS can better manage the City Pair Program and provide even greater value to the Government.

FAS's formal response to the draft report, dated January 12, 2012, is included as Appendix A of the report.

Perla Corpus

PERLA CORPUS
Audit Manager
San Francisco Field Audit Office (JA-9)

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EXECUTIVE SUMMARY

Objective

The objective of this audit was to determine whether the Federal Acquisition Service is missing opportunities to improve the City Pair Program. If so, determine what methods are available that could improve the travel program and generate potential cost savings.

Results in Brief

FAS is missing several opportunities to improve the City Pair Program. These improvements could achieve potential Government cost savings of $35.2 million. Opportunities include: 1) Obtaining and analyzing comprehensive government-wide travel data; 2) Performing in-depth analyses of travel benefits; 3) Eliminating the traveler's option of choosing between dual fares when lower contract fares are available; 4) Increasing competition among airlines; 5) Including baggage fees in the bid evaluation process; and 6) Revising benchmarks for measuring program value. By implementing the recommendations contained in this report, FAS can better manage the City Pair Program and provide even greater value to the Government.

Recommendations

We recommend that the Commissioner of the Federal Acquisition Service:

1. Identify and overcome the limitations of the data sources and analyze available data to better manage the City Pair Program.

2. Clarify benefits of last seat availability in City Pair Program materials to overcome the confusion that exists among federal travelers.

3. Perform cost benefit analyses to determine the savings associated with the stated City Pair benefits and whether the savings warrant their continued emphasis as benefits to the program.

4. Modify ETS so that the option to choose the higher priced contract fare is eliminated when _CA fare is available.

5. Address how FAS will increase competition in monopoly markets and how FAS will encourage more bid participation from airlines.

6. Implement baggage expenses as a technical factor in bid evaluation or provide justification/analysis for not including baggage in the evaluation.

7. Revise the current method of determining benchmarking data for purposes of evaluating the City Pair Program with regards to program savings and price negotiation.

Management Comments

Although the Commissioner reserved comment, he indicated that FAS will develop action plans to address the audit report's recommendations. His response is included in its entirety on page A-1.

OPPORTUNITIES TO IMPROVE THE FEDERAL ACQUISITION SERVICE'S CITY PAIR PROGRAM THROUGH DATA ANALYSIS REPORT NUMBER A110065/Q/9/P12002

INTRODUCTION

Background

The General Services Administration's Federal Acquisition Service manages the Government's City Pair Program, which provides discounted air transportation services for federal travelers. FAS's goal of the City Pair Program is to provide government travelers with significantly discounted airfares for official travel. Total air travel expenditures for all agencies in fiscal year (FY) 2011 were nearly $3 billion. Under the City Pair Program, FAS awards competitive contracts for air transportation services between specified destinations, called City Pairs (or markets), based on the best overall value to the Government.

City Pair contracts, first awarded by GSA in 1980, originally covered only 11 markets, but have expanded to over 5,000 markets in the last 30 years. In FY 2011, FAS awarded contracts to 13 carriers,[1] covering 5,722 markets worldwide with claimed cost savings of $6.3 billion.

City Pairs are competitively awarded firm-fixed price contracts with an economic price adjustment to compensate for increases in the cost of fuel.[2] The contracts are valid during the Government's fiscal year. City Pairs are divided into two categories. Group 1 consists of high frequency-high profile markets (i.e. those of congressional and/or management interest, all Washington D.C. markets, and markets where non-stop service is offered). Group 2 includes markets that are not considered high frequency and do not fit into any of the other previously mentioned categories. Group 1 markets are awarded to the offeror providing the best overall value based on a cost/technical tradeoff analysis.[3] Group 2 awards are made to the lowest priced offer that is considered fair and reasonable.

Federal Travel Regulation (FTR), Section §301-10.106 stipulates that travelers must use GSA contract fares for air travel, unless an exception applies.

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[1]In FY 2011, participating airlines were AirTran, Alaska, American, Continental, Delta, Frontier, Hawaiian, Jet Blue, Mesa, Southwest, United, US Airways, and Virgin America.

