

Fiscal Fitness Project Information

Centralize and Consolidate Functions into Department of Administration

Fiscal Fitness examined twenty-eight separate departments and agencies, the independence of which often resulted in operational inefficiency, inconsistent statewide project prioritization, and in many cases, incompatible, or even conflicting, policy development. Because both the public and private sectors nationwide have realized tremendous savings and increased productivity through targeted centralization. Fiscal Fitness incorporated such centralizations into its project plan.

The potential benefits of centralized functions are most evident in four areas: Human Resources (HR), Facilities Management (Facilities), Information Technology (IT), and Legal Services. To implement the Fiscal Fitness recommendations, the FY 2007 Budget reflects the continued transfer of positions from various departments and agencies to the Department of Administration. Additionally, the state has already achieved preliminary savings in the amount of **\$6,919,351** resulting from the early stages of these centralizations (through December 31, 2005), and there will be additional savings as these centralizations progress.

Human Resources: The Fiscal Fitness Program found Rhode Island's Human Resources (HR) staff deployed unevenly across various agencies. While some agencies have fully functioning – and sometimes overstaffed -- HR departments, a majority struggles with shortages. Consolidation will eliminate redundant activities, offer a broader, more in-depth level of expertise, implement a wider range of services and provide for the implementation of clear, consistent personnel policies across state service.

The current practice of each agency handling its own HR has hampered the state's ability to reform the personnel system. This is one of the reasons that in 2001 Governing Magazine rated Rhode Island's HR system among the least effective. Despite several attempts to diversify

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its workforce, the cultural mix of state employees does not match that of the citizenry. The state has made very little advancement in the areas of performance review and merit pay. Managers are unable to reward excellent performance, except through promotion. Subsequently, inappropriate promotions have created organizations that are top-heavy with managers, and workplace morale suffers.

The Fiscal Year 2007 Budget incorporates the recommendation that the statewide personnel function be centralized and located within a restructured Department of Administration. Through the creation of several Human Resource Service Centers, groups of agencies will be served by a single "HR pod," which will have the ability to share resources. The increased capacity within the Department of Administration's central human resource office will result in improved policy development and cost savings. To date, the state has already achieved **\$1,588,664** dollars in savings as a result of the HR centralization through December 31, 2005.

Facilities: The Fiscal Fitness Program found that no central entity is responsible for facility maintenance. Further, the state does not have a complete inventory of the property under its control. There is no master plan for the use of state facilities, or any coherent effort to insure that property is fully utilized. Moreover, the State holds numerous, costly leases while underutilized state-owned buildings and property are left vacant and deteriorating. Decentralized facility management results in duplication of staff effort, little sharing of resources, and an inability to put strategic solutions into place.

The FY 2007 Budget incorporates the recommendation that facilities management be organized and coordinated across state government. The Fiscal Fitness team determined that future savings can result from sharing facilities resources across agencies. Other facilities-related Fiscal Fitness recommendations include monitoring potential opportunities for the sale of surplus

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property, and identifying agencies that can be moved from leased properties to state owned buildings. The State has saved **\$1,333,110** through 12/31/05.

Information Technology: The Fiscal Fitness team found the state's Information Technology (IT) group to be overly decentralized, with each department having its own computer systems, servers, and staff. Departments employ differing management systems and use different computer programs, severely limiting the capacity for data sharing across departments. There is no coherent investment strategy for IT, and therefore, Rhode Island too lags behind most states in IT performance. The lack of comprehensive and centralized license and software maintenance management leads to higher costs because volume discounts are not leveraged with the software providers.

Not surprisingly, in 2001 Governing Magazine rated Rhode Island's IT a "D." Without integrated systems and coordinated IT management, employees do not have the tools needed to effectively and efficiently deliver public service. Additionally, the state lacks a disaster recovery plan and infrastructure for IT systems and servers.

The FY 2007 Budget incorporates the Fiscal Fitness recommendation that IT be centralized across State government. Standardization and centralization of IT, servers, phones, and mail will better address the needs of the state at a lower cost. An integrated IT division will result in higher quality financial information and data, improved services to citizens and state employees and savings to Rhode Island taxpayers. Preliminary savings achieved as a result of the IT centralization is **\$3,395,211** through December 31, 2005.

Legal Services: The Fiscal Fitness team determined that Rhode Island's legal structure is uncoordinated and decentralized. In some of the agencies, attorneys are assigned legal matters that are inconsistent with their particular background or expertise. Additionally, the state is

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spending millions of dollars on outside legal counsel for service that can be handled internally through better coordination. There are existing state attorneys with expertise in a particular area that are confined to their agency of employment. Their expertise is not shared across agency lines. There is no standardization of legal policies or procedures across the Executive Branch, and no centralized supervision of attorney performance.

