Government Modernization: HB2140

Consolidating the State of Oklahoma's Administrative Functions

December 2011

Executive Summary

Across the country, state and local governments are looking for ways to pool resources, shrink government, and find innovative ways to provide services. Oklahoma joined a community of peers utilizing consolidation as the tool for such improvements with the passage of House Bill (HB) 2140 during the 2011 Legislative Session. This bill consolidates five state agencies into one that supports the functioning of Oklahoma's government. The Department of Central Services, the Employees Benefits Council, the Office of Personnel Management, and the State and Education Employees Group Insurance Board were all consolidated under the Office of State Finance.

Our vision became a simple one: "We will develop a unified agency through a deliberative and collaborative process that creates maximum value for our stakeholders." Adapting a comprehensive concept from *The Future of Government Around the World* our goal is to be FAST, a Flatter, Agile, Streamlined, and Technology-enabled agency.

Our progress toward implementation of HB2140 has not been accomplished alone. From the very start, each one of the consolidating agencies provided input and support for our unified goal. The cooperation and contributions of every one of these agencies has been invaluable to this process and provides evidence of the diligence, adeptness, and remarkable adaptability of state employees. The information contained in the report reflects the momentous objective we are working toward and how the consolidating agencies' leadership and employees have contributed to the successful strides made so far. The information also indicates that the work is still evolving with many milestones yet to be achieved.

One of the directives in the bill was to demonstrate a savings of 15 percent of 2012 appropriations to the four consolidating agencies, setting a target of approximately $3.1 million in savings. For 2012, the savings associated with HB2140 is expected to reach $4.2 million by the end of the fiscal year, exceeding that goal. An annual savings of $6.5 million is estimated for 2013. The *Financial Impact of Consolidation To Date* section of the report provides data on how this has been calculated.

As the "F" in FAST indicates, flattening of the management structure was a requirement toward reaching these savings. The goal was to find a balance between streamlining administration and management through personnel changes while, at the same time, avoiding any compromise to the objectives and duties of each agency. Management of our human capital resources led to significant savings which will continue to escalate in future years.

Another way we will flatten our operational structure will be to share services between the consolidating agencies. We are currently developing internal divisions that will provide services to all other departments within the newly consolidated agency. Having teams for our legal, communications, and legislative analysis services will provide each division with access to these resources, some which may not have been available to them in the past. This will enable all divisions to share information, collaborate, and effectively complete their own missions more efficiently.

Realignment of the reporting structure is underway as well. A major change is the Central Purchasing Division will now be a direct report to the Director of the consolidated agency. By restructuring the organization in this way, Central Purchasing is poised to streamline its operations and improve its agility. Through a variety of measures, Central Purchasing will increase collaboration with state agencies and thus, better serve them and negotiate for the best value in purchasing goods and services.

One area of opportunity for our organization is to work with all state agencies as a resource for efficiency and performance measurement solutions. A team will be established within the newly consolidated agency dedicated to expanding to the State as a whole the streamlining efforts embedded in HB2140. By working with our sister agencies to examine processes and procedures as well as track value added performance measures, we can further the goals of leadership to improve the effectiveness and efficiency of state services. Our purpose will be to serve as a catalyst for future savings initiatives.

The report suggests renaming the agency to reflect the larger scope of the consolidated agency. The recommendation is to change the Office of State Finance to the Office of Enterprise and Management Services. The name reflects a two-fold charge. It indicates our course of continuing to reduce our appropriated footprint while at the same time, continuing to administer and provide services required of us. It projects the consolidated agency's broader focus of administering the organization as entrepreneurially as possible where appropriate while retaining our determination to comply with the laws and regulations that govern our missions. A new name will unite the five agencies internally as well as announce our purpose externally.

The newly consolidated Office of Enterprise and Management Services will work toward the goals of capitalizing on available resources, continuing to seek cost saving opportunities and elevating our level of service. I look forward to steering this newly formed agency toward becoming an efficient and consumer-friendly organization that truly supports those agencies which perform the core missions of our state. If you have questions or suggestions regarding the information in this report, please feel free to contact me.

Preston L Doerflinger

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Introduction

There is a nationwide trend for state governments to consolidate. In its “Interim Analysis: 2011 State of the State Addresses,” the National Governors’ Association reports that of thirty five State of the State addresses analyzed, twenty governors indicated redesign is a priority for their state. The report goes on to say this signals that, “. . . government redesign is not a temporary issue; it is part of a new reality that will bring about fundamental change in the nature and volume of state services.”

Addressing budget gaps is one of the most difficult tasks and greatest responsibilities for government to execute. The recent economic conditions have forced policy-makers and leaders across the country to take drastic measures to reduce cost while maintaining effectiveness. John Thomasian, Director of the National Governors Association Center was quoted as saying, “State revenues probably will not return to pre-recession levels until somewhere around 2013. As a result governors have had to pursue long-term structural solutions, rather than just short-term strategies, to cut costs and make state governments more efficient.”

When deciding whether to consolidate, there are disadvantages as well as benefits to be considered. Disadvantages could be reducing the state workforce and the impact on individuals, the economy, and workload dispersion and the difficulty of merging entities with inherent tensions or conflicting goals. Advantages might be leveraging economies of scale, elimination of redundancies, and shared resources.

Thirteen states have passed legislation, since 2009, merging agencies and boards. Each of these initiatives demands time, resources, and money. The State of Oklahoma passed HB2140 in late May, 2011 which became effective August, 2011. The bill charges the Director of the Office of State Finance (OSF) to consolidate the administrative functions of five agencies by December 31, 2011. The bill also calls for a 15 percent savings based on appropriations of the consolidating agencies to be identified. No additional funding was provided for the consolidation.

Several examples of planned consolidations can be found around the country in a variety of mission areas. Many are still in the planning stage and little information is available about the actual costs incurred or savings achieved.

In California, a plan to merge personnel functions has been proposed. An independent state agency review regarded the anticipated $6 million dollar savings as “somewhat speculative”. Though not certain to be implemented, if it goes forward, the State will have one year to completely consolidate and physically relocate the agencies.

In 2011, Colorado's Senate Bill 208 merges the Division of Wildlife and the Division of Parks and Outdoor Recreation. Along with duties already held by the consolidating agencies, the bill requires the board of the new organization to create an implementation plan to identify efficiencies and cost savings, consolidate the operations and programs over a reasonable period of time within the existing budget levels and to finance the implementation plan with the identified savings.

As a result of the formation of the State Government Reorganization Commission by the Iowa legislature in 2009, Senate File 2088 was passed in 2010 which is aimed at streamlining processes, merging agency functions, and eliminating unnecessary boards, commissions, and councils. This effort is considered a "work in progress" and will take a "few years to fully implement the changes".

The process of consolidation and reorganization of state government is daunting. It requires staff who are already carrying a full-time workload to plan, coordinate, and implement a complex and multi-layered project. Consolidations often utilize a team with a large number of support staff to handle transition issues and/or engage consultants with expertise in consolidation.

In the State of Oklahoma, Governor Mary Fallin recognized the need for a leaner government. In her State of the State address, Governor Fallin asked the legislature to join her in pursuing the goal of "creating a modern, efficient, and effective state government". The legislature responded by passing HB2140, a measure that consolidated the Department of Central Services (DCS), the Employees Benefit Council (EBC), the Office of Personnel Management (OPM), and the Oklahoma State Education Employees Group Insurance Board (OSEEGIB) into the Office of State Finance (OSF).

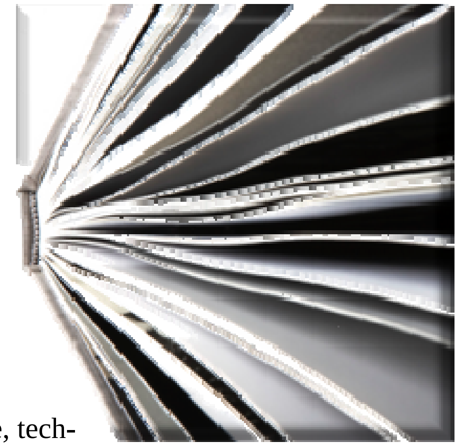
In the short timeframe between September through December, a savings can be estimated based on the decisions that have been made. Most savings estimated at this time relate to human resources. Indentifying efficiencies and procedural changes are next steps to be undertaken in the coming months and years.

The need for changes in policy and procedures has never been greater. Eliminating duplication and redundancy will save resources. This is a time of reviewing how we do business and how to make it better, more efficient and cost-effective. Consolidation is the future of government and provides an element of fiscal responsibility in this time of economic instability.

The act of consolidation laid out in HB2140 is in the beginning stages and will undoubtedly continue for months to come. The following pages describe the decisions which have been made thus far, the changes underway, and the savings expected.

Background

> *62 O.S. § 34.3.1*
>
> *A. The Department of Central Services, Office of Personnel Management, Oklahoma State Employees Benefits Council and the State and Education Employees Group Insurance Board are consolidated into the Office of State Finance. . . .*



House Bill 2140 (HB2140) involves consolidating five distinct agencies with widely diverse responsibilities. As standalone agencies, each had its own purpose and still do as divisions of the new consolidated agency. To understand the complexity and challenges of meshing these organizations, it is necessary to identify the unique responsibilities of each. Below are the mission statements of each organization identified in HB2140.

Office of State Finance (OSF)

To provide statewide leadership for finance, technology, and communications; support agency customers by supplying necessary fiscal, technological, and budgeting expertise; and serve the citizens of Oklahoma by promoting effectiveness, efficiency, and transparency.

Department of Central Services (DCS)

To assist customers in accomplishing their missions by providing essential services and quality solutions through: procurement, facilities, real estate, construction, fleet, risk management, property reutilization, printing, and distribution.

Employees Benefits Council (EBC)

To provide state employees flexible benefits designed for choice and cost effectiveness, superior administration, and promotion of healthy lifestyles.

Office of Personnel Management (OPM)

To serve the people of Oklahoma by delivering reliable and innovative human resource services to our partner agencies to achieve their missions.

Oklahoma State and Education Employees Group Insurance Board (OSEEGIB)

To serve Oklahoma by providing, with the highest degree of efficiency, a wide range of quality insurance benefits that are competitively priced and uniquely designed to meet the needs of our members.

The common characteristic among the five entities is the underlying fact that all are Oklahoma government agencies which provide services to other Oklahoma government agencies – government serving government. These organizations furnish the administrative functions of the state. Some serve other customers as well, i.e. OSEEGIB's HealthChoice insurance products are available to school districts and local government entities. As is apparent in reviewing the consolidating agencies' mission statements, each provides disparate yet vital services allowing the citizen-facing agencies to focus on the needs of its constituents.

The intent of HB2140 is no small feat, creating one cohesive organization out of five long-standing, independent agencies. Their legislative directives and responsibilities, along with the unique leadership styles of their past, create some significant obstacles and a multitude of minor impediments. It is the shared aim of serving the same government customers that offers the potential of successfully harnessing efficiencies while improving effectiveness.

The sensitive nature of an undertaking such as that outlined in HB2140 cannot be overstated. The focus of this bill is government modernization – bringing the State administrative functions into alignment with State leadership expectations – sleek, lean operations while maintaining effective services to support the core missions of the agencies they serve. However, the impact on the people directly affected by this transformation – the state employees – is immense.

OSF executive leadership developed a strategic vision and direction specifically for the consolidation process. The Chief Information Officer, who is focused primarily on the HB1304 project, participated to ensure his plans for the technology consolidation take into effect HB2140. A global mission statement and vision for the consolidated OSF will be developed by the larger executive team which includes the consolidating agencies.

Consolidation Vision

We will develop a unified agency through a deliberative and collaborative process that creates maximum value for our stakeholders.

Resources available to facilitate the consolidation of HB2140 have been minimal. To start, OSF has hired a Transition Project Manager to oversee the process. The Workforce Planning Manager at OPM has been detailed part-time to the project to assist with planning the organizational structure of the new agency. Eventually, the Special Projects Team from DCS, made up of three staff members, were dedicated full-time to the project. All of these individuals continue to work toward complete consolidation of the five agencies.

Consolidation Transition Principles

The following principles were defined as a framework to be used during the consolidation to provide guidance for all related decision-making.

- ♦ Integrity
- ♦ Transparency
- ♦ Strategic Execution
- ♦ Innovation
- ♦ Leadership

Others have also dedicated resources to the work on HB2140. Executive staff of OSF have devoted time and energy coordinating between ISD, DCAR, Budget, and HR. This has all been done in addition to their regular, full-time responsibilities and commitment to other legislation also affecting their subject areas.

All senior staff from the affected organizations have contributed to the project by providing information, skills, and time to educate the consolidation team and to assist in developing plans for the future organization. Other individuals have contributed their expertise as well. For instance, the State Leasing Officer has spent considerable time and effort studying the needs of the new organization and identifying potential locations and savings for the agency. Many others have offered ideas to facilitate the transition or improve operations of the various lines of business. The efforts of everyone, from top to bottom, have been invaluable and made possible the progress thus far.

The implementation of HB2140 has not been completed nor will it be completely accomplished this year. The requirements of the legislation require a significant amount of time and/or resources. Some immediate efficiencies have been achieved and some long-term changes have been initiated. Many projects are in the planning stage and there is much brainstorming and research which must take place to address existing issues due to the previous organizational structure or those that will be created by this new one. In years to come new initiatives will be implemented, changing the direction of others, and looking for new and better ways to achieve our goals.

Consolidation Goal

A ***F***latter, ***A***gile, ***S***treamlined, and ***T***echnology-Enabled ***(FAST)*** Agency

"Governments of the future will need to adapt and continuously evolve to create value. They need to stay relevant by being responsive to rapidly changing conditions and citizens' expectations, and build capacity to operate effectively in complex, interdependent networks of organizations and systems across the public, private and non-profit sectors to co-produce public value. As recommended in this report, what is needed today is flatter, agile, streamlined and tech-enabled (FAST) government."

The Future of Government
Lessons Learned from Around the World
© 2011 World Economic Forum
REF: 010611
www3.weforum.org/docs/EUAA/WEF_EU11_FutureofGovernment_Report.pdf

It is imperative to keep in mind that this is not the only legislation our agencies are responsible to implement, nor is it the only consolidation underway at OSF. Following is a brief list of some of the legislation passed during the 53rd Legislative Session that impact one or all of the divisions of the consolidated agency. Not all legislation and/or provisions are listed here, but the following require significant resources from one or more of the agencies.

HB2140: State Government Administrative Processes Consolidation and Reorganization Reform Act of 2011

This bill affects all divisions of the consolidated agency. The Act requires the following actions:

- Consolidate DCS, EBC, OPM, and OSEEGIB into OSF who assumes all powers, duties, and obligations of the consolidating agencies.
- Assume all executive-level responsibilities for each agency and the Director of OSF assumes the statutory powers of and functions as the agency director for each consolidated agency.
- Consolidate the administrative functions of all consolidating agencies by December 31, 2011.
- Demonstrate a cost reduction of 15 percent of the State Fiscal Year (SFY) 2012 legislative appropriations to DCS, EBC, OPM, and OSEEGIB.
- Report to the Governor the source and estimated amount of savings by December 31, 2011.
- Provide recommendations to the Legislature for the streamlining, reduction or elimination of the governance structures, and statutorily established positions of each of the consolidated agencies.

