

## **Illinois Department of Central Management Services**

### **2006 NASCA Outstanding Program Awards Application**

Program Title: **Sharing Services to Save Taxpayer Dollars**

Individual State Award

NASCA Member State: Illinois

Submitted by:

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**a. Indicate Individual state award or partnership between state and private entity.**

Individual State Award for successfully implementing Shared Services strategy.

**b. Executive summary of program.**

Before Illinois implemented its innovative Shared Services Model, the state's vital "back office" administrative functions – such as IT and communications, property management, legal and audit services, vehicle fleet management and procurement – were largely uncoordinated, decentralized and scattered across state agencies. As a consequence, resources were allocated haphazardly, economies of scale were not achieved, and opportunities for efficiency and good governance were routinely missed.

Such systematic inefficiencies and lack of coordination cost taxpayers money: when then-new Governor Rod Blagojevich took office in early 2003, he immediately faced an annual budget shortfall of roughly \$5 billion.

At that time, the State's Department of Central Management Services served primarily as a "pass through" agency for a broad range of administrative programs and services for other state agencies and the general public, ranging from personnel and employee benefits to management of numerous properties around the state. Therefore, while CMS was responsible for administering these services, it had little control over spending and other decisions related to them.

The lack of communications between agencies concerning administrative matters led to nightmare scenarios: one agency working to procure and pay for desktop software licenses while a sister agency had hundreds of licenses going unused;

two agencies hiring separate security firms to guard the same State building; one agency paying \$8.10 an hour for temporary clerical services and another paying nearly three dollars an hour more – from the same vendor.

The need for improved coordination and centralization of administrative programs and services was apparent. The rigid, bureaucratic, hierarchical structure and command-and-control procedures that state agencies operated under were no longer palatable. The state needed a system that was more flexible and responsive, one that engaged the creativity and specialized skills of its workforce.

Thus, CMS created and implemented a more networked approach that incorporated shared-services and center-leading management strategies – well-established private-sector concepts designed to cut administrative costs, increase accountability and free agencies to direct their time and resources toward achieving their core missions and delivering services to their constituents.

The result was dozens of efficiency initiatives and the creation of a new center-led approach to procurement, along with the consolidation of other state agencies' information technology, internal audit, legal services, media relations and facilities management functions into CMS. Taken together, the efforts have saved the State of Illinois more than half a billion dollars to date.

In fact, a comprehensive study by Deloitte recently validated and documented that savings from the consolidation of administrative services and other efficiency initiatives in Illinois over the past two years totaled more than \$529 million.

The methodology created to validate the savings was itself innovative: we are aware of no other state in the country that has analyzed an efficiency effort like our as extensively as we have.

The center-led procurement initiative, in particular, has become a key element of CMS' overall business strategy. By adopting strategic sourcing methods, building a knowledge-management system and incorporating the "total cost of ownership" philosophy, CMS has transformed the State's procurement process to one that some leading private-sector firms would envy – and one that many states would do well to emulate. Indeed, Illinois serves as a national model in this regard, as confirmed by the National Association of State Procurement Officials bestowing two Cronin Awards on CMS over the past two years, and the Council of State Governments honoring CMS with a 2005 Innovations Award.

**c. Describe the program and relative significance to the improvement of the operation and/or efficiency of state government.**

In light of the state's fiscal crisis involving a \$5 billion annual budget shortfall inherited from the prior Administration, CMS implemented the Shared Services

Model programmed around six key initiatives to free Illinois state agencies and other state governmental units from a broad range of administrative responsibilities so that they can allocate their efforts, time and resources to accomplishing their core missions and becoming more citizen-centered.

The initiatives were paid for by a state revolving fund, which was financed by the savings state agencies incurred as a result of reduced operating costs. The Shared Services Model is comprised of the following key initiatives:

- **IT/Telecom Transformation** – In 2005, Illinois completed the consolidation of the State’s communications and IT infrastructure services within CMS. This involved the physical consolidation of the state’s IT resources and data networks – a challenge completed in 2005, which has subsequently resulted in a minimum annualized savings of \$7 million, and significantly enhanced service capabilities which will enable the State to take better advantage of advanced technologies. A full IT governance authority along with a multi-agency IT Architecture Review Board were established to coordinate, standardize and improve the review of all agency IT procurements. Overall, the IT Transformation project has saved Illinois more than \$210 million over the past two fiscal years.
- **Streamlined Fleet Management** – CMS worked with agencies to reduce the size of the state’s vehicle fleet by nearly 1,600 cars and trucks. As a result, the state has significantly reduced fuel and maintenance expenses, by some \$5.3 million. In addition, CMS brought in an extra \$1.1 million in revenues to the State by auctioning off the unneeded vehicles.