The FY 2006 Revised Budget and the FY 2007 Budget further incorporate the recommendations for restructuring Legal Services. A consolidated structure of Legal Services creates several specialized practice groups within the Department of Administration. These practice groups will handle agency matters that fall within the purview of expertise of that particular practice group. The practice areas are Administrative Adjudication, Administrative Practice, Corporate, Labor and Employment, and Legislative and Legal Support. The majority of agency attorneys will continue to fall under their current agency budget, although they will report to centralized Legal Services. Some legal staff, however, will be moved from the agencies to the Department of Administration to supplement the practice groups. The State has achieved **\$602,366** in savings through December 31, 2005, and has reduced the amount of attorneys practicing for the state.

Reverse Auctions

A “reverse auction” is an online competitive negotiation where vendors directly bid against each other for a State contract by bidding lower, instead of higher (thus, a reverse auction). A reverse auction increases competition by creating an extremely fair, transparent process and allowing bidders to observe the purchasing process in real time. As a result, more vendors will likely bid and the State will receive a substantially better price for goods.

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Several other states, municipalities, private companies, and the federal government already employ reverse auctions. These entities have saved millions, if not billions, of dollars through this purchasing process. During the last legislative session a bill was passed allowing the State of Rhode Island to use reverse auctions for the procurement of goods. The first reverse auction was held on January 26th, 2006 whereby the State saved \$85,909 on the purchase of 35 state vehicles.

Currently, the state is in the process of setting up the technology to perform these auctions, and in the next couple of months the State will begin rolling out reverse auctions for a variety of goods and services. For the next fiscal year, Fiscal Fitness forecasts hundreds of thousands of dollars in cost avoidance as a result of this new process.

Records Retention and Storage

The state spends over \$1,000,000 for records storage annually. In addition, many agencies are overwhelmed with paper. The Fiscal Fitness team is attempting to reduce records storage costs by implementing record-retention schedules for agencies. A record-retention schedule sets the legal time frame for when a public document may be kept and then destroyed. The retention schedule must be approved by the Secretary of State, the Auditor General, and the Attorney General. In the past several months, the Department of Administration has worked with the Secretary of State for retention schedules in the State Controller's office, Human Resources, and State Purchasing.

E-Licensing

After early success in both convenience and public satisfaction offering vehicle and boating registration renewals online, an "E-Licensing" initiative is underway in 2006 to expand online renewal of professional and business licenses. Fiscal Fitness is collaborating with RI.gov

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(the State's Web portal) to deliver this renewal option to Rhode Island professionals. Five State agencies joined in expanding this effort, including the Department of Business Regulation, Department of Children, Youth and Families, Department of Environmental Management, Department of Labor and Training, and the Department of Health. Now, travel agents and real estate professionals are able to perform a paperless renewal online, pay via credit card, and receive immediate verification of the transaction. Subsequent rollouts of some 15-20 additional license renewals will be available online.

Group Life Insurance

As a result of two rate reductions negotiated with the State's life insurance carrier in 2004, state employees realized immediate reduced group life insurance premiums with no reduction in level of benefits. These savings transferred directly to employees in biweekly payments and will continue in subsequent years. Optimizing the State's purchasing power not only results in savings to taxpayers, but to all employees as well.

Savings through 12/31/05: \$1,566,250
Additional Savings FY 2006: \$895,000
Projected FY 2007: \$895,000

Tax Enforcement

Individuals or businesses who owe back taxes can now be identified through interagency matches performed in conjunction with the Division of Taxation and "blocked" from transacting a license or registration renewal without making provisions for tax payment. The Division of Motor Vehicles (DMV) was first to initiate these crosschecks in 2005, and the practice has been expanded to include retail sales licenses as well as professional licenses issued by the Departments of Health and Labor and Training. Through this electronic process, outstanding

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taxes due to the State can be easily identified and timeliness of payments accelerated. Other professional licenses and registrations will be brought online in 2006 as part of the Tax Block effort.

Savings through 6/30/05: \$8,004,493
Additional Savings FY 2006: \$6 million
Projected FY 2007: \$4 million

Mail Room Improvements

At Computer and Mail Facilities (CMF), mail-processing strategies have been identified and progress achieved in several key areas:

Bar Coding In-house: The ability to bar code mail pieces has been transferred in-house (from an outside vendor) through space redesign at the CMF facility and a lease arrangement with a specialized equipment vendor. The selection of a lease arrangement will allow CMF to upgrade to state-of-the-art equipment without recouping a large capital investment from purchased machinery. Net monthly savings of \$19,000 will be realized, however cost savings in the first year will be reduced by remodeling and software fees with software maintenance fees continuing in subsequent years.