HB1304: Information Technology Consolidation and Coordination Act

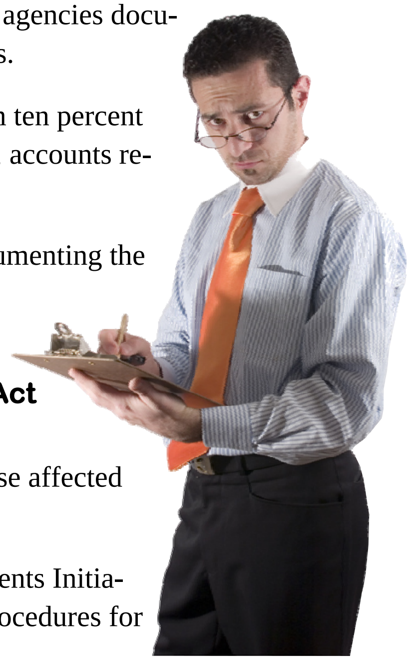
This bill affects all state agencies including those affected by HB2140.

- Reform and consolidate the information technology structure, operations, and purchasing procedures of the state.
- Facilitate development and/or implementation of electronic purchasing, billing and payment services, and other transactions of the State.
- Streamline and consolidate systems for financial and administrative services.
- Coordinate and require central approval of state agency information technology purchases and projects to enable the Chief Information Officer to assess the needs and capabilities of state agencies.

HB1207: Oklahoma Innovation, Efficiency and Accountability Act of 2011

This bill affects all state agencies including those affected by HB2140.

- Publish a performance assessment for state agencies documenting cost of providing financial services.
- Rank agencies and contract with the bottom ten percent for shared services in procurement, payroll, accounts receivable, and accounts payable.
- Compile and publish a report annually documenting the resulting cost savings.



HB1086: Transparency, Accountability and Innovation in Oklahoma State Government 2.0 Act of 2011

This bill affects all state agencies including those affected by HB2140.

- Oklahoma State Government Open Documents Initiative: Develop, maintain, and promulgate procedures for a documents website.
- Oklahoma State Government Forms One-Stop Initiative: Develop, maintain, and promulgate rules for a forms website.
- Includes publishing on a public website the spending data subject to the School District Transparency Act.
- Oklahoma State Government Payroll Processing One-Stop Initiative: Promulgate procedures for state agencies to contract with OSF for shared services of payroll processing.
- Oklahoma State Government IT Project Monitoring and Transparency Initiative: Develop, maintain, and regularly update a website for IT projects that allow the public to monitor status and expenditures in excess of $100,000.

- Provide and utilize a wiki venue to provide for two-way communication between procurement officers and potential vendors.
- Provide agency-level procurement officers a platform to publish items for purchase which are obtainable at a cost less than available on a statewide contract

HB1438: Oklahoma State Government Asset Reduction and Cost Savings Program

This bill affects DCS significantly .

- Identify and collect data to include in an annual comprehensive report due by December 31, 2012, detailing state owned properties.
- Identify and include in the annual report the five percent most underutilized state-owned property and their value.
- Assess potential for selling the underutilized property and describe the impact on local taxes if sold to a non-governmental entity.
- Promulgate rules for submission of information by required entities for the purpose of the annual report.
- Publish report on data.ok.gov.

HB1062: Regarding state health insurance and benefits

This bill affects OSEEGIB significantly.

- Implement a cost containment pilot program that incorporates doctor-patient mutual accountability which offers financial incentives to both the providers and members.

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Consolidation Progress

The magnitude of the HB2140 project necessitates specific, dedicated resources. It is essential that the right people are in place with access to appropriate resources.

The first step was to bring on a Transition Project Manager. Due to the shortage of funds, this was the only new, full-time staff member acquired. The responsibilities of this position include (1) consolidating the administrative functions of the five agencies involved, (2) evaluating the organizational structure of the five agencies and designing the most efficient structure for the consolidated agency, (3) working with the leadership and staff of the five organizations to identify areas of inefficiency and develop solutions, (4) working with state employees impacted by the process and facilitate the changes necessary for successful transformation, (5) developing recommendations and legislation that may be necessary and/or appropriate for consolidation and efficiency purposes, and (6) tracking and reporting cost avoidance/savings.

OSF did not receive any additional funding to perform the consolidation. Two of the five agencies involved in the consolidation received budget cuts to their base appropriations. It was necessary to identify resources to move the project forward timely and efficiently. The Workforce Planning Manager from OPM was detailed part-time to assist with the transition. The planner has assisted with restructuring both the organization as a whole as well as individual departments. The expertise in workforce planning has been invaluable to identifying competencies and resources needed for the success of the project. A climate survey developed by the Workforce Planner to assess the culture of each organization was tested first with OSF staff only and then rolled out to the other four agencies.

Later, the Special Projects team from DCS was dedicated to the project. The team includes the Director of Special Projects who also serves as the DCS Public Information Officer, a Services Coordinator, and a Business Process Analyst. These individuals have provided essential research services, collaborated with the agencies to design the new organization's internal infrastructure, and developed recommendations and legislation.

All the senior staff of OSF has participated in and contributed to the planning of the transition. Senior staff members from all of the consolidating agencies have spent much time and effort to ensure a smooth transition. Aside from their regular duties, they have researched issues, created opportunities for savings, provided massive amounts of data, and facilitated human capital movement.

Several other staff members at the various organizations have contributed their expertise. The State Leasing Director has worked tirelessly to identify space needs and solutions. Legal staff have researched and advised on a variety of topics. Experts in legislation research and interpretation have provided information and data. Many employees at all of the organizations have provided valuable services to this project while continuing to perform their usual full-time job duties.

Agency senior staff for each of the agencies prior to consolidation is listed in Figure #1 on pages 16 and 17. The consolidated agency's senior staff is listed in Figure #2 on page 18. The following is a description of the progress made to date specific to HB2140.

It should be noted that although name change recommendations will be made for the various divisions and the agencies, for the purpose of this report, they will continue to be referred to by their current name.

Governance

The Director of the Office of State Finance shall assume all executive-level responsibilities for each agency and shall function as and possess the powers of the agency director for each consolidated agency as enumerated by existing statute.

The process of consolidating several agencies and their governance structures is a major undertaking. All the organizations have core missions that must be sustained while absorbing changes to their administration and leadership.

It is a testimony to all involved that, to this point, they have continued to function admirably despite uncertainty and adjustments.

Flattening management means fewer layers of reporting and disbursed operational decision making—more teamwork and less micromanagement. "A flat organization requires that managers be held responsible for success and also be held accountable for their achievements or failures. . . . Employees can also be empowered to contribute to decision-making. This way you involve the entire team in the responsibility and accountability for success," (Todrin, Donald, Entrepreneur.com, updated 10/6/2011; http://www.msnbc.msn.com/id/44798347/ns/business-small_business/t/why-you-need-flatten-your-organization/).

Governance Defined

"Though governance literature proposes several definitions, most rest on three dimensions: authority, decision-making and accountability. . . .

Governance determines who has power, who makes decisions, how other players make their voice heard and how account is rendered. . . .

Ultimately the application of good governance serves to realize organizational and societal goals."

The Institute on Governance
http://iog.ca/en/about-us/governance/governance-definition

Figure #1

Senior Staff Prior to Consolidation

Office of State Finance
Preston Doerflinger, Director and Secretary of Finance and Revenue
Alex Pettit, Chief Information Officer and Chief Information Officer—Secretary
Brandy Manek, Deputy Director of Budget and Policy
Brenda Bolander, State Comptroller
Lucinda Meltabarger, Human Resources Director

Department of Central Services
John Richard, Director of Central Services
Mike Fina, Deputy Director for Operations
Sara Cowden, Director of Special Projects / Public Information Officer
Kimberlee Williams, General Counsel
Mark Dame, Director of the Central Printing and Interagency Mail Division
Scott Schlotthauer, Director of the Central Purchasing Division
John Morrison, Administrator of the Construction and Properties Division
Mike Enneking, Director of the Office of Facilities Management
Terry Zuniga, Manager of the Fleet Management Division
Oran Redden, Administrator of the Property Reutilization Division
Gene Lidyard, Administrator of the Risk Management Division

Employees Benefits Council
Phillip K. Kraft, Executive Director
Dan Melton, Deputy Director of Finance and Accounting
Jimmy Trotter, Administrator of Benefits and Contracts
Craig Cates, Executive Manager of Agency & Regulatory Affairs / HR
Vacant, Wellness Program Manager
Frank Wade, Administrator of Information Services
Brian King, Communications Officer

62 O.S. § 34.3.1

A. . . . The Director of the Office of State Finance shall assume all executive-level responsibilities for each agency and shall function as and possess the powers of the agency director for each consolidated agency as enumerated by existing statute.

Governance of the transforming consolidated agency has begun by flattening the overall management of each of the agencies involved. Following is an explanation of the actions taken to decrease the size of management while maintaining service.

Office of State Finance (OSF)

- Deputy Director duties were combined with the Policy and Budget director duties reducing the need for a senior management position.
- Responsibilities of the Deputy Director of the Information Services Department have been diverted to the Division of Central Accounting and Reporting eliminating a senior management position.

Department of Central Services

- Deputy Director for Operations has been eliminated.
- The responsibilities of the Administrator for Construction and Properties has been combined with the duties of the Director of DCS eliminating an upper-level management position.

Figure #1 cont'd

Senior Staff Prior to Consolidation continued

Office of Personnel Management
Oscar B. Jackson, Jr., Administrator and Secretary of Human Resources and Administration
Hank Batty, Deputy Administrator for Programs
Marilyn Capps, Associate Administrator of Financial Management Services
Kara Smith, General Counsel
Shirley Russell, Director of Legislative Affairs
Tom Patt, Assistant Administrator of Management Services
Natasha Riley, Director of Personnel Assessment
Tom Impson, Director of Applicant Services
Lisa Fortier, Director of Human Resources Development Services
Brenda Thornton, Director of Equal Opportunity and Workforce Diversity
Bob Stevens, Coordinator of State Employee Assistance Program
Alan Ross Trip, Manager of Workforce Planning

Oklahoma State and Education Employees Group Insurance Board
Frank Wilson, Agency Administrator
Joe McCoy, Director of Internal Audit (reports directly to board)
Kathy Pendarvis, General Counsel to the Administrator
Dana Webb, Assistant Administrator of External Affairs / Communications / Health Promotion
Bo Reese, Deputy Agency Administrator of Operations / CIO
Paul King, Assistant Administrator of Compliance and Industry Practice
J. Lynne Bajema, Deputy Agency Administrator of Administration—Finance
April Story, Human Resources Program Manager / Training / Imaging

Employees Benefits Council

- The Executive Director position has been combined with the Administrator of Benefits and Contracts reducing senior management by one position.
- The position of Executive Manager of Agency & Regulatory Affairs and Human Resources has been eliminated reducing senior management by another position.

Office of Personnel Management

- The past administrator has retired. OSF's Director of Human Resources has stepped into the role and her position will not be refilled eliminating a senior level management position at OSF.
- A senior financial management position was eliminated and the responsibilities assumed by the financial officer at OSF.

Oklahoma State and Education Employees Group Insurance Board

- At this time, no major changes to the management structure of this division have taken place. This is partially due to its function as an enterprise organization similar to the private sector. The impact of the consolidation on this division is still under consideration. It will definitely contribute to and benefit from pooling of resources in specific areas.

- This agency is still being evaluated and will continue to be studied for potential efficiencies by restructuring and/or drawing resources from other agencies.

Savings from actions taken to flatten the management structure of the consolidated agency is estimated to be $454,000 in SFY 2012 and $822,000 in SFY 2013. Further information on flattening management can be found on page 37.

While the new leadership has been formed, there is still much work to be done regarding the responsibilities of each team member. The divisions, formerly agencies, are being reformed and will be organized differently in the near future. Each organization's director's duties are being reviewed to determine what can and should be delegated and what should remain with the director of the consolidated OSF.

Figure #2

Senior Staff of Consolidated OSF

Preston Doerflinger, Director and Secretary of Finance and Revenue

Alex Pettit, Chief Information Officer and Chief Information Officer—Secretary

Brandy Manek, Director of Budget and Policy

Brenda Bolander, State Comptroller

Carol McFarland, Transition Project Manager

John Morrison, Interim Administrator of Restructured DCS

Scott Schlotthauer, State Purchasing Director

Jimmy Trotter, Interim Administrator of Employee Benefits (formerly EBC)

Lucinda Meltabarger, Administrator of Restructured OPM

Frank Wilson, Administrator of OSEEGIB

Division Restructuring/Changes

The focus of transition during the implementation of HB2140 so far has been on consolidating the administrative functions of the agencies. Several requests are discussed below and will be fully developed in the Recommendations section of the report beginning on page 41.

Restructuring the Office of Personnel Management

The Office of Personnel Management Division is undergoing significant change. First, the division is under new leadership. The previous administrator retired from state service on November 1, 2011. OSF's Human Resources Director has taken on this role of Administrator.

Name Change. OSF will recommend changing the name of the division from Office of Personnel Management to the Human Capital Management Division (HCM). See Recommendation #1 on page 41.

OPM will serve all of the consolidated agency's human resources and payroll needs. It will also continue current "OPM" operations to meet its statutory core mission. Finally, the division is looking for opportunities to better serve the State's human resources needs.

OPM Organization. OPM will provide internal human resources and payroll processing services to the consolidated agency. Field representatives will be assigned to each division. The central location will serve as a base for the representatives who will report to their field stations for a certain portion of the week. This structure will allow the representatives to maintain a personal connection with their assigned divisions and also provide opportunities to utilize the resources of the OPM division and cross train other representatives.

The division is reorganizing to distinguish between administrative operations and strategic planning. Administrative support will focus on agency and employee services such as conflict resolution, employee benefits, and employment transactions. Strategic planning will focus more on the vision for Oklahoma's state government workforce, encompassing workforce planning, comprehensive training, and performance measurement. See a draft organization chart on page 21, Figure #3.

Employees Benefits. OSF has moved the Employee Benefits Council's functions to OPM. This transition positions employee compensation and benefits in a more convenient and collaborative environment.

EBC personnel will be moving from the First National Bank in downtown Oklahoma City to the Jim Thorpe building. The lease will be terminated as of April 30, 2012 and will save the state over $100,000 in SFY 2013.

Payroll Processing. The payroll processing function will be consolidated by the end of December, 2011. Two agencies' payroll have been integrated with OSF and the other two will be incorporated by year end.

By the end of February 2012, the HB2140 agencies will be utilizing the PeopleSoft

62 O.S. § 34.3.1

B. Not later than December 31, 2011, the Director of the Office of State Finance shall cause the administrative functions of each consolidated agency to be consolidated.

self service timesheet system streamlining payroll processing. When practical, all employees will enter their own time into PeopleSoft. Staff who do not typically have convenient access to computer systems will continue to provide their timesheet information for data entry, i.e. grounds maintenance.

Along with consolidating the HB2140 agencies, payroll processing will be impacted by HB1304 under which all technology employees will move to OSF. Workload will also increase due to HB1207 which requires state agencies with low– performing administrative functions transition their payroll processing into shared services.