[2]The awarded carrier can assess a fuel surcharge to contract fares as long as this fee has been imposed for 14 consecutive days on all its commercial fares.

[3]Award is not predicated solely on price; the technical superiority of the offered service can outweigh price considerations.

Exceptions, per FTR Section §301-10.107, include: no City Pair seats/flights are available in time to accomplish the purpose of the travel; all City Pair flights are outside core work hours; a non-contract carrier offers a lower fare to the general public; cost effective rail travel is available; and City Pair flights that permit smoking are unacceptable to the traveler.

The City Pair Program offers many features which allow government travelers flexibility in planning official travel including:

- Fares priced on one-way routes permitting agencies to plan multiple destinations.
- No advance purchase required.
- No minimum or maximum length stay required.
- Tickets fully refundable.
- Last seat availability.
- No blackout periods.
- Stable prices enabling travel budgeting.
- Dual fares availability (YCA and _CA).[4]

The Office of Inspector General (OIG) previously issued an audit report on the City Pair Program in March 2003. The objectives of that audit were to determine if the travel program was an economic approach to obtaining airline services for federal travelers, and whether the evaluation and award process for City Pairs could be streamlined. We concluded that, while the City Pair Program provided economical advantages, steps could be taken to improve the program. At that time, we recommended that: private sector practices be applied when evaluating offers, travelers and travel management centers be educated on the benefits of using dual fares, and accurate, timely, and measurable travel data be obtained. This current audit is neither a follow-up on, nor an extension of, the prior OIG audit.

[4]Dual Fares include YCA, a highly discounted unrestricted fare in an airline's Y inventory (economy class) and _CA, a capacity controlled fare with an even deeper discount. _CA fares have a limited number of available seats, but no other restrictions. _CA availability varies carrier-by-carrier and market-by-market.

RESULTS OF AUDIT

FAS has several opportunities to improve the City Pair Program and achieve cost savings for federal agencies including:

1) Obtaining and analyzing comprehensive government-wide travel data;
2) Performing in-depth analyses of travel benefits;
3) Eliminating the traveler's option of choosing between dual fares when lower contract fares are available;
4) Increasing competition among airlines;
5) Including baggage fees in the bid evaluation; and
6) Revising benchmarks for measuring City Pair Program value.

Based on our analysis of travel related government-wide data, FAS can improve the City Pair Program and provide federal travelers with even greater discounts for official travel. As shown below, implementation of just two of these improvements could potentially save $35.2 million.

Table I
Summary of Opportunities for Potential Cost Savings

Opportunity	Potential Savings (million)
#3 – Eliminate the traveler's option of choosing between dual fares when lower contract fares are available	$24.2
#4 - Increase competition among airlines	11.0[5]
Total	**$35.2**

[5]This amount represents savings from increased competition among airlines in monopoly markets ($8.1 million) and markets that received only two carriers' bids ($2.9 million).

Opportunity 1 – Obtain and Analyze Comprehensive Government-wide Travel Data

FAS management faces a number of limitations to obtain, consolidate, and/or use comprehensive government-wide travel related information. Despite these data constraints, we noted FAS can perform more in-depth analyses to improve the program. Without comprehensive government-wide travel information and subsequent data analyses, FAS program officials are inhibited in their ability to draw conclusions about the program's strengths and weaknesses and to make sound business decisions regarding the travel program.

We identified at least five information sources currently available to FAS that it could use for program analysis:

(1) Travel Management Information Service (MIS) database system - This system, developed and maintained by FAS, captures all reserved/booked and issued/purchased airline ticket information for federal agencies that voluntarily submit this data;[6]

(2) Airline Reporting Corporation (ARC) database system - This system is privately-owned and provides government-wide data on issued airline tickets, but not booked/reserved and post-ticketed information which includes but is not limited to cancellations, voids, and refunds;

(3) SmartPay - Maintained by GSA, this system captures credit card transactions including issued airline tickets from participating agencies;

(4) E-gov Travel Service (ETS) - This non-Department of Defense (DoD) system provides travel management services that include: on-line booking engine, authorization, voucher processing, and travel management center (TMC) support; and

(5) GSA employee travel vouchers – These documents are managed by GSA's Finance Center and include information on employee travel expenses, such as baggage costs.