Savings through 6/30/05: \$0
Additional Savings FY 2006: (\$16,000)
Projected FY 2007: \$206,000

Consolidating/Improving Mail Delivery Service: Various State agencies and contracted vendors provide inter-office mail delivery services on a routine basis. Routes are independently planned and scheduled. By assessing the scope of these services and through centralized management, redundancy can be eliminated and greater efficiency achieved. Private contractor

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fees should also be significantly reduced through this management approach. An inventory is being conducted to determine delivery practices and resources dedicated to this function.

Implementation of this strategy has an expected implementation of early FY2007.

Projected FY 2007: \$500,000

Certified Mail: Certified Mail software is now installed and operational. Through the use of this certified mail processing application, confirmation of receipt of Certified Mail can be achieved without the traditional “return receipt” card and its added cost and physical tracking. CMF will be providing instructional information to State users to ensure that mail design specifications are met. Savings are included with the implementation of the standardized mail piece design described below.

Standardizing Mail Piece Design: CMF continues to redesign mail-piece specifications. This will ensure that mail-piece rejection rates are minimized, and that mail cost savings are maximized. Included in this effort has been increased communication with state departments and agencies, and instruction on methods to expand potential savings on postage rates associated with high-volume mailings. CMF works consistently to improve mailings and intercepts improperly designed mail pieces to educate customers regarding errors and areas for improvement. United States Postal Service (USPS) rules and regulations are also monitored to identify potential savings areas and to update customers routinely as to mail design revisions.

Savings through 6/30/05: \$138,467
Additional Savings FY 2006: \$60,000
Projected FY 2007: \$40,000

Consolidating Mail Rooms: The Department of Human Services (DHS) maintains and operates a mail processing facility at its offices in Cranston. Consolidating this function with

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CMF's centralized facility would result in cost savings and greater efficiency in mail processing activities. It is planned that this initiative would dovetail with the Consolidating/Improving Mail Delivery Service efficiencies noted above.

Projected FY 2007: \$145,000

Direct Deposit of Child Care Payments

As of November 2004, the state offered the direct deposit of child support payments as an alternative to receiving checks by mail. Benefits include earlier access to funds and avoidance of re-issuance delays should a check be lost or stolen. Additionally, the process streamlines the issuance of funds and saves state resources, all while delivering services in timely, efficient manner. Approximately 2,200 customers participate in the direct deposit service to date.

Savings through 6/30/05: \$15,575

Additional Savings FY 2006: \$15,575

Projected FY 2007: \$17,246

Overnight Mail Services

The State developed a Master Price Agreement (MPA) for express mail service within a 150-mile radius of the City of Providence. Substantial discounts will be realized over existing rates that state agencies had been paying. Express mail delivery type includes priority, next-day, second-day and ground transportation (1-5 day). For some State agencies and quasi-state agencies the cost of these services will be cut in half.

These rates will be offered to municipalities, and 501(c) agencies. Millions of dollars in savings will be realized from re-bidding this crucial service.

Telecommunications

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Rhode Island contracts with Verizon for local calling, as well as the “Centrex” business telephone system and data services. Beginning in June 2003, negotiated rates have reduced the cost of these services. Anticipated savings were about **\$625,000 per year**. In FY 2005, RI received **\$423,000 in rebates** for services in FY 2004 and an additional **\$1,475,000** during FY 2005. Total rebates received were \$1,898,000. Verizon has changed its billing rates for all services except for Centrex. A glitch in the national Centrex billing system has delayed billing under the new rates. However, monthly Centrex rebates have averaged over **\$50,000** in FY 2006.

Savings through 6/30/05: \$1,898,431
Additional Savings FY 2006: \$627,810
Projected FY 2007: \$627,810

Pension Reform

New pension reforms began in FY 2006 that will save the state **\$236 million** over five years. The reforms impact all state employees and teachers with less than 10 years of service and all new employees hired after July 1, 2005. Changes in the pension system include: 1) increase the minimum retirement age eligibility from age 60 (with 10 years of service or 28 years) to age 65 (with 10 years), or age 59 (with 29 years), or age 55 (with 20 years) but with reduced benefits; 2) decrease maximum benefits from 80% of the highest 3 years salary at 35 years of service to 75% at 38 years of service; 3) revise the benefit accruals; and 4) lower the retirement pay cost of living adjustment from 3% annually to the lower of the Consumer Price Index (CPI) or 3%.