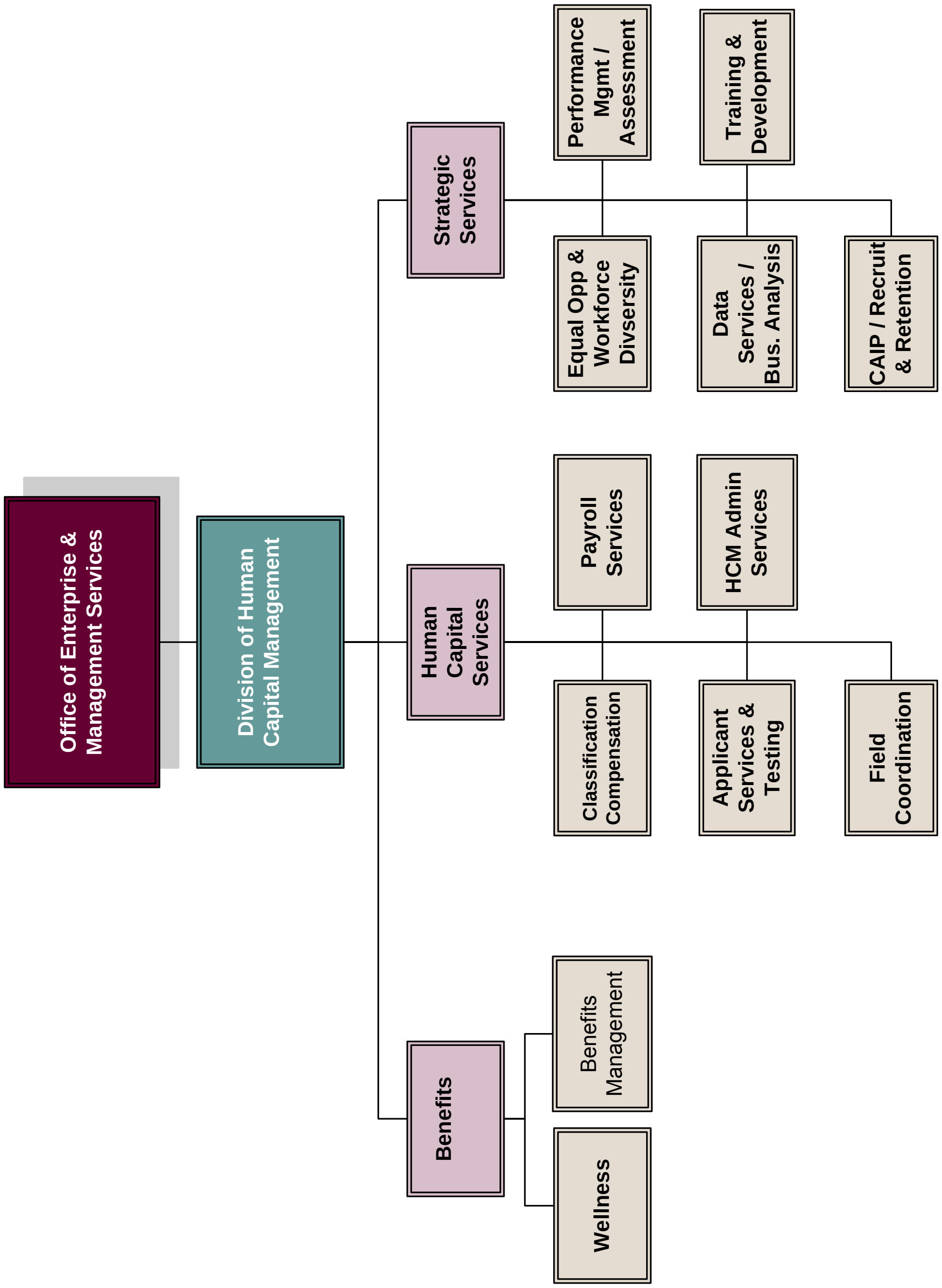
Human Resource Services. In some cases, human resource services are being provided as a shared service to other state agencies as well as OSF and the consolidating agencies. Services include obtaining a pool of applicants, processing employee paperwork, acting as employee benefits coordinators, etc. This area continues to grow as well. OPM will handle all in-house staffing needs for the consolidated agency.

Accounting / Finance. Accounting transactions services are being provided as a shared service to other state agencies through Agency of Business Services (ABS). Because House Bill 1207 will require agencies with low performing accounting functions to contract with ABS, the department is expected to grow significantly in the coming years.

As positions are evaluated for efficiency purposes, accounting staff who are no longer needed in the consolidated agency are being transferred to ABS. Three staff members from the Office of Personnel Management have already been relocated to ABS.

Information Services Division. As part of the HB1304 implementation, all technology employees will report to OSF's Information Services Division. HCM's one information technology employee has already been reassigned to ISD.

Figure # 3: DRAFT - Division of Human Capital Management (HCM)



It should be noted that this information is still under evaluation and is subject to change.

Restructuring of the Department of Central Services

The Department of Central Services (DCS) is the most diverse organization of the HB2140 agencies. With seven lines of business, DCS has provided several statewide services affecting all state agencies in one manner or another. The diversity of the division and its complex responsibilities offer a challenge in design and management.

DCS has experienced a change in leadership. After the resignation of the agency director, the State Construction Administrator from within the organization was named the interim director.

Central Purchasing. The Department of Central Purchasing will become its own division reporting directly to the Director of the consolidated agency. The Central Purchasing division leverages the purchasing of all state agencies (with some exceptions noted in statute) to obtain the best value for the taxpayers' dollar. The challenge is to isolate what that best value is for every purchase falling under the Central Purchasing Act (74 O.S. § 85.1 et seq.). Negotiating and managing statewide contracts, as well as State Use contracts, is complex and the division often comes under unfavorable scrutiny.

The compliance component inherent to the process often makes Central Purchasing a source of frustration for its constituents. Consistent and positive customer service by the Central Purchasing Division is a must in order to gain the trust and support of its varied clients. This is the complaint most often heard in conjunction with this department –a lack of customer service. This is followed closely by customers' experience in the availability of better prices in the community versus the statewide contracts.

The cost of not developing and maintaining a positive relationship with the state agencies is difficult to measure, but easy to explain. Collaboration between the parties can improve the State's ability to identify and obtain best deals as well as elicit the cooperation of customers in managing purchasing power.

Because of the difficulty of its mission and the accompanying challenges, OSF has determined that Central Purchasing should report directly to the Director of the consolidated agency. Its need for constant evaluation and evolution necessitates that the Director of Purchasing work closely with the Director of the consolidated OSF to design a program that meets the needs of its constituents while capturing the savings potential it represents.

Information Technology / Communications Purchasing. In line with the Information Technology Consolidation and Coordination Act, OSF recommends the purchasing responsibilities related to technology and communications be moved into the Information Services Division and under the auspices of the Chief Information Officer. It should be noted that the best possible outcome can be achieved if common processes and procedures are handled in a like manner. Central Purchasing and IT Purchasing will be working closely together to ensure a cohesive system that fulfills statutory requirements.

Name Change. With the move of Central and IT purchasing out of DCS, OSF recommends changing the name from the Department of Central Services to the Division of Capital Assets Management (DCAM). See Recommendation #1 on page 41. This expresses the targeted emphasis on managing the State's assets such as property, facilities, construction, etc., and better reflects its new organizational structure.

Accounting / Finance. As with several of the divisions, the new DCAM will transfer its accounting transactions functions into Agency Business Services (ABS). Two members of the accounting staff will be transferred to ABS in the near future to assist with the increasing workload due to the intake of additional shared services clients as part of HB1207.

Human Resources / Payroll Processing. DCS' human resources function will eliminate one position and one will be moved to OPM and serve as the field representative for the newly structured division.

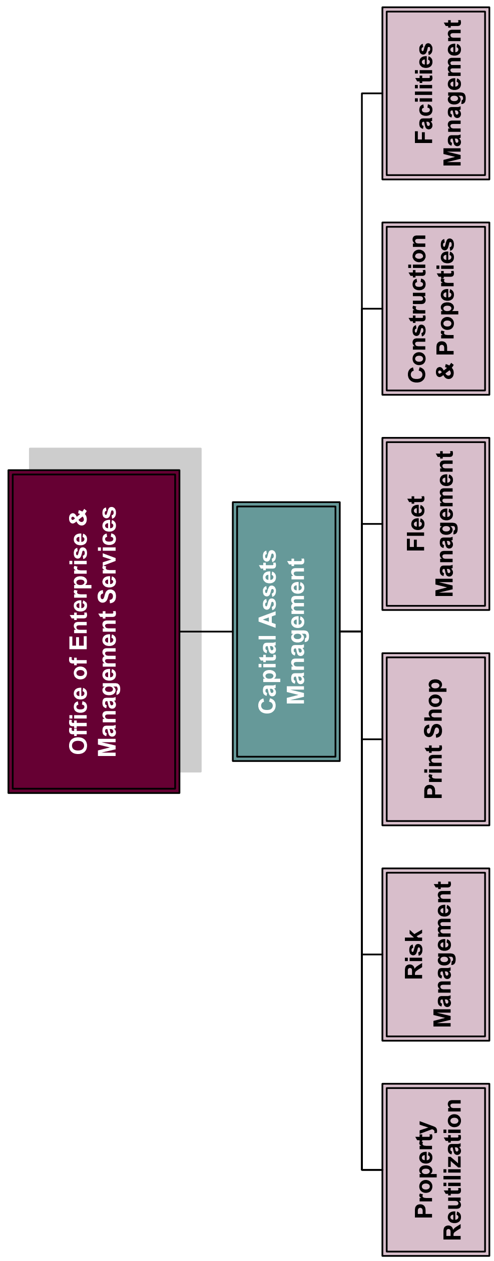
Performance Audit. The State Auditor and Inspector's Office (SAI) is currently conducting a performance audit on DCS. OSF requested the auditors focus on areas other than Central Purchasing because it has been comprehensively evaluated in the last few years and strategic changes are planned for it.

After conducting a risk assessment, the auditors recommended the review should concentrate on the divisions of Construction and Properties Management and Facilities Management. Preliminary results indicate a centralized asset management function is critical to the State. This supports the direction in which leadership has been heading as indicated by such actions as HB1438. Because this is already underway, the SAI recommends an evaluation of the capital asset management plans and verifying progress and achievement of goals.

Final results from SAI's review are anticipated in Spring of 2012.

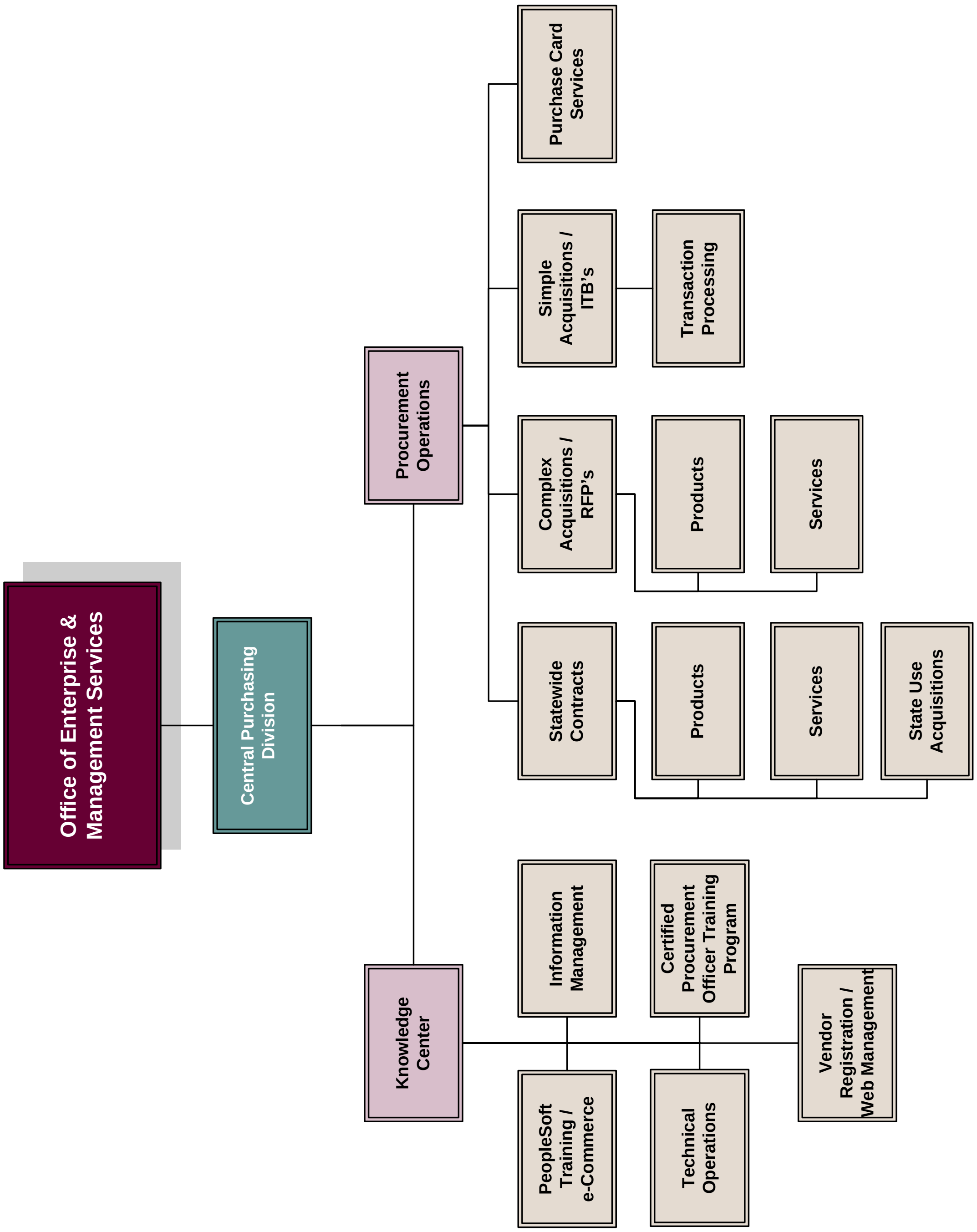
Progress

Figure # 4: DRAFT Division of Capital Asset Management (DCAM)



It should be noted that this information is still under evaluation and is subject to change.

Figure # 5: DRAFT Central Purchasing Division (CP)



It should be noted that this information is still under evaluation and is subject to change.

Restructuring the Division of Central Accounting and Reporting (DCAR)

DCAR has been impacted by several pieces of legislation passed in the most recent legislative session. One of the most significant is HB1207 in which the accounting shared services department, Agency Business Services (ABS), will acquire accounting transaction functions of the state agencies performing in the lowest 10 percent. The process is to be conducted annually, so an increased need for resources is expected in the future. It is difficult to project how many additional staff members will be required to process accounting transactions for ABS' growing list of clients. Estimates indicate it could grow to thirty employees by the end of SFY 2012, up from its current size of ten employees.

HB2140 creates unique challenges of its own as five organizations' accounting departments coalesce into one. There should be little or no impact on the statewide accounting function, however, several employees will no longer be needed for the consolidated agency's in-house accounting functions. Many of the employees displaced due to HB2140 were/or will be moved into ABS to accommodate HB1207.