Moreover, this initiative significantly reduced the misuse of state vehicles by implementing a comprehensive personal use policy for state-owned cars and trucks, and by converting more than 250 vehicle license plates from standard plates to ones that clearly identify them as state vehicles.

- **Streamlined Facilities Management** – The facilities management functions at most State agencies have been consolidated into CMS, which now manages 60 million square feet of leased and owned space. The centralization of facilities management responsibilities has enabled CMS to better allocate the state’s leased and owned space, taking advantage of the reduction in the size of state government to streamline space usage and eliminate unnecessary buildings and leases. In addition, CMS implemented a new asset management model to optimize the use of space in buildings owned by the state, reduce the number of leased buildings the state occupies, as well as focus on ways to reduce the amount the state spends on utilities and outside service contracts.
- **Internal Audit Consolidation** – Through the elimination of Chief Internal Auditor Positions in 26 agencies, CMS consolidated and streamlined the

state's internal audit functions and created the Illinois Office of Internal Audit (IOIA). The consolidation has also enhanced the internal audit operations statewide. The IOIA recently conducted the state's first cross-agency audit, created an audit team consisting of auditors from various disciplines, and performed the first statewide risk assessment. In addition, 20 state agencies that did not previously have access to audit services now have auditors who can work with them to increase performance accountability and mitigate risk. When CMS reorganized the internal audit function and established a statewide risk-management plan, Illinois saved more than \$10 million.

- **Legal Services Consolidation** – State agencies' legal services associated with contracts, procurement, labor and personnel were consolidated into one legal office within CMS. Streamlining these legal services throughout the state resulted in the consistent application of legal principles and enhanced the quality of legal services provided to state agencies. Moreover, the state has reduced costs by more than \$6 million through deploying legal resources more efficiently, reducing the use of outside counsel and using a master contract for online legal services.
- **Center-Led Procurement** – In 2003, CMS launched the statewide Procurement Initiative in response to the Governor's mandate to "center-lead" procurement in order to maximize the value of each taxpayer dollar state agencies spend on goods and services. To sustain this initiative, CMS consolidated all of CMS's procurement personnel and functions into the Bureau of Strategic Sourcing and Procurement (BOSSAP), a new procurement structure designed to work closely with agency State Purchasing Officers and provide improved transparency and accountability in the procurement process statewide.

BOSSAP has made significant process towards reducing the cost of government while alleviating the burdens Illinois businesses have faced in doing business with the state. Through a center-led approach to procurement and standardizing the procurement process for commodities and services across state agencies, CMS has reduced the total cost of the provision of these services, increased productivity, and made it easier for the private sector to do business with the state.

For example, CMS found that in the past, 95% of contracts in one area were automatically renewed, without review, renegotiation or justification. With our new process, just 22% of contracts over one year were renewed – and none of them automatically: each one required a procurement business case and multiple approvals.

In recognition of CMS' efforts, the State of Illinois was named the Gold winner of the 2004 Cronin Innovation Awards, and the Silver winner of the 2005

Cronin Innovation Awards - given annually by the National Association of State Procurement Officials to recognize outstanding procurement initiatives and promote the adoption of best practices throughout the states.

- d. **Provide calculation of actual savings and short and/or long term: if applicable.**

| <b>Validated Savings and Incremental Costs<br/>from CMS Shared Services Program<br/>(Fiscal Years 2004 and 2005 combined)</b> |                 |
|---|-----------------|
| <b>IT/Telecom Consolidation</b>   |                 |
| Incremental Costs   | \$42.1 million  |
| Savings   | \$210.9 million |
| <b>Facilities Management, Internal Audit and Legal</b>  |                 |
| Incremental Costs   | \$15.7 million  |
| Savings   | \$82.7 million  |
| <b>Fleet Management</b>   |                 |
| Incremental Costs   | \$0.024 million |
| Savings   | \$17.1 million  |
| <b>Procurement, Health Care and Employee Benefits</b>   |                 |
| Incremental Costs   | \$14.8 million  |
| Savings   | \$216.9 million |

- e. **Describe quantitative benefits realized by service recipients, taxpayers, and/or state agencies.**

The Shared Services Program has streamlined the key administrative functions of state government and freed other state agencies from a broad range of administrative responsibilities so that they can focus their resources on delivering their core services and serving constituents.