Additional Savings FY 2006: \$43,859,000
Projected FY 2007: \$45,512,000

Renegotiated Healthcare Contract

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In 2005, the State awarded a new three-year contract to United Healthcare to administer the state's health care for employees. The state will save more than \$25 million over this period. The contract became effective May 1, 2005. In addition to the savings from re-bidding the contract, employees will share in the cost of health care coverage. Beginning in early FY 2005, the non-union employees began paying a percentage of their health care costs. Starting in FY 2006, unionized employees began to contribute toward their health care costs. The unions have begun paying as they have signed contracts with the State.

Administrative Fees

Savings through 6/30/05: \$2,770,340
\$718,941

Additional Savings FY 2006: \$7,037,471

Projected FY 2007: \$8,673,529

Cost Sharing

Savings through 6/30/05:

Additional Savings FY 2006: \$12,019,206

Projected FY 2007: \$15,303,772

Leveraged Purchasing

The Department of Administration is developing strategies to re-bid contracts utilizing Master Price Agreements (MPAs). Savings were to be realized by limiting the number of vendors supplying goods and services to the state. Ten areas were included in this initiative including telecommunications (Verizon), office supplies (W.B. Mason), computer hardware, copiers, vehicles purchases, maintenance and janitorial supplies, medical and laboratory supplies, and waste disposal.

In FY 2005, based on spending of \$31.8 million, the State saved a net of **\$2.9 million** in the ten areas, with an anticipated saving of some **\$3.8 million** in FY 2006.

Cities and towns can use the state's MPAs as well. However, municipalities must deal directly with the vendors. In the case of office supplies, state agencies order supplies from W.B. Mason using an automated system. Cities and towns have cherry-picked what they will purchase from W.B. Mason and usually purchase large office supply items from local vendors. So there is presently no automated link between cities and towns and W.B. Mason using the State's MPA.

Savings through 6/30/05: \$2,864,437
Additional Savings FY 2006: \$3,781,587
Projected FY 2007: \$3,300,000

DBR Reorganization

Fiscal Fitness found that the Department of Business Regulation had excessive divisional and management structures, which made difficulties for coordinating similar functions within the department. This Fiscal Fitness recommendation called for merging divisions and reducing duplicative management. The Department has made progress relying on attrition. (For example, the Associate Director of Racing and Athletics retired providing the ability to merge that division

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with Commercial Licensing. In addition, the Banking and the Securities divisions have been merged, which will achieve additional savings through attrition.)

Savings through 6/30/05: \$61,256
Additional Savings FY 2006: \$122,512
Projected FY 2007: \$122,512

DLT Reorganization

The Department of Labor and Training has made significant progress using an attrition model to reduce redundant levels of management at the department. Five senior and middle management positions have been eliminated providing for more efficient and cost effective management within the department by consolidating management responsibilities and eliminating one to one supervisory reporting ratios.

Savings through 6/30/05: \$1,020,069
Additional Savings FY 2006: \$680,046
Projected FY 2007: \$680,046

Reduced Telecommunications Expense

A Fiscal Fitness recommendation called for an internal audit of unused phone and data lines at the State's major facilities, and as a result all unused lines have been disconnected. Additional savings will be realized with the completion of a billing audit and reconciliation in FY 2006. In addition dial-up directory assistance information services have been blocked for the majority of state employees except for employees with specific job needs - such as caseworkers in the health and human services departments. The number of directory assistance calls has been reduced by 67%.

Telecommunications

Reduced 411 Usage

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Savings through 6/30/05: \$27,480
\$39,680
Additional Savings FY 2006: \$27,480
Projected FY 2007: \$27,480

Savings through 6/30/05:
Additional Savings FY 2006: \$20,900
Projected FY 2007: \$20,900

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Sell Surplus Property

Fiscal Fitness identified a number of State owned surplus property parcels throughout the state. One such property at the Port of Providence has already been sold. In addition, the DOA is currently creating a comprehensive, accurate map of all State real estate holdings. This electronic map is part of a new geographic information system that will enhance analysis of State property holdings and values.

Savings through 6/30/05: \$1,026,780
Additional Savings FY 2006: \$4,860,000
Projected FY 2007: \$7,000,000

Improved Eligibility Monitoring

Fiscal Fitness recommended that the fraud and abuse detection efforts of the DHS needed to be expanded. Savings resulted from assuring that clients were actually eligible for benefits and continue to be entitled to receiving those benefits and services. To monitor client eligibility, the Front End Detection Program (FRED), was expanded to review and investigate new applications for childcare and Medicaid programs.

Savings through 6/30/05: \$1,406,444
Additional Savings FY 2006: \$2,800,000
Projected FY 2007: \$2,800,000