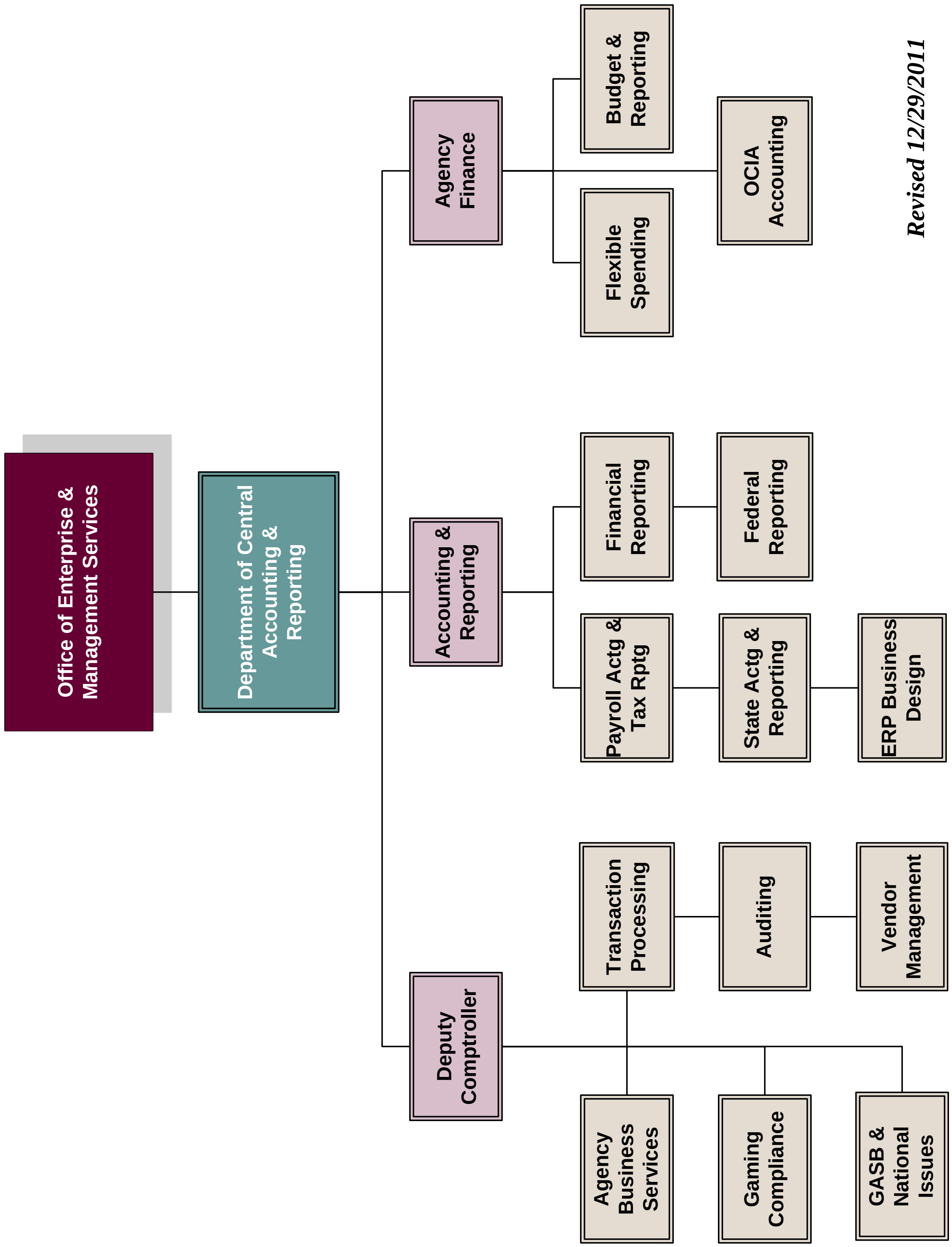
Planning in Progress. Currently the financial officer for the agency also manages ABS. As ABS grows, it is apparent the department will require a full-time manager. Plans are to separate the in-house accounting function from ABS to better serve both operations.

During the next few weeks and months, the strategic accounting staff will work together to evaluate the needs of each division and how to organize resources in the most efficient manner. Some staff may remain within the divisions if deemed necessary and many will relocate to a common space to allow for cross-training and adjustments in the utilization of resources.

Additionally, a unified budget management department dedicated to the newly consolidated organization will be developed. The auditing departments will also be unified to fulfill statutory responsibilities of the consolidated agency for oversight of statewide accounting, construction, and procurement functions.

Space. DCAR's increased need for resources to process accounting transactions for several agencies will eventually necessitate a larger workspace. As this division assumes the accounting transaction processing functions for more and more agencies, OSF anticipates a need for new space in order to co-locate like services. The State Leasing Department in DCS is researching available space for current and future needs.

Figure # 6: DRAFT Division of Central Accounting & Reporting (DCAR)



It should be noted that this information is still under evaluation and is subject to change.

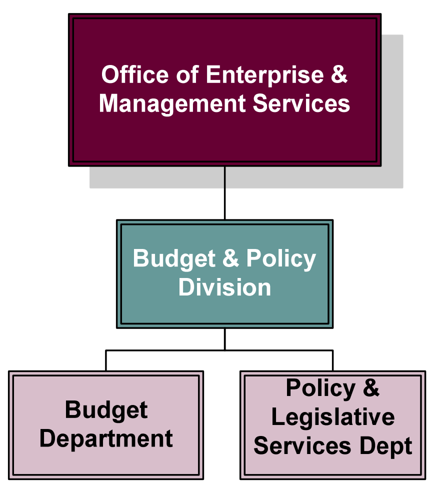
Budget Division Changes

The Budget and Policy Division will expand to incorporate the new Policy and Legislative Services Department. Additionally, they will work with the Department of Central Accounting and Reporting to develop a budgeting process that includes all the HB2140 agencies.

OSF recommends that the consolidated agency receive one common appropriation that incorporates all the consolidating agencies. See Recommendation 2 on page 42.

The HB2140 agencies will be working together to combine and consolidate the department structure and funding structure to ensure cohesive budgetary and accounting processes. New accounting functionality will allow for simplification of departmental structure and more detail for management of budget/funds at deeper levels.

Figure # 7: DRAFT Division of Budget & Policy



It should be noted that this information is still under evaluation and is subject to change.

Pooling Resources

As expected, the five agencies each have staff who perform similar jobs. Three specific areas have been identified as suitable candidates for centralizing and/or sharing resources: legislation/policy analysis, legal services and communications. The challenge with combining these functions is making sure the right people end up in the right place and no core mission is put at risk in the process. Prior to the consolidation, OSF had either no or limited capacity in these three areas. The following is a brief description of actions taken to consolidate common functionality among the agencies.

Policy and Legislative Services

In the past, OSF had little need for a legislative analyst on staff. The agency has served as the research department for the Governor for purposes of budget impact. Much of the legislation affecting the agency originated elsewhere. OSF determined budget impact and, when applicable, implemented as instructed. The agency's role has expanded with the consolidation. The transitioning agencies have been expected to provide information to the Governor and legislature in their respective areas and have submitted recommendations for legislation when needed.

Of the five agencies involved in the transformation, two had staff members responsible for working with elected officials in the areas of policy and legislation and bill tracking during session that would impact their respective agencies. One has since moved to an agency outside the consolidation leaving one legislation analyst available.

Policy & Legislative Services Department Mission

To work with agency staff, elected officials, constituents and other stakeholders in all matters related to policy and legislation for the consolidated agency.

Research questions and requests for assistance with legislation are expected soon and deadlines regarding the submission of bills are approaching. With the next session right around the corner, it was imperative this department be up and running quickly.

The legislation analysts from the consolidating agencies, OSF's Policy and Budget Division Director, and members of the transition team met to determine the scope of responsibilities and resources needed to successfully perform policy and legislation related services for the new agency. A plan of action was outlined and resources have been put in place to support the operations of this department.

The Policy and Legislative Services Department will initially consist of a Director, two full-time staff and one part-time. One full-time staff member will serve as administrative support who will track legislation. The second administrative staffer will be primarily responsible for research. The part-time support person will be utilized from one of the divisions to attend committee meetings and assist the department director during session. The structure of the division will be re-evaluated during and following the next legislative session to ensure resources are adequate for its purpose.

The current plan is that the Policy and Legislative Services Department for the new agency be located at the Capitol and near the Director of the consolidated agency and the Director of Policy and Budget Division. This seems the most effective approach to ensure easy access to the department by the Governor, elected officials and other stakeholders as well as the Director of the consolidated agency. We are awaiting word from the House and Senate regarding the distribution of open space within the building. It is uncertain where the department will reside if space is not available in the Capitol for the new agency.

Outstanding questions as previously mentioned are location and evaluation of the effectiveness of the department based on the resources allotted at the close of the coming session. See the chart Figure #7 on page 28 to identify the function's location in the organization.

General Counsel & Legal Services

The consolidated Office of State Finance now has access to six attorneys dedicated to specific areas of the newly consolidated agency. Currently, there are three attorneys within OSEEGIB, two attorneys within DCS, and one attorney dedicated to OPM. These attorneys are physically located at their respective divisions and are accessible to their administrators and division staff. Two of the five consolidating agencies, the Office of State Finance and the Employees Benefits Council, do not have on-site attorneys, but instead have contracts with the Attorney General's office for legal services.

Sharing legal services between all divisions of the new agency would create an effective combination of legal resources for all divisions to utilize. This is especially important due to the exponential growth of the Information Services Division and the expected increase in Agency Business Services. On page 45 is Recommendation #4 requesting the consolidated agency be permitted to employ the legal counsel necessary to support the spectrum of responsibilities now attributable to its mission.

The appointment of a General Counsel for OSF would become the division leader of this team providing services for the agency as a whole. Some of his/her responsibilities would include working as the General Counsel for the Director of OSF and managing the legal services team. The management responsibilities would include assembling the operational structure, allocating assignments, and assessing work load capacities.

The attorneys from all the consolidating agencies have met to discuss centralization of legal services and several ideas were considered and reviewed. Prior to this meeting, each attorney had completed a survey identifying their strengths and duties.

Expertise in specific areas were identified. For instance, OSEEGIB has specialized expertise in subrogation and grievance processes related to their insurance enterprise requirements. The survey also provided information about several services shared by all of the attorneys. Among the shared services listed were:

- Administrative Rule Making
- Contracts
- Litigation Skills
- Oklahoma Administrative/Civil Law
- Employment and Personnel Practices
- Public Meetings and Open Records Information

The panel of attorneys recommended that a General Counsel be appointed within the Office of State Finance and report directly to the Director of OSF. The newly appointed General Counsel would manage the division. All other legal staff including attorneys, deputy attorneys and support staff would report to the General Counsel. The General Counsel would provide access to legal services for all of the divisions based on availability and expertise of the attorneys.

Under consideration is the physical location of the attorneys and whether they should be moved into one location or remain embedded in their respective divisions. Housing in the same physical location would ease management of the team and workflow and would be useful for the divisions who do not currently have a dedicated legal team on-site. However, a number of advantages exist for the attorneys to be physically located in a close proximity to their division leaders. Easy access to an attorney increases reliance on legal staff. Communication on legal issues in the day-to-day operations of divisions can increase the likelihood of avoiding legal pitfalls inherent in the missions and administration of the divisions.

It was also recommended that the administrative rules function be performed under the director of the legal department.

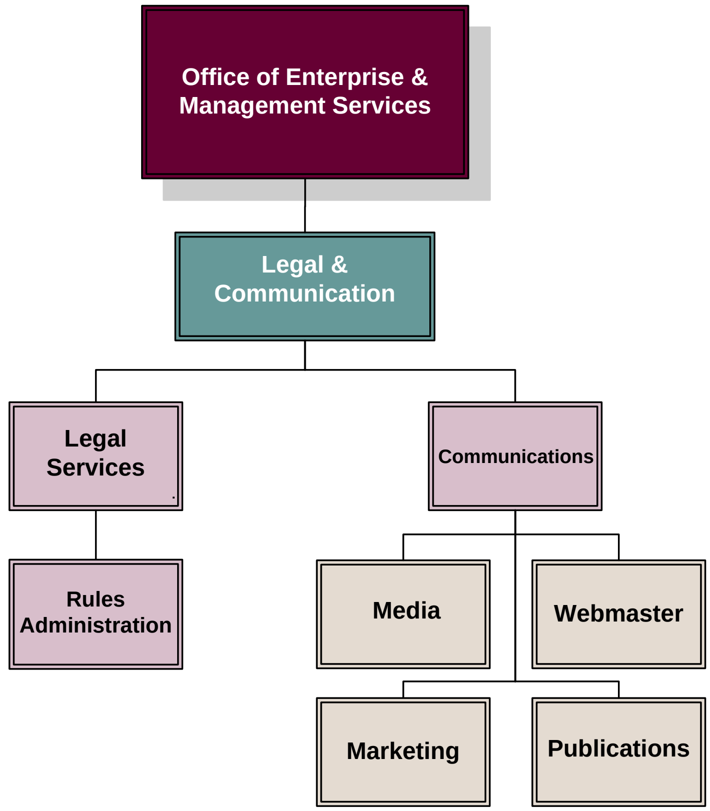
The next steps include convening legal staff again with the purpose of obtaining a consensus for processes and structures of the new group and to finalize their roles and responsibilities for the newly consolidated agency.

Communications

The Consolidated Agency, as with any organization, must have an effective communication team and strategy. Each of the five agencies must actively communicate internally and externally. In addition, as the agency has grown, the need to communicate laterally across the divisions now exists. In order to accommodate these needs, a strategy and potential structure of the department has been developed.

Currently, there are 14 members of the communication team across the five agencies. To assess team member skill sets, a survey was conducted evaluating abilities which included writing, publishing, graphic design, web design, media relations, and photo editing. Results showed that team members currently operating within the five agencies present an opportunity to share communication services throughout the consolidated agency. An additional review will be performed to determine the optimal size and scope of this department.