However, we noted certain limitations that prevent FAS from obtaining complete government-wide travel data from MIS, SmartPay, ETS, and travel vouchers. The MIS and SmartPay data are dependent on federal agencies voluntarily submitting their travel information. Meanwhile, the DoD, which makes up 70 percent of total government travel, opts not to participate in MIS. The ETS

[6]Travel MIS represents 25 percent of total government-wide air transportation expenditures.

data also excludes DoD travel-related information.[7] In addition, due to privacy concerns, FAS has limited access to employee travel vouchers within its own organization.

Having a single repository containing government-wide reservation, ticket issuance, and post ticket issuance information is key to managing the City Pair Program. Although complete government-wide data is currently unavailable, FAS should conduct additional analyses of available travel data to evaluate the City Pair Program. While FAS provided internal data analysis in preparation of its annual City Pair solicitation, we noted limited analysis after the contract was awarded. Our audit indicated that analyses can be conducted to better manage the program throughout the course of the year by identifying market trends, assessing travel behavior, or developing market strategies. Once FAS is able to overcome limitations in collecting travel data, FAS will be able to better manage the travel program using thorough and detailed analyses.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

1. Identify and overcome the limitations of the data sources and analyze available data to better manage the City Pair Program.

Opportunity 2 – Perform In-Depth Analysis of City Pair Benefits

Since the inception of the City Pair Program, FAS has not performed cost benefit analyses of the program's benefits. Without such analyses, FAS is unable to fully demonstrate the value of the program.

As previously mentioned, City Pair benefits include:

- Fares priced on one-way routes permitting agencies to plan multiple destinations.
- No advance purchase required.
- No minimum or maximum length stay required.
- Tickets fully refundable.
- Last seat availability.
- No blackout periods.
- Stable prices enabling travel budgeting.
- Dual fares availability.

[7]Instead of ETS, DoD manages its travel using the Defense Travel System.

We selected and analyzed three of the most significant City Pair benefits.

Last Seat Availability

Last seat availability allows federal travelers to obtain a seat on a selected flight at the contract fare if the Y inventory is available.

A major limitation to evaluating last seat availability is that no data exist identifying attempts to obtain seats on sold-out flights. In addition, we and FAS do not have access to airlines' inventory systems to determine which travelers received the last seat in the Y inventory. Therefore, we were unable to determine the cost benefit of last seat availability.

Nevertheless, FAS program officials believe last seat availability is a benefit to the City Pair Program. They noted that several customer agencies including the DoD and Department of State rely on last seat availability given their unpredictable travel schedules.

We determined that travelers are confused about the benefits provided by last seat availability. Travelers believe that if they purchase tickets through the City Pair Program, they will be guaranteed the last open seat on a flight. However, last seat availability only applies to the discounted YCA inventory. If, on a particular flight, seats in YCA inventory are sold out, the federal traveler will not be ticketed even though seats may be available in other sections of the airplane. To ensure that federal travelers have a better understanding of last seat availability, FAS should clarify the benefits in its program materials.

Dual Fares

Dual fares provide federal travelers two discounted airfares, YCA and the deeper discounted airfare but limited in number, _CA airfare. Based on MIS travel data, we determined that the majority (2,166 or 73 percent) of Group 1 markets provided dual fares in FY 2010, which resulted in savings of $111 million from the use of deeper discount fares in these markets.

Fully Refundable Fares

Fully refundable fares allow federal travelers to obtain the full value of the issued airline ticket, free of fees or penalties, if their travel plans change and the ticket is refunded or exchanged.