Furthermore, the program has generated substantial savings for Illinois taxpayers and will realize additional cost savings in the next fiscal year and beyond. The successful efforts to cut costs or deliver new revenues has enabled the governor and state legislature to redirect spending to invest more in education, improve public safety, and open access to healthcare – all without raising taxes. In addition to cost savings, the

Shared Services Model has improved transparency, fiscal accountability and interagency cooperation throughout Illinois state government.

Following are just a few examples of the benefits already realized:

- We renegotiated existing contracts to obtain more favorable pricing. For example, the Illinois Environmental Protection Agency saved \$10.2 million when CMS renegotiated the contract for vehicle emissions testing. The state slashed its cell phone rates from as high as 14 cents to just 6.8 cents a minute, and eliminated thousands of unused phone lines.
- We began buying smarter and in greater bulk: For instance, the Illinois Department of Corrections saved \$6.3 million in the cost of prison meals by taking simple, common-sense actions including switching from 2% to skim milk, using more soy meal for protein, ending the use of individual packets of ketchup and other condiments, and buying cereal, coffee and beans in greater bulk.
- We implemented a statewide knowledge management system – the Illinois Center for Procurement Resources (ICPR). This web-based system consolidates all procurement resources and enables staff from all Illinois state agencies to better communicate and readily capture, access and share pertinent information from previous purchases. Before rolling out ICPR, CMS developed a knowledge management system in-house, a move that helped the State save an estimated \$100 million in a single year.
- By benchmarking industry providers of garbage bags and learning from experts that higher-quality bags could be produced at lower cost, CMS revised its vendor's product specifications and saved \$738,000.
- We implemented Total Cost of Ownership, a common private-sector concept, to ensure that hidden costs do not go unaccounted.
- We implemented the Enterprise Spend Management Program to help maximize the State's buying power and reduce procurement-related costs by improving the capture, control and utilization of spend information. We are also developing a Supplier Relationship Management program to increase visibility of supplier performance across the state.
- We analyzed spending and realized opportunities to recapture tens of millions of dollars of past payments: for example, we reviewed past data-circuit and long-distance phone bills and identified billing errors and overcharges exceeding \$1.3 million; we saved nearly \$6.5 million

when we discovered that Medicare was responsible for paying certain medical bills for State retirees; and we recovered \$21 million from insurance companies when we analyzed medical bills and found that private insurers were responsible for paying certain Medicaid bills.

- Dozens of disparate e-mail systems, which have hampered communications among state agencies and with the general public, are being reduced to a single, statewide system. The hundreds of e-mail naming conventions – an uncoordinated mess that inhibits communication and needlessly prolongs scheduling – is being replaced by a single, consistent standard.
- We cut the number of outside IT contractors by 30% and adjusted every remaining contract to more favorable and current market rates. When we determined that 87 personal services contractors in a variety of IT areas were non-essential, the State saved \$26.3 million.
- The state consolidated three telecommunications systems into one, ending the use of two expensive, privately owned data-transmission systems and carrying its data traffic over the state-owned network. The upgraded, state-owned network increases capacity four-fold, increases utilization three-fold, and drops marginal cost by 45%.

**f. Describe applicability of use by other state, local and/or federal government.**

Shared-services models and center-leading strategies have long been used in the private sector to streamline processes and achieve economies of scale. Due to the state of the national economy in recent years, coupled with the increased pressure to provide quality services with scarce resources, government agencies across the country face increasing pressure to eliminate waste and consolidate administrative functions.

The CMS Shared Services Model represents a novel approach to addressing the financial tidal wave hitting most if not all states. This innovative program can be replicated in other governments to help them achieve greater efficiency, improve the quality of constituent services and free up resources that can be redirected to new priorities. The flexible shared-services and center-leading strategies CMS has adopted can also enable other governments to provide their agencies with an appropriate level of autonomy to make critical decisions which are core to their missions, while building consensus and reaping substantial cost savings. CMS intends to continuously improve this program and further codify its experience to share with other state, local and federal governments.