Figure # 8: DRAFT Legal & Communications Division

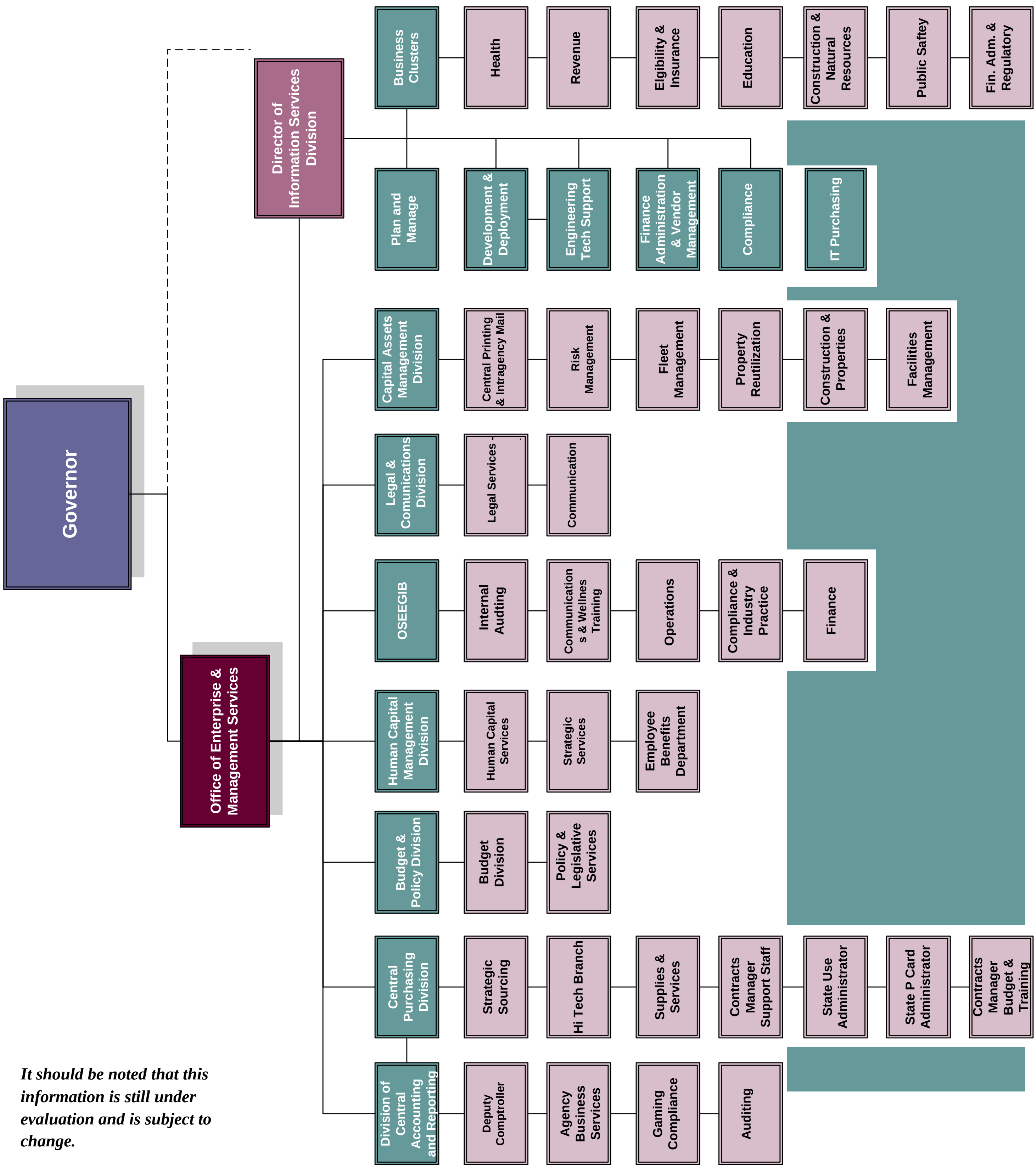


It should be noted that this information is still under evaluation and is subject to change.

In addition, communication team leaders were brought together to discuss structure and strategy. The initial organizational structure calls for four divisions: Marketing, Media, Webmaster, and Publications. These departments will report to an executive level manager.

The process of establishing the communication team still has a few issues. Selecting a Director of Communications is integral to this process. Once this takes place, a formal policy will be crafted and a definite organizational structure will be established. At the discretion of both the Director of Communications and Director of the consolidated agency, an evaluation will be conducted to determine the most strategic location for the department and its team members.

Figure # 9: DRAFT Office of Enterprise & Management Services (OEMS)



It should be noted that this information is still under evaluation and is subject to change.

Location, Location, Location . . .

Finding adequate and convenient space for the six hundred plus employees, who will now call the consolidated agency home, is challenging. (This number does not include the additional employees integrating due to the IT consolidation associated with HB1304.) Most of the employees are or will soon be located within a very short distance of the Capitol. The optimal situation would be to house the majority of the agency one central location. Space is being evaluated, but there is nothing currently large enough and available to the organization without considerable cost to the State.

The following is a brief discussion of the actions underway and the outstanding issues related to merging the five consolidating agencies.

Department of Central Accounting and Reporting. One of the most immediate issues of the consolidated agency is locating enough adjacent or accessible space to allow teams who work closely together or have similarities in functions to co-locate near each other. A pressing concern is the operations of both the statewide and agency finance teams.

Currently, OSF has two locations in the Capitol building dedicated to these functions and one located at Santa Fe and 36th Street. The Capitol building houses the Central Accounting Unit which performs centralized, statewide accounting and compliance functions. These functions include general ledger, payroll tax and withholding, and maintenance of employee earnings records, as well as expenditures processing, auditing and records maintenance.

The Santa Fe location accommodates the statewide financial reporting function including information for all state agencies, funds, and component units as well as the management of federal awards scheduling and maintenance. Agency Business Services also resides in this building. They maintain the accounting shared services responsibilities for the areas of procurement, accounts payable and receivable, and some agencies' budgeting functions. Currently, OSF's financial management is administered from this location as well.

The consolidated agency's financial management is of issue at this time. While the statewide functions are not expected to be significantly impacted by the consolidation, the agency's financial management will have to expand to handle the increased workload. The significant increase in size will be due to the IT consolidation (HB1304), the expansion of ABS due to the mandated shared services for agencies with low performing accounting functions, and the consolidation of the five administration agencies merging under HB2140.

The agency has requested additional space in the Capitol, Room 112. This would allow the agency to move the majority of all statewide financial functions into its current location in Room 122 and Room 106. The Director and senior level management as well as the Budgeting and Policy and Legal Services Divisions would reside in Room 112. A request has been made to the House and Senate for this space.

Agency Business Services is also expected to need additional space in the near future. HB1207 has been implemented and candidates identified to contract with the department to manage accounting services. ABS has recently contracted with several agencies who have requested services and will be incorporating the mandated agencies in the near future. As the workload increases, the department will need additional staff and space to continue operating effectively. OSF is currently working through DCS to contract for additional space within the Santa Fe building. It will be necessary for some of the statewide functions to relocate in order to accommodate this growth.

Employees Benefits Council. As previously mentioned, the Employees Benefits Council is relocating staff. The staff providing core mission services are moving under the auspices of the Office of Personnel Management and will relocate to the Jim Thorpe building in the Capitol Complex area. Plans are underway to prepare the space within the building.

Other staff related to functions which are now being centralized such as accounting and technology, have or will be relocated to their respective departments as well. The First National Building Management has been notified of the intention to vacate by April 30, 2012.

Department of Central Services. Due to voluntary buyouts and attrition, space is opening up in the Will Rogers building within the offices of DCS. The consolidated agency is evaluating this space to determine its best use. While not optimal at this time, it is a potential location for some of the agency financial functions. It is not large enough to handle all of the staff needed for financial functions, but may serve as temporary housing for the foreseeable future.

Oklahoma State and Education Employees Group Insurance Board. OSEEGIB will be the only division not located in the Capitol Complex after EBC has moved into the Jim Thorpe building. Space for this division will be evaluated in the coming months to determine if closer and/or more cost effective housing can be located.

62 O.S. § 34.3.1B

A. . . . The Director of the Office of State Finance shall demonstrate cost reduction as a result of the consolidation that is equal to fifteen percent (15%) of the legislative appropriations received by the consolidated agencies during fiscal year 2012.

Financial Impact of Consolidation To Date

Cost savings was the driving force behind HB2140. Finding efficiencies, pooling resources and sharing expertise are all actions which will result in "more bang for the buck." The 53rd Legislative Session ended with several bills aimed at reducing revenue needs and HB2140 was one such vehicle of change.

The agencies involved began cutting costs when it became obvious the budget would not support the status quo. Because of this, information reported includes a look back before the consolidation. When appropriate, numbers are reported as far back as SFY 2010 to provide a better understanding of cost saving measures taken during the past several years. SFY 2013 is also included to indicate the full impact of savings in the next fiscal year. By necessity, both SFY 2012 and 2013 are estimates.

The following is a brief description of the financial impact of consolidating the five agencies into the Office of Enterprise and Management Services.

** Non-Accumulated Savings. These numbers indicate savings obtained in the year earned only. The effect is not carried forward into future years.*

** Accumulated Savings. In many cases, savings initiatives are carried out during the year and so the first year reports a prorated savings. Savings prorated in 2010 are carried forward at a full-year savings through 2011, 2012 and 2013.*

** Years reflect the State's fiscal year, beginning in July 1 and ending June 30. State fiscal year (SFY) 2012 began July 1, 2011 and will end June 30, 2012.*

Appropriations as a Base to Measure Savings

HB2140 indicates that SFY 2012 appropriations should be used as a basis of measurement and cites as the target 15 percent of the appropriations to the four consolidating agencies. Two of the four agencies are appropriated—the Department of Central Services (DCS) and the Office of Personnel Management (OPM). Figures #10 and #11 at the top of the next page show appropriations for SFY 2012 for the two agencies.

The legislation requires the consolidation of administrative functions. If the 15 percent cost savings calculation is based on administrative appropriations for the two organizations, the savings required would be $765,759. Based on total appropriations that savings should be $3,143,936.

As previously mentioned, the focus of the consolidation to-date has been on merging the administrative functions. Figure #11 on page 37 shows a disaggregation of agencies' appropriations comparing administration to core mission costs.

15% Administration Appropriations: $766K

15% Total Appropriations: $3.1M

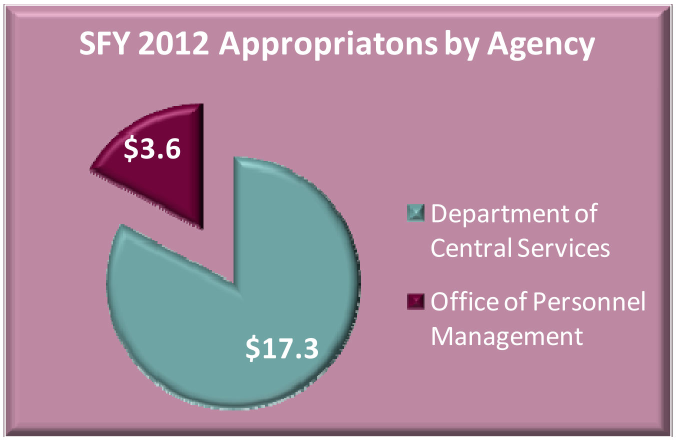


Figure #10

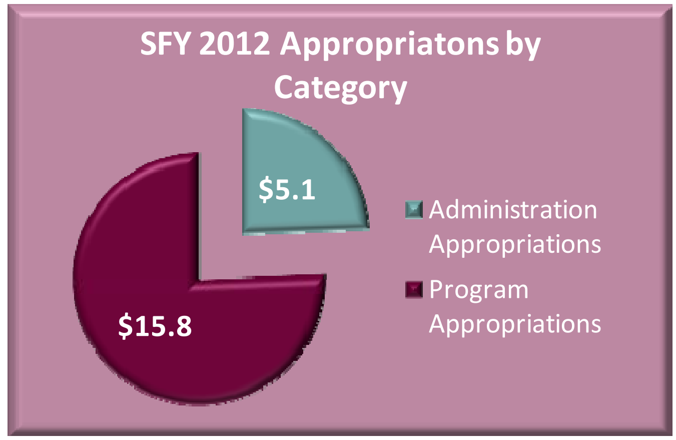


Figure #11

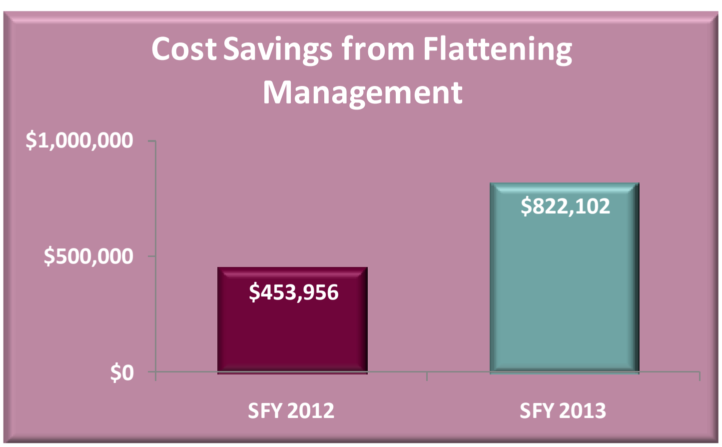
Total Appropriations: $20,952,907

Cost Savings / Avoidance—Human Resources

Invariably, cost reduction in a consolidation means shrinking the size of the entities' workforce. The challenge is to make certain that the changes are targeted to ensure the organization retains the institutional knowledge, expertise, and staff to effectively carry on the business of government while paring down administrative costs.

Flattening Management. Part of the consolidating process is assessing the staffing needs of the organizations. As departments, divisions, and units are merged, it creates excess management at the top levels. Due to resignations and retirements, senior management has decreased in cost as well as numbers.

Figure #12



The savings resulted from replacing executive directors from three of the four agencies at a lower cost to the State. In all three cases, the replacements came from within the consolidated organization and their positions were either replaced at a lower cost or were not refilled. Four other senior management level staff have left and were not replaced.

7 Senior Management Affected

3 Replaced at a Lower Cost

4 Not Replaced

Figure #13

SFY 2012 Voluntary Buyouts

22 Employees

2012: ($360,345)*
2013: $1,317,599

** A negative savings indicates that the buyout packages paid were higher than the prorated amount of compensation expenses saved.*

2010 2012
46
Employees

Voluntary Buyout Agreements. As the budget has tightened, agencies have been forced to use many methods to cut costs. The Voluntary Buyout (VOBO) process allows agencies to offer individuals eligible for retirement an incentive to do so. The employees are offered a financial package payable if they take retirement. The legislature made available a specific amount of funding to be utilized by state agencies for VOBO offerings with the stipulation that the corresponding positions not be refilled for at least three years. If the agency chooses another source of funds, they may replace positions open due to a VOBO. The agency saves the difference between the retired employee's total compensation saved and the total compensation costs of the replacement.

While there are initial costs to this method, in the long term it can create a significant amount of savings. This approach does, however, tend to target those employees with the most institutional knowledge. Of the five consolidating agencies, three have offered VOBOs in the last three fiscal years, including the current year. They are the Department of Central Services, the Office of Personnel Management and the Oklahoma State and Education Employees Group Insurance Board. Below are the estimated savings as a result of VOBOs accepted by 46 people from SFY 2010 through SFY 2012.

Figure #14

Voluntary Buyouts	SFY 2011	SFY 2012	SFY 2013
Non Accumulated	$232 K	($271) K	
Accumulated	$232 K	$718 K	$2.5 M

Attrition. Part of the cost savings associated with compensation is from attrition. Turnover is a natural part of running an organization and may occur for a variety of reasons unrelated to the consolidation. Examples of this include separations due to other job opportunities, leaving the workforce, or involuntary terminations. The decision about how to handle the positions left open, however, can be directly attributed to a goal such as cutting costs and consolidation.

2010 2012
147
Employees

SFY 2012 Attrition

39 Employees

2012: $1,270,174
2013: $1,728,479

Figure #15

The consolidating agencies' decisions during the past three years are directly related to the State's budget difficulties and more recently the consolidation efforts. Since the beginning of SFY 2010, the agencies have reduced the size and cost of the workforce significantly. Following are cost savings associated with the 147 employees leaving between 2010 and 2012 and being replaced at a lower cost or not being replaced at all.