Using MIS travel data, we determined that, in FY 2010, federal travelers changed airline travel plans for 276,936 of the 2,125,003 (or 13 percent) contract airline tickets issued. Based on the number of changes in FY 2010, we determined the

Government saved $42 million[8] in change fees which were not assessed (assuming all changes made in FY 2010 were necessary).[9]

Although we limited our analysis to the most significant benefits, we were able to measure savings related to two of the three benefits. FAS should explore methods of calculating savings for the remaining program benefits to better quantify the value the program provides to the Government.

Recommendations

We recommend that the Commissioner of the Federal Acquisition Service:

2. Clarify benefits of last seat availability in City Pair Program materials to overcome the confusion that exists among federal travelers.

3. Perform cost benefit analyses to determine the savings associated with the stated City Pair benefits and whether the savings warrant their continued emphasis as benefits to the program.

Opportunity 3 – Eliminate Traveler's Option to Choose between Dual Fares when Lower Contract Fares are Available

FAS is missing an opportunity for substantial cost savings by not eliminating the option for federal travelers to book the YCA fare when deeper discounted, capacity controlled airfares (_CA) are available.

Our analysis of FY 2010 MIS Travel data indicated that _CA fares were available for 2,479 (or 49 percent) of the City Pairs. In addition, we noted that 47 percent of the YCA fares booked by federal travelers were reserved when the deeper discounted _CA fares were likely available. As a result, the Government incurred up to $30.2 million in additional airfare costs.

Despite travel regulations in place, available _CA fares were not always purchased as the first choice. Based on interviews[10] and a 2008 Department of

[8]This figure is based on the $150 average change fee charged by airlines.

[9]Federal travelers may have needlessly changed their flights because of this benefit. Conversely, if federal travelers were charged a change fee, the total number of ticket changes may decrease.

[10]Interviews included a federal agency travel manager and a FAS Director of Travel Management.

Health and Human Services audit report,[11] we concluded that federal travelers were not always aware of the two types of City Pair airfares.

The Federal Travel Regulation, section §301-10.107 states that _CA airfares should be selected over the higher YCA contract fares when available. Note 3 of the regulation states:

> If the Government contract city-pair carrier offers a lower cost capacity-controlled coach class contract fare (MCA, QCA, VCA, etc.) in addition to the unrestricted coach class contract fares (YCA), the traveler should use the lower cost capacity-controlled fare when it is available and meet (sic) mission needs.

Both contract fares are fully refundable, and neither have advance purchase requirements, cancellation fees, minimum or maximum stay requirements, travel time limits, or blackout periods. However, the _CA fare provides a deeper discount than the YCA fare although seating is limited and varies by carrier and destination.

ETS currently allows travelers the option of selecting between the higher YCA fares and lower _CA fares, even when _CA fares are available. To ensure the lowest fare is purchased and compliance with the Travel Regulation, the option should be eliminated if the lower fare is available. However, when the lower _CA fare is sold out the traveler is still able to select the higher YCA contract fare.

Program officials indicated that eliminating the option to book the YCA fares may not be in the best interest of the Government due to increased costs. They noted that travelers that make unexpected changes to their flights will incur a transaction fee, and incur an increase to the YCA fare if the _CA fare is no longer available.

We recognize that there may be additional costs; however, the benefits outweigh the costs. By factoring in the 13 percent average change rate for tickets and the average difference between the _CA and YCA fare in FY 2010,[12] we computed net savings of $24.2 million.[13]

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[11]The agency's Office of Inspector General issued a report in August 2008 titled, Use of Discounted Airfares by the Office of the Secretary.

[12]The average difference between the deeper discount _CA and YCA fares was $180.

[13]These savings do not account for transaction fees charged by travel management centers for changes made to existing reservations. Transaction fees are incurred regardless of the type of fares purchased.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

4. Modify ETS so that the option to choose the higher priced contract fare is eliminated when _CA fare is available.

Opportunity 4 - Increase Competition among Airlines

Although the City Pair Program attracts many participating airlines each year, FAS can do more to increase competition within the program. Potential cost savings to the Government are lost if FAS does not determine the reasons for the lack of participation in current monopoly markets and those that receive only two bids.