Figure #16

Attrition	SFY 2010	SFY 2011	SFY 2012	SFY 2013
Non Accumulated	$1.0 M	$1.7 M	$1.4 M	
Accumulated	$1.3 M	$3.4 M	$4.9 M	$5.2 M

Transfers Savings—ISD and ABS. As mentioned, other legislation is significantly impacting the agency. All employees across the State who work in information technology are being transferred to the OSF Information Services Division (HB1304). This includes the four consolidating agencies, whose IT staff has or will transfer.

Growth in utilization of shared services (HB1207) will require additional staff in the Agency Business Services department. Several of the individuals employed for accounting positions in the four consolidating agencies were transferred.

The IT and accounting positions that were attributable to the four consolidating agencies total 33. These individuals are part of the reduction-in-force affecting the agencies. Their compensation information is included below. OPM staff have successfully transferred. EBC is expected to transfer by the end of calendar year 2011. The other two agencies are estimated to transfer February 1, 2012.

Figure #17

Total Savings—Human Capital. The total impact of these categories of human capital transactions—flattening management, voluntary buyouts, attrition and transfers resulted in savings as reported below. As previously mentioned, agencies began slimming their workforce at the onset of revenue shortfalls. Figure #18 shows savings from actions taken within SFY 2010, 2011 and 2012. The first box reports costs saved each year. The second box shows the impact when the previous year's savings are added. These numbers do not reflect the cost savings incurred due to the transfers mentioned in the previous section because the costs are still included within the consolidated agency.

Figure #18

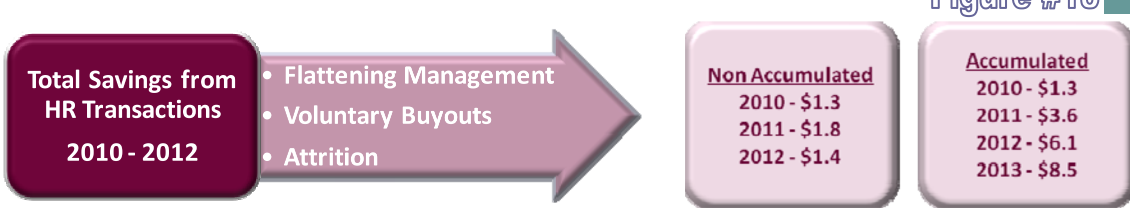
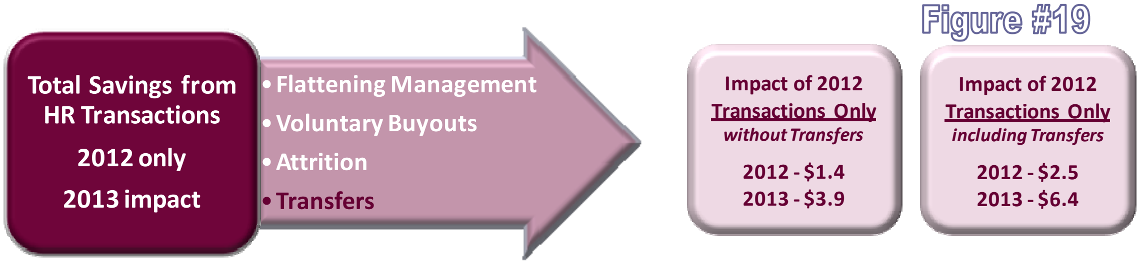


Figure #19 compares the 2012 and 2013 savings with and without the transfers. The cost savings associated with the transfers indicate the savings the organization would have earned if HB1207 and HB1304 were not implemented.

Figure #19



Cost Savings—SFY 2012 Budget Cuts

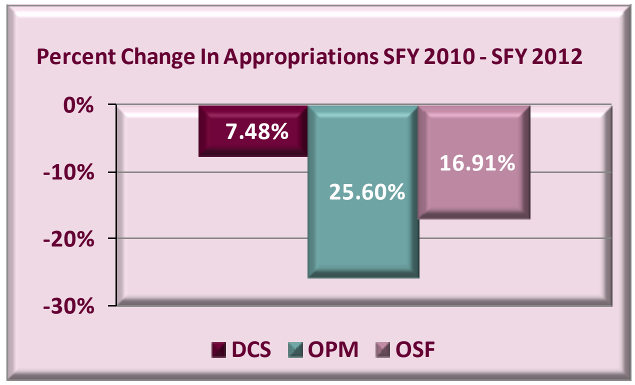


Figure #20

In addition to the reduction in the workforce of the five agencies, two of the five agencies were given less funding for SFY 2012. OPM and OSF received 7 percent cuts in base appropriations. Two of the five agencies, EBC and OSEEGIB, operate as enterprise entities and are non-appropriated.

Figure #21

SFY 2012 Budget Cuts

- OPM: $273, 949
- OSF: $1,443,614
- Total: $1,717,563

DCS received an 8.4 percent increase in SFY 2012, returning their appropriations to within 1.7 percent of its funding in SFY 2009. OPM has received successive budget cuts amounting to 25.6 percent less appropriations in SFY 2012 than SFY 2009. Finally, OSF is down 16.9 percent over the same period.

Cost Savings—First National Bank Lease

Figure #22

Rent Savings

Employee Benefits Council
First National Bank

SFY 2012: $16,765 (2 mos)
SFY 2013: $100,590 (12 mos)

The Employees Benefits Council will move from the First National Bank building to the Jim Thorpe building by April 30, 2012. This will result in two months' savings in rent amounting to $16,765 in SFY 2012 and another $100,590 in SFY 2013.

Total Cost Savings—SFY 2012 Sources and SFY 2013 Impact

Figure #23

Source of Savings	2012	2013
2012 Voluntary Buyouts	$ (360,345)	$ 1,317,599
2012 Attrition	$ 1,270,174	$ 1,728,479
Flattening Management	$ 453,956	$ 822,102
Transfers to ABS & ISD	$ 1,184,273	$ 2,548,593
2012 Budget Cuts	$ 1,719,575	$ -
Lease	$ 16,756	$ 100,590
Total Savings	$ 4,284,389	$ 6,517,363
15 % Savings Target	*$ 3,142,936*	

Recommendations

#1: Rename the Consolidated Agency and Divisions

Recommendation:

Change agency and divisions' names to accurately reflect the services provided by the newly consolidated agency as outlined in House Bill 2140.

Issue Description:

In all but one case, the current names of the organizations no longer reflect the restructured purpose and/or placement of the divisions.

Criteria Reference:

62 O.S § 34.3.1 (HB2140 Statutes—includes all agencies affected)

62 O.S § 34.3 (OSF Name Change)

74 O.S § 61.2 (DCS Name Change)

74 O.S § 1363 (EBC Name Change)

74 O.S. § 840-1.6A (OPM Name Change)

Proposed Action:

Following are the agency and division names recommended by OSF:

- **Office of Enterprise and Management Services (OEMS)**—Office of State Finance (OSF) change to Office of Enterprise and Management Services (OEMS) to encompass the varied functions of the consolidated organization.
- **Division of Capital Assets Management (DCAM)**—Department of Central Services (DCS) change to the Division of Capital Assets Management (DCAM) to reflect the targeted focus on managing the State's property and other assets.
- **Human Capital Management Division—**Office of Personnel Management change to Human Capital Management (HCM) to reflect current industry norms.
- **Employee Benefits Department, Human Capital Management Division**—Employees Benefits Council is recommended to relocate as a department within the Human Capital Management division (HCM) to align employees' benefits services with the human resources function of the State.

Proposed language to change the enabling legislation has been prepared.

#2: A Common Budget for the Consolidated Agency

Recommendation:

Provide funding for all the consolidating, appropriated agencies—DCS, OPM and OSF)—in a common appropriation beginning SFY 2013.

Issue Description:

The current structure results in obstacles which make difficult the reallocation of resources to support management decisions designed to produce efficiencies across the consolidated agency. The five involved organizations' current accounting and budgeting are agency-centric making five pools of resources dedicated to specific functions. While individual entities, it was necessary to completely segregate funds between the agencies.

Accounting procedures necessary to support the current structure require billing between divisions to move resources into other areas. For instance, funding may be available in one agency to purchase goods or services to benefit all. Also, employees moving from one location to another, due to consolidating like services, may require resources from all the agencies to support its purpose.

Criteria Reference:

62 O.S § 34.3.1

". . . Any funds appropriated to, in the possession of or allocated to any of the consolidated agencies shall be deemed to be funds of the Office of State Finance."

Proposed Action:

Combine appropriations for the Department of Central Services (Division of Capital Asset Management and Central Purchasing Division), Office of Personnel Management (Human Capital Management) and the Office of State Finance (Office of Enterprise and Management Services) into one line item in the General Appropriation bill beginning in SFY 2013.

Proposed changes to legislation are being developed.

#3: Eliminate Unnecessary Accounting Transactions

Recommendation:

To increase efficiency, effective July 1, 2012, revise statutes to no longer require agencies to process payments to the State General Revenue Fund (GRF) as surcharges or reimbursement for the costs of operating the Merit System and the Employees Benefits Council.

Issue Description:

The current requirement that Merit System administrative expenses, as well as employer's FICA savings, be budgeted for and paid by the various agencies to OPM and EBC respectively, creates the need for extraneous accounting transactions with no benefit to the State. Figure #24 depicts the current transaction cycle required to account for these funds.

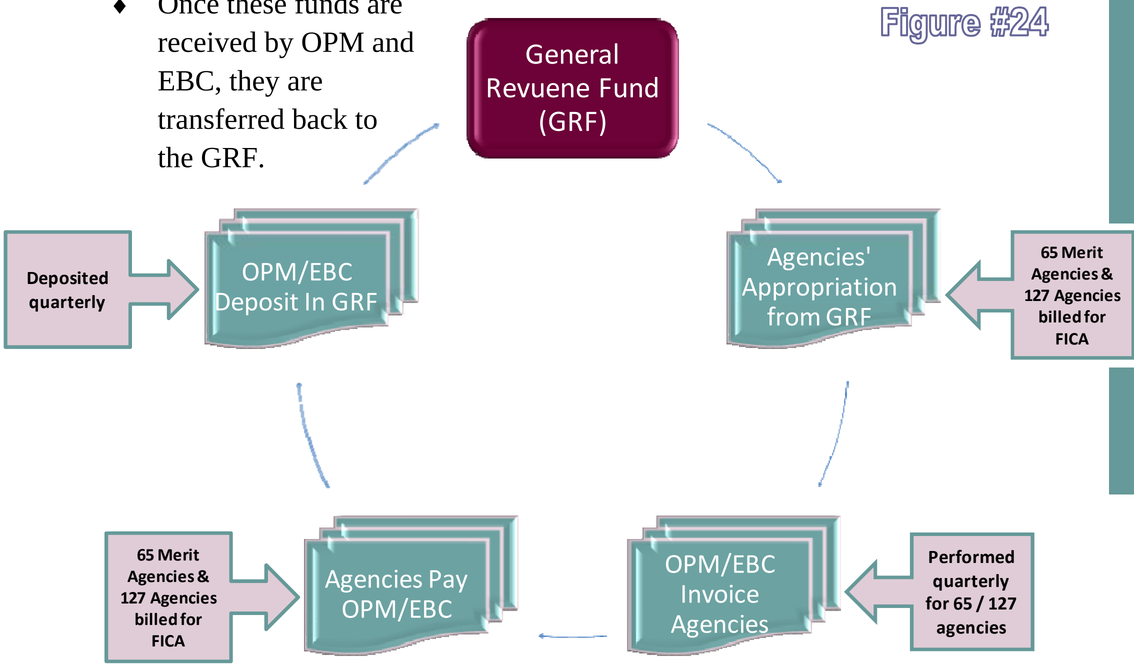
- Despite the fact that OPM receives an annual base appropriation to cover expenses, including those related to merit services, merit agencies must account for monies from GRF that are used to "pay for" merit services.

- EBC builds administrative costs into its budget model and does not include any FICA savings since they are required to return the dollars to the GRF. Agencies, however, must account for monies from the GRF which are then transferred to EBC as "FICA savings."

- All these funds must be accounted for properly. OPM and EBC perform invoicing, accounts receivable, deposit, reconciliation and transfer functions on a quarterly or monthly basis. Agencies conduct the budgeting and accounts payable functions to account for these funds.

- Once these funds are received by OPM and EBC, they are transferred back to the GRF.

Figure #24



Criteria Reference:

§74-840-1.18. Payment of administrative costs and expenses.

A. The administrative expenses and costs of operating the Merit System shall be paid by the various divisions of the state government included within the Merit System, and each such agency shall be authorized to include in its budget estimates its pro rata share of such costs, and shall remit such shares quarterly from departmental or agency funds to the Office of Personnel Management who shall deposit such shares to the credit of the General Revenue Fund of the State Treasury.

B. The Administrator shall maintain accurate records reflecting the costs of administering its provisions, and at the close of each quarter-year period shall summarize said costs, and shall bill each department or agency included within the terms of the Oklahoma Personnel Act with a pro rata share of the administrative costs based on the relationship between the quarterly average number of employees in the classified service of such department or agency, and the quarterly average number of employees in the classified service of the state.

C. The Administrator shall separately categorize and estimate expenditures and budget needs for other services performed which are not appropriately charged to state agencies on a pro rata basis.

§74-37B-1347. Monthly Interagency Reimbursements – Deposits to Fund.

Beginning April 1, 1991, all monthly interagency reimbursements for projected employer Social Security (FICA) savings made pursuant to the State Employees Flexible Benefits Plan Act shall be deposited into the General Revenue Fund of the State Treasury.

Proposed Action:

Statutes should be modified to eliminate the need to state agencies for to pay for merit system charges and FICA savings. This change would eliminate the need for resources to conduct these ancillary transactions. In this time of tightening budget, this change will reduce the unnecessary/redundant administrative burden on all the agencies involved in this process.

Amount Involved:

OPM (Division of Human Capital Management):	$4.4M
EBC (Employee Benefits Department of HCM):	$1.2M

It should be noted that these changes will reduce the amount of resources available for appropriation in direct proportion to amounts retained in the General Revenue Fund. It will have no impact on the state agencies since they had no authority to use the funds due to the requirement that they be deposited back into the GRF.

Proposed changes to legislation are being developed.

4: Permit In-House General Counsel

Recommendation:

Revise statutes to allow OSF to hire/retain in-house General Counsel to ensure leadership immediate access to legal consultation pertaining to its multiple missions.

Issue Description:

The newly consolidated agency is responsible for multiple missions. Three of the five organizations already have regular, ongoing legal services needs within their day-to-day business operations.

- OSEEGIB: subrogation, federal and state health care law;
- DCS: purchasing and construction contracting; and
- OPM: employment law.

The legal expertise available to three of the agencies will now be extended to represent the whole organization. OSF and EBC will no longer need to contract with the Attorney General's office

Criteria Reference:

62 O.S. § 34.7. Experts and assistants of Director.

The Director of the Office of State Finance, with the approval of the Governor, shall employ and make the appointment of such experts and assistants as may be necessary to execute the purposes of the Oklahoma State Finance Act. No appointments to positions shall be made in excess of those positions authorized by the Legislature for the Division of the Budget, the Division of Central Accounting and Reporting and the Information Services Division.

74 O.S. § 38A-1366. Establishment of Flexible Benefits Plan

F 1. Legal representation shall be provided by the Office of the Attorney General as provided for in Section 18l of this title of the Oklahoma Statutes.

Proposed Action:

The proposed changes would include allowing the Director of the Office of State Finance to employ legal counsel. Also needed would be to strike the legislation requiring EBC to use the Attorney General's office for legal consultations.

Onsite attorneys would have an extensive opportunity to be significantly more involved with agency business. They will be able to provide timely preventative counseling thereby avoiding potential legal actions. They will also contribute by promptly presenting decision makers with options.

Proposed language to change the enabling legislation has been prepared.

#5: Freeze Employees Benefit Allowance

Recommendation:

Freeze the employees benefit allowance at the current level to provide time needed to conduct a comprehensive study of options available to the State and their impact with the intention of making a recommendation for the 2013 legislative session.

Issue Description:

The goal of the employees benefit allowance formula is to produce a value most closely associated with the actual amount used by state employees. Currently, the employees benefit allowance is based upon the average of the Health Choice High Plan and all high option plans offered by the Health Maintenance Organizations. These plans are used by less than 2 percent of state employees.

The current formula calculates an amount greater than that used by most employees to purchase coverage. For calendar year 2011, it's estimated that approximately 90 percent of all state employees have 100 percent of their benefits (health, dental, and life and disability) paid by the benefit allowance and have an additional amount of $175 to purchase other options or add to net pay. For approximately 10 percent of state employees, the allowance does not cover the cost of core benefits and must be supplemented by an average of $95.

Criteria Reference:

74 O.S. § 1370

B. Each participant shall be credited annually with a specified amount as a flexible benefit allowance which shall be available for the purchase of benefits. The amount of the flexible benefit allowance credited to each participant shall be communicated to him or her prior to the enrollment period for each plan year.

C. Except as provided in subsection D of this section, for the plan year ending December 31, 2012, and each plan year thereafter, the amount of a participant's benefit allowance, which shall be the total amount the employer contributes for the payment of insurance premiums or other benefits, shall be:

1. The greater of Two Hundred Sixty-two Dollars and nineteen cents ($262.19) per month or an amount equal to the sum of the average monthly premiums of all high option health insurance plans, excluding the point-of-service plans, the average monthly premiums of the dental plans, the monthly premium of the disability plan, and the monthly premium of the basic life insurance plan offered to state employees or the amount determined by the Council based on a formula for determining a participant's benefit credits consistent with the requirements of 26 U.S.C., Section 125(g)(2) and regulations there under; or

2. The greater of Two Hundred Twenty-four Dollars and sixty-nine cents ($224.69) per month or an amount equal to the sum of the average monthly premiums of all high option health insurance plans, excluding the point-of-service plans, the average monthly premiums of the dental plans, the monthly premium of the disability plan, and the monthly premium of the basic life insurance plan offered to state employees plus one of the additional amounts as follows for participants who elect to include one or more dependents:

a. for a spouse, seventy-five percent (75%) of the average price of all high option benefit plans, excluding the point-of-service plans, available for coverage of a spouse,

b. for one child, seventy-five percent (75%) of the average price of all high option benefit plans available, excluding the point-of-service plans, for coverage of one child,

c. for two or more children, seventy-five percent (75%) of the average price of all high option benefit plans available, excluding the point-of-service plans, for coverage of two or more children,

d. for a spouse and one child, seventy-five percent (75%) of the average price of all high option benefit plans available, excluding the point-of-service plans, for coverage of a spouse and one child, or

e. for a spouse and two or more children, seventy-five percent (75%) of the average price of all high option benefit plans available, excluding the point-of-service plans, for coverage of a spouse and two or more children.

Proposed Action:

The proposed change is to freeze the employees benefit allowance at the current amount for calendar year 2013 with the requirement that OSF assemble an appropriate workgroup of stakeholders to solicit input from various interested parties including private sector experts, state agency representatives, associations and other interested parties. The consolidated agency will provide a report to the Governor’s office in December of 2012 with a recommendation of how to resolve the issues surrounding the topic.

Proposed changes to legislation are being developed.

#6: Centralize Capital Planning and Asset Management

Recommendation:

Revise statutes to require decisions regarding capital construction spend, space leasing, and disposition of state lands to be made as a result of strategic planning and facility master plans.

Issue Description:

State buildings and real property are not managed as public assets. Facility and property decisions are made in silos of state government, without consideration of overall needs and without the benefit of strategic facility planning. Performance of state buildings and properties are largely not measured or benchmarked and as a result opportunities for energy efficiency and conservation of resources are not realized. Capital spend for construction, operations, and maintenance of state facilities is not optimized or leveraged for economy, and resources for service delivery and contract management is duplicated through state government entities.

Criteria Reference:

The Public Building Construction and Planning Act (61 O.S. §202-220) created the Construction and Properties Division for the purpose of planning and delivery of construction and real estate services for state government.

HB1438 from the 2011 session (74 O.S. §61.7) requires the Department of Central Services to provide a comprehensive accounting of state property and identification of underperforming properties. Laws regarding acquisition and disposal of the state's real property were moved from the Public Building Act to 74 O.S. §129.4. Other related statutes are scattered throughout various sections of law. Laws regarding assignment and leasing of public and private space for use by state agencies are located in Title 74 under the jurisdiction of the Department of Central Services.

Since its inception in 1982, incremental statutory exceptions and dilution of the Construction and Property Division's responsibilities have occurred, effectively neutralizing the Division's effectiveness in terms of long range planning and has eliminated processes for project application, review and approval. Currently, the division's core mission is procurement and delivery of construction services requested by state agencies. The Division, by law, is the "Owner" on behalf of the State on all contracts. However, funds for contracts are held by the agency requesting the work, creating a division of "ownership" that has resulted in duplication of contract management efforts; a situation that often puts the state at risk for disputes and legal action. Real estate services have been under-resourced by past administrations and no concerted effort regarding property and land management has been made for a number of years.

Proposed Action:

Revise the Public Building Construction and Planning Act to ensure decisions on capital construction spend, space leasing, and disposition of state lands are made as a result of strategic planning and facility master plans. Generally, these statutory revisions would charge the Construction and Properties Division with the following:

- Complete a comprehensive inventory of state facilities and real property (underway as directed by 2011 HB1438);
- Develop and execute a strategic plan for consolidation of planning, design, construction, contract management, maintenance of state facilities, and delivery of real estate management services; and
- Develop planning and process models for property benchmarking, strategic planning, agency facility master plans, capital program development, and budget cycle deployment.

Additional revisions to the Act would include:

- Centralization and refinement of existing property and real estate transaction laws;
- Transition of capital appropriations, currently made to individual agencies, to a line item appropriation into a construction revolving fund managed and controlled by Construction and Properties;
- Full implementation of the central planning and asset management model no later than SFY 2015; and
- Provide for the operations and expenses of Construction and Properties from a percentage of the annual appropriated capital spend, calculated annually with consideration of additional management fees for miscellaneous services and services delivered from non-appropriated sources.

Proposed changes to legislation are being developed.

#7: Establish Operations and Management Program for the Capitol

Recommendation:

Through statute, establish a formal operations and maintenance program for the State Capitol Building by creating an Office of the Clerk of the Works (or Capitol Architect) and designating line item appropriations for the construction, operations, maintenance, and repair specifically for this purpose.

Issue Description:

The ongoing lack of central management coupled with decentralized funding mechanisms has led to the current, generally poor condition of the Capitol Building.

Historically, emphasis has been placed on special projects, artwork, and cosmetic improvements. This has been at the expense of facility fundamentals, such as mechanical, plumbing and electrical systems, building maintenance, and historical/architectural preservation through centrally controlled building standards. Coupled with the diversity of entities controlling space and performing construction over the years, building systems are overtaxed and out of compliance with modern codes.

Statutory guidance in Title 74 and elsewhere provide for various general responsibilities, such as designation of space ability for certain entities to maintain their own quarters. The Capitol Preservation Commission is charged with basic duties but does not receive funds for use toward maintenance of the building. The Department of Central Services is authorized to appoint or employ a Capitol Architect and Curator for oversight of the Capitol and the Governor’s Mansion, but is not appropriated funds for duties as authorized for implementation of resultant planning. Central Services has historically been appropriated a lump sum to operate and maintain all Capitol Complex buildings, including the Capitol.

Proposed Action:

Establish the Office of Clerk of the Works (Capitol Architect is an often used term) and charge this office with the following duties:

- Building operations and maintenance for the Capitol Building and Governor’s Mansion;
- Establish and maintain comprehensive building standards;
- Develop and maintain a long term maintenance, repair and upgrade schedule;
- Coordinate construction service delivery through Construction and Properties for all building tenants;

- Implement and maintain a building permit system;
- Maintain all building records and as-built drawings; and
- Act as Curator of the Capitol Art Collection.

To make this Office effective and actions transparent and accountable, appropriations for the Operations and Management Program for the Capitol should include construction, operations, maintenance and repairs funds made on a line-item basis.

Proposed changes to legislation are being developed.

#8: Funding Model to Standardize Capitol Complex Maintenance

Recommendation:

Utilize a single funding model to standardize building operations for the Capitol Complex to ensure monies for suitable operations and timely maintenance.

Issue Description:

State buildings are not operated under a unified management plan or with evenly distributed and predictable funding. The results of a building condition survey and extensive system failure analysis indicates that without action, the backlog of critical facility repairs will reach $60 million by 2014.

Further, funding for operations and maintenance currently comes from two sources: direct appropriations to the Department of Central Services and rent paid by agency tenants in nine of the sixteen major Capitol Complex and Tulsa state office buildings. The other seven buildings are considered “appropriated” buildings and state agency tenants occupying these facilities do not pay rent. The “rent” vs. “appropriated” status results in two operating models and strains the tenant-landlord relationship as rent income is diverted to appropriated buildings to cover operating expenses.

Criteria Reference:

The Department of Central Services is charged by statute with the responsibility for operations and maintenance of the sixteen major buildings. For buildings built with bond funds issued by the Oklahoma Capitol Improvement Authority, the law requires tenants to pay rent. These agency tenants are appropriated funds to make rent payments. There is no requirement in law that specifically designates the remaining buildings to be made available rent free.

Proposed Action:

To provide predictable funding, defuse the impending deferred maintenance crisis, enhance transparency and accountability of facility management, and

Recommend

create a uniform tenant-landlord relationship, the following is recommended:

- Deferred maintenance crisis: Appropriate an additional $5 million annually for five years. This amount is in addition to the current base of $7.5 million and rental income.
- Convert appropriated buildings to rent buildings by line item appropriation for rent payments to those agency tenants. For agencies operating on fee income or federal funds, a transition period may be required to begin paying rent from their respective funding sources.
- The Capitol Building and Governor's Mansion should remain appropriated buildings via line-items in the state budget. See separate Recommendation #7 on page 50 regarding operations and maintenance for the State Capitol Building.

Proposed changes to legislation are being developed.

#9: Modify State Purchasing Act - Travel Agencies Contracting

Recommendation:

Modify statutory language for state agency travel to allow for open market bidding on a single statewide travel portal.

Issue Description:

Before certain technological advances, the state was geographically segmented to ensure travel agency services were available in accessible locations around the state. Current statutory language reflects this and restricts the State from achieving optimal price and options. In doing this, the opportunities for state travel agents are limited or restricted to their particular region of the State thereby reducing the opportunity to negotiate for better solutions for state employee travel.

Criteria Reference:

74 O.S. § 85.45k. State Travel Office (Oklahoma Central Purchasing Act)

D. The State Travel Office shall divide the state into high travel areas and low travel areas. A high travel area shall consist of no more than one county. Oklahoma, Tulsa, Payne and Cleveland Counties and any other county that accounts for a substantial portion of air travel at state expense shall be designated as high travel areas. The remaining counties of the state shall be designated as low travel areas. Low travel areas may consist of more than one county, as determined by the State Travel Office. The State Travel Office shall contract with no less than six private travel agencies in a high travel area and one or more private travel agencies in a low travel area to provide the scheduling and related travel services required to comply with this section. In order to take advantage of local competitive situations, institutions of The Oklahoma State System of Higher Education in high travel areas are authorized to solicit competitive bids for air travel services by travel agencies. If the bids result in greater savings than the state contract, then these institutions may issue individual contracts to not less than two travel agencies. Further, institutions of The Oklahoma State System of Higher Education in high travel areas are also authorized to solicit competitive bids for applicable city pair destination rates to airline companies. If the bids result in a greater savings than the state contract rates, these institutions may issue individual contracts to the airline companies with the lowest bids.

Proposed Action:

Strike the statutory language requiring the segmentation of the state. Deleting the statutory language outlining these restrictions will allow more opportunities for vendors to participate in state travel and may lead to further reduction in overall travel cost to the agencies and the State.

Proposed changes to legislation are being developed.

#10: Modify Competitive Bid Language for Special Acquisitions

Recommendation:

Clarify the authority of the State Purchasing Director to override the competitive bid process for one-time acquisitions if determined to be in the best interest of the state.

Issue Description:

On occasion, agencies will request the authority to purchase assets, such as used or floor models, which offer substantial savings over new assets. Competitive bid is detrimental if the asset is offered for sale to the first qualified buyer. Whether or not the State Purchasing Director has the authority to make a special purchase to buy a one-time acquisition has been widely debated. Due to the comprehensive nature of purchasing statutes, discussions with legal services within the agency indicated that a conservative approach would be the best course of action.

Criteria Reference:

74 O.S. § 85.7. Competitive Bid Or Proposal Procedures

A. 1. Except as otherwise provided by the Oklahoma Central Purchasing Act, no state agency shall make an acquisition for an amount exceeding Fifty Thousand Dollars ($50,000.00) or the limit determined by the State Purchasing Director pursuant to rules authorized by Section 85.5 of this title, not to exceed One Hundred Thousand Dollars ($100,000.00), without submission of a requisition to the State Purchasing Director and submission of suppliers' competitive bids or proposals to the State Purchasing Director.

2. Any acquisition a state agency makes shall be made pursuant to the Oklahoma Central Purchasing Act and rules promulgated pursuant thereto. . . .

Proposed Action:

Add language to the State Purchasing Act to clarify the State Purchasing Director’s authority to make special acquisition decisions in the best interest of the State.

Proposed changes to legislation are being developed.

#11: Add State Agency Representatives to the State Use Committee

Recommendation:

Add state agency representatives to the State Use Committee to balance the spectrum of stakeholders interests represented.

Issue Description:

The current structure of the committee gives majority representation to State Use vendors. The committee was initially created to fairly represent the disabled workers of Oklahoma. While this has been achieved, there is not a clear representation of state agency customers on the committee. Lack of input leads to dissatisfaction on the part of the customers utilizing the contracts.

Criteria Reference:

74 O.S. § 3001. Creation—Members—Officers—Terms of private citizen members—Conflict of interest

A. There is hereby created in the Department of Central Services a committee to be known as the "State Use Committee". The Committee shall consist of five (5) seven (7) members and one nonvoting member as follows:

1. A private citizen conversant with the employment needs of people with severe disabilities who shall be appointed by and serve at the pleasure of the Governor to act as an advocate for the employment needs of people with severe disabilities;

2. The Director of the Department of Central Services or designee;

3. The Director of Visual Services, or designee;

4. The past president of Oklahoma Community-Based Providers or designee to serve for a one-year period, who may be reappointed by the succeeding president;

5. An individual or a parent or guardian of an individual with severe disabilities who participates in vocational programming through a sheltered environment facility, to be selected by the Committee; . . .