According to marketing information for the travel program, "Competition within a City Pair is perhaps the single most important factor affecting offered pricing. Carriers are keenly aware of the service provided by all players in a market and price their offers accordingly."

Effect of Competition

A majority of City Pairs could benefit from increased airline participation. Of the 5,213 markets bid in FY 2010, 2,344 (45 percent) were monopoly markets (a City Pair with only one bidder); 4,132 (79 percent) received offers from no more than two airlines. Monopoly markets achieved an average 41 percent discount whereas markets that had three or more bids (20 percent of City Pair markets) achieved discounts of up to 65 percent. Table II on the next page summarizes the correlation between the number of bids and the discounts achieved.

Table II
Correlation between Fare Pricing and Number of Bids

Total Number of Bids per Market	Average Percentage Discount Off Market Fare[14] (%)	Total Number of Markets with Bid(s)	Percentage of Total Market Bids (%)
1	41.00	2,344	44.96
2	56.81	1,788	34.30
3	62.64	795	15.25
4	65.25	244	4.68
5	63.75	36	0.69
6	64.64	6	0.12
	Total	**5,213**	**100**

Of the 2,209 monopoly markets awarded in FY 2010; 1,123 were serviced by more than one airline.[15] If an additional bid was obtained in these markets, the Government could realize savings up to $8.1 million. If competition could be increased in City Pair markets with only two bidders potential savings of $2.9 million could be achieved. These savings calculations are based on two factors: (a) markets with existing competition[16] receive an average discount of 57 percent; and (b) actual passenger counts. Table III summarizes our potential savings computations.

Table III
Savings from Increased Competition in Awarded Markets

Number of Bids	Average Percent Discount Off the Market Fare (%)	Number of Markets Awarded	Percent of All Markets Awarded (%)	Number of Markets that Could have Received One More Bid	Potential Savings if One More Carrier Bid
1	41	2,209	44	1,123	$8,125,737
2	57	1,758	35	810	2,859,024
	Total	**3,967**	**79**	**1,933**	**$10,984,761**

[14]Discounts were based on market fares submitted by airlines in response to FAS's City Pair contract solicitation each July. Market fare, also known as the Lowest Logical Unrestricted Economy Fare or Selling Y Fare, is the lowest fully refundable air fare with no restrictions or capacity controls available to the public.

[15]FY 2010 Travel MIS data indicated other airlines offered non-contract fares in these markets.

[16]For the purposes of this report, a competitive market requires at least two airline bids.

Value from Increased Competition

In FY 2011 the City Pair Program realized nearly $29 million in savings when airlines competed for contracts.

Between FY 2007 and FY 2012, five airlines (Southwest, Jet Blue, Frontier, AirTran, and Virgin America) consistently offered the greatest price reductions,[17] ranging from 6 percent to 18 percent decreases in awarded fares from prior years' pricing[18] for domestic markets. For report purposes, we refer to these airlines as Low Priced carriers (LPC). On the other hand, pricing by the airlines with the most awarded markets (Delta, American, United, and US Airways) decreased by only 1 percent. For purposes of this report, these airlines are referred to as Legacy carriers.

As shown in Table IV, competition between these airlines significantly impacted fares in domestic markets particularly when markets changed[19] from Legacy carriers to LPCs. In these cases, fares decreased by $76 on average resulting in total savings of $28.7 million in FY 2011. Conversely, changeovers from LPC to Legacy carriers resulted in a $60 average increase in domestic fares.

Table IV
Summary of Cost Savings[20] by LPCs

	LPC to Legacy	Legacy to LPC
Total Number of City Pairs Involving Changeovers	53	295
FY2010 YCA Fare ($)	165.09	325.39
FY2011 YCA Fare ($)	224.60	249.75
Dollar ($) Increase/<Decrease>	59.51	<75.64>
Percentage (%) Increase/<Decrease>	26.50	<30.29>
Total Impact	**<$767,548>**	**$28,664,661**

[17]The increase or decrease in fare price between each year was calculated and averaged relative to all carriers.