Proposed Action:

Modify the statutes to add as members of the State Use Committee, the Director of the Department of Human Services or a designee and a state certified procurement officer appointed by the State Purchasing Director.

Proposed changes to legislation are being developed.

#12: Modify Open Records Statutes to Protect Bid Process and CPO Testing

Recommendation:

Modify statutory language to further define open public access to procurement records and protect Certified Procurement Officer (CPO) certification testing materials from open public access.

Issue Description:

Current statutory language does not define when sensitive bid information is subject to open records. Suppliers work for months and invest heavily in bid proposals. Disclosure of information prior to the award of a contract for goods and services negatively impact the fairness and equity of the overall acquisition process for not only the State, but the vendors involved in the process. Full disclosure of information after the award reveals the transparency of the process and allows full participation among all vendors for future acquisition opportunities.

Current language also allows the general public to request and gain access to CPO testing material. The development of testing questions is a long, and expensive process. Handing this information over to the public would defeat the process and the purpose of the certification. This availability could potentially lead to unnecessary costs and provide employment opportunities to unqualified candidates.

Criteria Reference:

74 O.S. § 85.10. Records Open For Public Inspection

Except as otherwise provided by law, records of the State Purchasing Director pertaining to any acquisition, contract, transfer, negotiations, order, or rejection shall be open during regular office hours of the Purchasing Division to any person subject to reasonable limitations to prevent the removal of records from the Purchasing Division and to allow records to be kept current and in good order; and the acquisition records of state agencies shall be open to public inspection under the same conditions. If the State Purchasing Director requires bidders to submit bidders' financial or proprietary information with a bid, proposal, or quotation, the State Purchasing Director may designate the information confidential and reject all requests to disclose the information so designated.

74 O.S. § 85.5. Powers and Duties of State Purchasing Director

D. The State Purchasing Director shall provide training for state agency purchasing officials and other purchasing staff. The training shall include principles of state procurement practices, basic contracting, provisions of the Oklahoma Central Purchasing Act, rules promulgated pursuant to the Oklahoma

Central Purchasing Act, provisions of Section 3001 et seq. of this title, which relate to the State Use Committee, and any other matters related to state procurement practices. State agency purchasing officials that demonstrate proficiency shall be certified as "certified procurement officers" by the State Purchasing Director and shall be authorized to make acquisitions pursuant to provisions of the Oklahoma Central Purchasing Act and rules authorized by this section.

The State Purchasing Director shall assess a fee to state agencies for the training that does not exceed each state agency’s pro rata share of the costs the State Purchasing Director incurs to provide the training.

Proposed Action:

The addition of appropriate language in the statutes to protect the competitive bid process substantiates awarding contracts to the most responsible and responsive vendor. Appropriate revisions to statutes will also protect sensitive testing materials improving the equity of testing for and value of the CPO certification.

Proposed language to change the enabling legislation has been prepared.

#13: Add Information Systems Operations Specialist to Unclassified

Recommendation:

Add Information Systems Operations Specialist Job Family to statutorily designated unclassified positions.

Issue Description:

All IT jobs within the Information Services Division of the Office of State Finance are unclassified except for the Information Systems Operations Specialist family.

The changes mandated by the HB1304 consolidation of IT services require OSF to reorganize the current IT structures and employees. The reorganization of employees can be done most effectively and efficiently with employees within the unclassified service. Employees who are unclassified have the flexibility to assume new job duties and transition to different work functionality without going through the reclassification process. This flexibility will allow OSF options to redeploy employees to meet the State’s needs as consolidation efforts continue.

Criteria Reference:

74 O.S. § 840-5.5 Unclassified Service - Offices, Positions, and Personnel

18. Office of State Finance personnel occupying the following offices and positions

(Statues following above reference lists all positions that should be in unclassified category.)

Proposed Action:

Update Title 74 O.S. § 840-5.5 to include the Information Systems Operations Specialist job classification.

Proposed language to change the enabling legislation has been prepared.

Next Steps . . .

As clearly articulated throughout the report, much remains to be done. Several key issues were mentioned in the Consolidation Progress section, beginning on page 14, related to key divisions or departments. Over the next several months and years, the organization will evaluate, re-evaluate, and reconfigure operations and administration as performance data becomes available. New ideas and strategies will be identified, researched, tested, and when appropriate, implemented.

There are several items and issues already on the list to be considered. They are either in the beginning stages of research or are on deck to be evaluated. Here are some of the things currently being contemplated.

Create a Performance & Efficiency Team

The more scarce resources become, the more important it is to utilize each of them in the most effective way. This means spending State dollars on the right things, having the proper people in the appropriate place and functioning in the most efficient manner possible. Decision-makers have the unenviable task of trying to predict the future and, on the basis of those predictions, invest resources wisely.

OSF plans to establish a team whose primary mission will be to assist agencies in improving efficiency and set up a measurement system to track performance.

This group will define and implement processes to identify, evaluate, prioritize, initiate, and oversee through completion, efficiency projects that bring value to the State. Effective programs and services, cost savings, and efficient administration will be the objectives of this group in consulting with agencies and conducting assessments.

This division will also be responsible for developing and implementing a statewide performance management system that provides for elected officials, government administrators, and citizens the information needed to evaluate the results of initiatives, programs, and management. This data will assist decision-makers at all levels in making best use of the resources available.

OSF will be developing a framework of mission and goals for this team as well as a strategic business plan in the near future.

Create an Executive Procurement Council

Many State dollars are spent each year on a variety of goods and services. State entities have not previously had a channel of communication to evaluate opportunities, contracts, priorities, and strategic methods. Many of state agency dollars go through organizations that are completely separate and autonomous. If monies spent by these agencies on like goods and/or services were harnessed, cost savings could be realized by all.

To create a channel of communication and to give state agencies an opportunity to participate in the process of identifying best value options, the Central Purchasing Division will create a statewide Executive Procurement Council. The Council will be led by the State Purchasing Director and will be geared to work collaboratively with agencies across the State to categorize, rationalize, and optimize addressable spend for the state.

Collaboration between the state agencies would serve two purposes. One would be to provide them an opportunity to participate in and combine forces in the management of the State's purchasing power by identifying and developing the best purchasing opportunities. Another would be to indentify areas of overspending that have occurred due to lack of communication. The previous lack of coordination of all state spend led to an underutilization of the State's negotiation leverage.

The executive council will cooperatively coordinate initiatives to maximize value across all executive branch agencies.

Research Necessity of the Employees Benefits Council

The transfer of the Employee Benefits Council (entity) under the jurisdiction of the Office of Personnel Management calls into question the need for the Employees Benefits Council (board). Office of State Finance has begun assessing the role and duties of the Employees Benefits Council (board) to determine if processes could be implemented to satisfy controls for which the board was created and eliminate the need for an additional oversight body.

EBC (entity) is responsible for the design and rate setting functions for the purpose of obtaining state employees' access to Health Maintenance Organizations. It is currently exempt from the State Purchasing Act and the bid and award process is handled by the entity with the assistance of a consultant. It appears that previous restrictions in the State Purchasing Act made this a necessity in order to obtain the best value for the State.

Preliminary study indicates that this is no longer an issue and the bid process could now be handled by Central Purchasing. This does not negate the primary responsibilities of EBC (entity), design and rate setting. However, it is possible the approval process, now provided by the board, could be handled internally.

Before making such a significant decision, it is necessary that an in depth evaluation be conducted. To be reviewed are the powers and responsibilities of the board and how state employees' interests would be impacted by a change. Due to the scope of the transition, this could not be accomplished satisfactorily before release of the report. The consolidated agency intends to continue conducting this evaluation and anticipates the ability of making a deliberate recommendation by the first week in February.

Research Outsourcing the Employee Assistance Program

The Office of Personnel Management Employee Assistance Program (EAP) is a broad-brush program that provides counseling assistance to both management and support personnel. Employers may refer staff to EAP or employees may seek services independently. The purpose of seeking assistance can be for personal reasons as well as professional issues. Services provided by the State EAP include assessment and referral consultation, education, and training workshops. Utilization of EAP services is confidential and does not jeopardize the participant's employment.

Currently, Oklahoma's program is manned by three employees. It is located in a separate building in Oklahoma City to ensure confidentiality for individuals who visit the office. The program has 14 areas in which most employees' issues typically fall. Of these, the top three include marital, work, and mental health issues. Over the last three years, these three alone have presented EAP with a 25% increase in case load.

In addition to Oklahoma's State program, some agencies have outsourced this service to the private sector. This is true of the Oklahoma Department of Transportation, Department of Health, Department of Corrections, Turnpike Authority, and Department of Human Services who all have employees located throughout the State where the Oklahoma City office is not easily accessible.

The consolidated OSF has conducted a very preliminary review of the State EAP assessing cost/benefit over the past few years. It is apparent that the EAP is valuable to the state workforce. However, the necessity of cutting costs has negatively affected the EAP team. It has been reduced in size to two counselors both located in Oklahoma City. This, along with the wide range of locations where state employees work, may make this service a good candidate for outsourcing.

The team has begun researching models from other states including Alabama, Arkansas, Florida, Indiana, and Utah. OSF will continue to further analyze the options available to the State. Once completed, the agency will take action in the best interest of the State and its resources.

Research Pay for Performance Options

Pay for performance is a system for delivering pay which links pay increases to individual, group, or organizational performance. It has been used extensively in the private sector as the primary pay delivery mechanism for salaried, non-union jobs. Its use in the public sector has not been nearly as widespread; however many municipalities and states, and even the Federal Government, have started to experiment with pay for performance systems over the last two decades.

The State of Oklahoma currently has a pay movement mechanism which allows state agencies to provide employees with performance-based adjustments consistent with their annual performance evaluations. Several agencies have used this mechanism since its inception in the year 2000. The mechanism is a classic pay for performance model, which awards increases to base salary or lump sum amounts based on the employee's annual performance rating. The biggest drawback to the current state system is the fact that funding for the increases must be carved out of the agency's existing budget. This fact has served to limit the use of performance-based adjustments to small, non-appropriated agencies, who have relatively consistent sources of funding and for whom the expenditures would represent an excessively large drain on their budgets. Large agencies – those with several hundred or several thousand employees – have simply been unable to bear the burden of providing meaningful increases for their employees that could in total amount to hundreds of thousand, or perhaps millions, of dollars.

Ideally, the goal would be to substitute pay for performance for the State's current practice of providing across-the-board, general increases to all state employees. Such a system would use a model similar to many private sector systems, wherein the size of the pay adjustment would be directly related to the employee's annual performance rating; for example, employees with meets standards ratings would receive a 3.0 percent increase, while employees with an exceeds standards rating would receive a 5.0 percent increase. Many private sector models also use position in the salary range as another variable affecting the size of the increase; however, such an approach could not be used within the State of Oklahoma due to the fact that a large percentage of the work force (approx. 33 percent) are in unclassified positions that do not have a universal pay structure. Nevertheless, a simplified model using performance ratings as the only variable could still be effective in motivating employee performance.

The use of such a system pre-supposes that there is a system in place for tracking employee performance appraisals statewide. Currently, there is no such system in place. The PeopleSoft system has the capability for recording such ratings. OSF staff is currently studying the feasibility of utilizing this capability. Without such a capability, there would be no way to centrally determine the necessary appropriated amount to cover a specific proposal for a pay adjustment.

The consolidated agency will continue to evaluate potential use of a pay for performance model to improve the equity of the State compensation system.

Research Modifying the Classification System

The classification system provides statutory protection to the job status of state employees who fall under the Merit Rules statute. This protection includes a grievance process for appealing unfavorable employment actions and a hierarchy of options when reductions-in-force are necessary. The security and equity of this system can be mirrored in a comprehensive way that applies to all state employees. The implementation of a modern model could provide a fresh perspective and new prospect on an old and somewhat outdated system. Additionally, an assessment of the entire structure could reveal the potential for efficiencies gained by systemic adjustments.

Protecting workers against egregious employment actions is a necessary aspect of any organization. The narrow scope within Oklahoma Personnel Act framework only allows a particular class of employees this benefit. Due to statutory restrictions employees in the unclassified service are not able to receive equivalent support.

Potentially a more inclusive design can be constructed in which all state employees could participate. This arrangement would be comprised of a grievance process in agreement with standard practices and performance. Improvements to the classification system can be made by thoroughly evaluating current statutes and practices and assessing variations of human resources policies from both the public and private sector.

With the opportunity to perform additional research and collaborate with a variety of stakeholders, a system can be defined to reflect best human resources practices and modernization. Consequently, further research will be conducted to determine the best approach for Oklahoma's employees and citizens.

Research State Use Pricing Models

State Use encompasses the employment of disabled citizens to allow opportunities for them to make a productive contribution to the State. State Use contracts are utilized to balance the State investment in these individuals between support and productivity. State agencies are mandated to purchase from State Use contracts for this purpose.

The cost of contracted items are typically at market value. However, when market value shifts, these contracted goods may be significantly higher than fair market value. When a contractual price no longer meets current market conditions, agencies are forced to pay higher prices throughout the time it takes the committee to establish a new fair market price. The process of establishing a fair market price can take weeks or months depending on the schedule of committee meetings. This is sometimes not conducive to rapidly changing market conditions.

Options are being explored to mitigate this problem. For instance, setting a percentage limit of deviation is being considered. The difficulty is the potential misuse of this tool. It may encourage vendors to use fair market plus the percentage in order to optimize price without losing business. Granting the State Use contracting officer the authority to grant price exceptions during the time between discovery of price anomalies and the establishment of new fair market prices by the committee is also under consideration.

The intention is to make a recommendation as to the best option for the good of the State and the vendors involved before session begins.

Develop a State Use Cap Process

Businesses must meet specific qualifications to become official State Use vendors. These criteria include adhering to statutory requirements. For instance, certain services and processes must be applied to the mandated items. Although most State Use vendors meet these statutory requirements, questions have risen about some State Use certified venders. Confusion or misinterpretation of the current requirements for manufacturing, processing, producing or assembling commodities has led to the need for further definition and evaluation regarding work processes and procedures by State Use vendors.

Ideas are under consideration to improve evaluation tools to verify these vendors meet State requirements. This calls for a delicate balance in order to keep from jeopardizing the mission of State Use: to create jobs for individuals who would otherwise not be employable and thereby improving productivity for our citizens while reducing the financial burden on the State.

Under consideration is a proposal to cap the procurement schedule and to narrow the list of products to be purchased through State Use contracts. Also, the same goal may be achievable by better defining the existing requirements of the program and strictly enforcing them.

The intention is to make a recommendation as to the best option for the good of the State and the vendors involved before session begins.

Conclusion

Much has been accomplished in the five months since House Bill 2140 became effective. Administrative functions are integrated or are in the process of merging, management has been streamlined and research is in progress. There are other areas of interest still to be explored, such as Health Savings Accounts, statewide storage issues and others.

There is still more work to be done to build this new organization. In the coming months, the consolidated agency will be evaluating internal policy and procedures to improve productivity and earn cost savings. With the institution of other services, such as the Efficiency and Performance team, the consolidated agency hopes to extend services to assist our customers in achieving greater efficiencies as well.

Oklahoma government is a work-in-progress, constantly evolving. This new agency is evolving as well, with much more to come.