[18]This analysis focused on awarded fare prices only and did not consider best value factors such as the number of nonstop flights offered.

[19]For all changeovers, we reviewed whether the type of carrier who had the city pair contract in FY 2010, bid and lost the same market in FY 2011. City pair markets that did not meet this criterion were excluded from this analysis.

[20]Savings are based on actual YCA and _CA tickets purchased in FY 2010.

Legacy carriers adjusted their fare bids downward in order to compete for new City Pair markets in FY 2011. For all 348 changeovers, Legacy carriers increased their bids by an average of $24.18 in markets currently held. However, Legacy carriers increased their bids by only $5.47 when competing for a market, previously awarded to a LPC.

To ensure increased participation and thus more competition, airline representatives asked that FAS implement changes in the City Pair Program. Specifically, they asked for ticketing time limits (TTL)[21] and increased usage of the program.[22] In addition, one airline requested that baggage fees be added to the award evaluation criteria (see Opportunity 5, below).

Competition is the key for the success of the travel program. By reducing monopoly markets, FAS can achieve lower contract fares and provide significant savings to the Government.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

5. Address how FAS will increase competition in monopoly markets and how FAS will encourage more bid participation from airlines.

Opportunity 5 – Include Baggage Fees in the Bid Evaluation

FAS may be able to reduce the overall cost to the Government by adding baggage fees to its City Pair evaluation criteria. Airlines that do not charge for checked baggage offer additional value to the Government. As a result, baggage costs should be included as a quality of service factor in the bid evaluation process.

FAS awards Group 1 City Pairs based on best value (price plus quality of service factors). Currently, the quality of service factors are based on four criteria: timeband/service distribution, average elapsed flight time, number/type of flights,

[21]TTL provides for a date or time deadline required for ticket issuance. A lack of TTL creates inventory issues for airlines, which translates to lost revenue.

[22]Airline representatives requested that Federal travelers make minimal use of the City Pair exceptions (FTR Section §301-10.107).

and jet vs. propeller planes and turboprops.[23] By including baggage fees in this mix, FAS may be able to obtain additional savings for the Government.

Checked baggage cost the Government an estimated $129 million in FY 2010.[24] Of the thirteen participating City Pair airlines, only two do not charge fees for the first checked bag. The average baggage fee for the remaining airlines was $23.64. In FY 2011, the total dollar value of contracts awarded to the two airlines that offer free baggage increased by 4.25 percent, resulting in possibly $5.5 million in cost savings. In addition, including baggage fees in the bid evaluation criteria could potentially encourage airlines charging for baggage to reduce or eliminate fees.

FAS does not currently include baggage fees in the bid evaluation criteria because: (1) baggage fees vary from airline to airline, (2) covering fees may be viewed as favoring one airline over another, and (3) there is uncertainty as to whether current baggage fees will remain consistent. However, FAS could not provide analyses that support these positions.

FAS noted that including baggage fees in the bid evaluation may not be in the best interest of the Government as customer surveys indicate that federal travelers are not in favor of including baggage costs in the City Pair airfares. However, adding baggage to the bid evaluation criteria does not assume that all federal travelers check bags. Therefore, we are not suggesting that FAS include this expense in the contract fare. We are recommending that it be a factor in the award criteria. The evaluation criteria could be weighted based on the number of free bags offered to civilians, and active duty military by carrier.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

6. Implement baggage expenses as a technical factor in bid evaluation or provide justification/analysis for not including baggage in the evaluation.

[23]Timeband/service distribution (nonstop flights at convenient times are best); average elapsed flight time (shorter flights and connect times are best); number/type of flights (extra nonstop flights preferable); and jet vs. propeller planes and turboprops (jet aircraft preferable).

[24]The estimated amount was calculated based on the total baggage expense incurred by GSA employees and GSA's percentage of total federal airline expenditure over a one-year period.

Opportunity 6 – Revise Benchmarks for Measuring City Pair Value

The benchmarks currently used by City Pair Program officials do not accurately measure the program's performance. Consequently, management cannot effectively identify or make improvements to the program.

Each year GSA discloses the results of the City Pair awards and estimates program savings for the upcoming fiscal year. In a July 1, 2010 press release, FAS announced that the City Pair airfares were, on average, 68 percent below full commercial air fares, saving the taxpayers more than $6.3 billion on discounted one-way airline tickets in FY 2011. The discounts were computed based on the market Y airfare. However, FAS's use of these market Y airfares as benchmarks is misleading because these fares do not reflect the discounts often negotiated by commercial/business travelers.

The objective of benchmarking is to understand and evaluate the current position of a business or organization in relation to "best practices" and to identify areas and means of improving performance. However, FAS's use of market Y airfares as a benchmark does not meet the intended goal of benchmarking. Instead, FAS should measure itself against the unrestricted economy fare paid by businesses/corporations in each city-pair market. The use of corporate airfares for this comparison would produce a more meaningful representation of the program's savings. In addition, FAS could use this data as leverage to negotiate lower fares and to ensure fair and reasonable pricing in monopoly markets.

GSA could obtain this data and these services through a benchmarking partner. We interviewed a potential benchmarking partner who informed us that the company had access to over 10,000 clients, and was able to benchmark against 70 percent of the world's travel and entertainment expenditures.

Considering the amount spent for government-wide air travel, FAS should be able to consistently obtain most favored pricing. Accurate and comparable benchmarking data will help FAS identify City Pair markets where the average corporate fare is lower than the City Pair fare. This information could be used to negotiate additional savings for the Government.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

7. Revise the current method of determining benchmarking data for purposes of evaluating the City Pair Program with regards to program savings and price negotiation.

CONCLUSION

While the City Pair Program currently provides significantly discounted airfares for federal employees on official travel, FAS can do more to improve the program. Given the volatility in the airline industry, program officials need to take a proactive approach to ensure that the City Pair Program continues to offer significant value to the Government. This can be accomplished by collecting more comprehensive data, conducting regular data analysis, and using better/comparable performance benchmarks.

INTERNAL CONTROLS

The scope of our work was limited to answering the objective of this audit. Thus, our assessment and evaluation of internal controls was restricted to those issues identified in the Results of Audit section of this report.

GSA Federal Acquisition Service

January 12, 2012

MEMORANDUM FOR JAMES P. HAYES
REGIONAL INSPECTOR GENERAL
FOR AUDITING (JA-9)

FROM: For: STEVEN J. KEMPF
COMMISSIONER
FEDERAL ACQUISITION SERVICE (Q)

SUBJECT: GSA Draft Report, "Opportunities to Improve the FAS City Pair Program Through Data Analysis"
Report #A110065

Thank you for the opportunity to provide comments to the above draft report. We appreciate your efforts to evaluate the FAS City Pair Program and have no further comments on the report findings. We will begin creating action plans to address the seven recommendations identified in the report.

Please call me at (703) 605-5400 if you have any questions. Your staff may contact Wayne Williams at (703) 605-2177 or wayne.williams@gsa.gov.

cc: Perla Corpus (JA-9)

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OPPORTUNITIES TO IMPROVE
THE FEDERAL ACQUISITION SERVICE'S
CITY PAIR PROGRAM THROUGH DATA ANALYSIS
REPORT NUMBER A110065/Q/9/P12002

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether FAS is missing opportunities to improve the City Pair Program. If so, determine what methods are available that could improve the travel program and generate potential cost savings.

To accomplish this objective, we:

- Reviewed relevant GSA policies and procedures, GSA Orders and handbooks, sections of the FTR, and reports issued by the GSA-OIG;

- Interviewed program officials from FAS's Office of Travel and Transportation Services and GSA's Office of Government-wide Policy;

- Attained a working knowledge of the City Pair Offer Preparation System, Airfare 2000 (GSA-owned travel software program managed by Lockheed Martin) and Travel MIS (software program developed by FAS to manage the City Pair Program);

- Analyzed databases obtained from the Airline Reporting Corporation and TRX, Inc., listing all flights taken by federal travelers in FY 2010 and the types of fares purchased;

- Analyzed travel data for all flights taken by GSA employees in FY 2010 and the changes made to those flights;

- Computed potential savings from purchasing discounted fares over YCA fares when _CA fares were available;

- Compared airline bids and City Pair contract award data for FYs 2010 through 2012;

- Tested a sample of GSA FY 2010 travel vouchers to determine if baggage fees were paid;

- Interviewed representatives from three private sector companies with mandated travel programs (Accenture, Hewlett Packard, and Lockheed Martin);

- Interviewed representatives from the top five City Pair airline carriers – measured by carrier revenue (American Airlines, Delta Airlines, Southwest Airlines, United Airlines, and US Airways);

- Interviewed representatives from five travel management centers (Adventure Travel, Carlson Wagonlit Sato, Cruise Ventures, Duluth, and Omega World Travel) about travel procedures and government employee travel patterns;

- Interviewed representatives from four federal agencies (Department of Agriculture, Department of Commerce, National Science Foundation, and Department of Veterans Affairs) about their pilot travel programs;

- Interviewed representatives from one potential outsourcing vendor (American Express Business Travel);

- Analyzed two Runzheimers' reports related to the City Pair Program issued in May, 2004, and April, 2005, titled City Pair Program Review and City Pair Program-Impact Analysis, respectively and determined whether actions were taken by FAS to address the studies' recommendations;

- Evaluated Management Alternatives, Incorporated's City Pair Program Benchmark Study which was presented to FAS in October 2005 and determined whether the actions FAS took addressed the study's findings; and

- Reviewed two TRX reports, GSA Airline Supplier Phase I Analysis Update issued in November, 2008, and GSA FY 09 City Pair Program Procurement Effectiveness issued January, 2010, and ascertained the status of the study's recommendations.

Our audit focused on contract documentation related to City Pair award and bid data for FYs 2010 through 2012. In FY 2010, 11 airlines[25] participated in the City Pair Program, for a total of 5,063 City Pairs. YCA fares were available for all City Pairs, and _CA fares were available for 49 percent of these City Pairs.

We were unable to interview travel officials and obtain air travel-related data directly from the Department of Defense, the largest customer of the City Pair Program, representing 60 to 70 percent of total government air transportation costs.

[25]In FY 2010, the participating airlines were AirTran, Alaska, American, Delta, Frontier, Jet Blue, Mesa, Midwest, United, US Airways, and Virgin America.

The audit was performed between November 2010 and September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

OPPORTUNITIES TO IMPROVE
THE FEDERAL ACQUISITION SERVICE'S
CITY PAIR PROGRAM THROUGH DATA ANALYSIS
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OTHER MATTERS

Future of the City Pair Model

The success of the City Pair pricing model relies on competition to ensure best value pricing. In the past five years, several airline mergers have occurred that involved City Pair and/or non-City Pair participants. These mergers included: (1) In May 2011, Southwest announced its plan to acquire AirTran. Both are current participants of the City Pair Program; (2) United Airlines and Continental are still in the process of merging. Both airlines are current City Pair participants; (3) Delta Airlines and Northwest Airlines, merged in 2010. Prior to the merger, both were City Pair participants; (4) Midwest Airlines, a City Pair participant, was purchased by Republic Airways (a non-City Pair participant) in 2009; (5) Republic Airways was purchased by and merged into Frontier Airlines (a City Pair participant) in 2009 and was branded as the new Frontier Airlines.

The City Pair Program depends on competition among airlines to ensure fair and reasonable pricing of City Pair airfares. If mergers persist or if City Pair airlines withdraw from the travel program, the future success of the City Pair Program is at risk. We suggest FAS develop a contingency plan to minimize the impact of the declining number of airlines on the travel program.

Prior OIG Report

As previously mentioned, the OIG issued an audit report on the City Pair Program in March, 2003 and concluded that more could be done to improve the program. One recommendation, consider additional methods similar to those used in the private sector to obtain airline services, may still apply. We suggest that FAS determine if it is feasible to implement this recommendation.

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