Oklahoma Agency Performance and Accountability Commission

Office of Management and Enterprise Services Comprehensive Performance Audit

Final Report

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Contents

Executive Summary

Overview

The Office of Management and Enterprise Services (OMES) is one of six state agencies selected for performance audits in the first year of a four-year process established in the Agency Performance and Accountability Act (Act). The Act created the Agency Performance and Accountability Commission (APAC), which is composed of nine private citizens appointed by the Governor, Speaker of the House and President Pro Tempore of the State Senate. The APAC is charged with conducting independent, comprehensive performance audits, including (but not limited to) a review and analysis of the economy, efficiency, effectiveness and compliance of the policies, management, fiscal affairs and operations of state agencies, divisions, programs and accounts.

OMES Background

Of all state agencies, OMES may have the broadest set of responsibilities. The agency is primarily responsible for providing a variety of 'back office' services for other agencies in Oklahoma state government, which includes central accounting, budget and payroll, information technology, employee and retiree health insurance benefit administration, central purchasing, maintaining and operating state buildings, maintaining the state fleet, operating central printing and a variety of other functions. The agency is also responsible for a variety of enterprise initiatives, primarily relating to its being the primary agency support arm for the Governor's office.

Because of its broad scope and responsibilities, the agency is routinely engaged in dozens of important efforts, including many (such as payroll) that require continuous time and attention and must be successfully handled to ensure the successful operation of the state government enterprise. Because of these key day-to-day responsibilities, the agency is often challenged to dedicate sufficient time and resources (particularly related to human capital) to the variety of additional initiatives and projects that are under its purview.

These factors have been exacerbated by state budget and financial challenges in recent years. OMES has, over the past five years, dealt with a significant reduction in full-time equivalent (FTE) positions, and its budget has also fluctuated. Further, some of the dedicated funds to support its activities have been legislatively directed to other uses. These have created disruptions in the normal course of business for the agency, and this also impacts on overall performance.

Key Findings

The Act identifies certain components of a typical performance audit as areas of focus, including adherence to statutory authority, measures of performance, optimal organizational structure and budgeting methods and opportunities to improve efficiency and effectiveness in agency operations. Each of these are important factors in determining overall performance, and in some instances entire performance audits are focused on one or two of these characteristics. Given the resource constraints that the agency (and the State) have operated under for the past several years, the project team focused a greater amount of its time and effort on opportunities to improve efficiency and effectiveness in agency operations, particularly in ways that do not necessarily require dedicating significant additional resources – or at least in areas with a strong opportunity for a positive return on investment.

In general, the project team found that OMES satisfactorily performs the variety of activities where Oklahoma statute grants it authority and/or responsibility. The agency is aware of these critical functions – in fact, a full listing of the statutory requirements can be found on the agency website. While there are a few (relatively minor) exceptions, in general, OMES satisfactorily carries out its duties and responsibilities.

One of the challenges that the project team uncovered related to OMES is prioritization of ongoing initiatives. OMES is charged with significant new initiatives, which compete with other day-to-day activities and similarly important initiatives that are in various stages of completion. Tying together and prioritizing these efforts – particularly when agency headcount has been reduced – is difficult. There are multiple examples where the agency is well aware of needs identified by the project team, and in many instances the agency has developed the background data and information and may have even begun formulating a plan or response. However, many of these plans of action have not been carried out to fruition, and in some instances, significant projects have been suspended prior to completion.

These situations touch on some related key themes that recur throughout the analysis. These primarily relate to resource constraints but also relate to how the OMES business model works in its public sector environment. There is a dichotomy that is embodied in OMES as a service provider to other state agencies while also providing some regulatory and oversight functions. This tension manifests itself in many ways, including how OMES interacts with its customers – and how its customers may, in some instances, seek to go outside the confines of the executive branch to 'opt out' of the normal relationship with OMES. These factors should be taken into consideration in the analysis of current operations and recommendations for initiatives to improve overall efficiency and effectiveness.

Recommendations

The project team has organized its recommendations to occur within the chapters devoted to the OMES divisions. Because of the time constraints (both in preparing the audit and for undertaking possible implementation), the project team has focused on recommendations that have a reasonable expectation of producing tangible bottom line results for the agency and state. There are a variety of possible changes to business processes that are not included within the audit, because it would have made the final product unwieldly and potentially difficult to implement.

While most performance audits provide an opportunity for agency comments on recommendations – and sometimes an ongoing dialogue on recommendations, that audit component was not included in the original RFP, and the project team did not include it in the audit plan. We believe that is a useful exercise and would suggest that APAC may wish to consider its inclusion in the performance audits in future years.

The following table summarizes the project team's recommendations resulting from its performance audit of OMES. Besides the recommendation itself, the table also identifies the timeframe (short, medium or long-term) for implementation. This topic, which is covered in each recommendation and also in the last chapter of the performance audit, will be important in determining how recommendations may go forward.

Table 1: Summary of OMES Performance Audit Recommendations

Recommendation	Number	Implementation Timeframe	Page Number
Budgeting Process Recommendations			
Develop and implement an evidence-based framework for budget decision making.	3.1	Short-term	35
Require agencies to reallocate 10 percent of program funding that is not evidence-based to programs that are.	3.2	Medium-term	37
Enterprise-Wide Recommendations			
Develop greater clarity around and acceptance of the OMES chargeback rate system.	4.1	Short-term	39

Recommendation	Number	Implementation Timeframe	Page Number
Establish a regular process to update rent methodology and rates.	4.2	Medium-term	42
More fully consolidate services within OMES and away from individual services	4.3	Long-term	43
Initiate performance-based contracting for predictive analytics hardware/software to improve revenue performance	4.4	Short-term	47
Create an Innovations Fund administered by OMES to provide repayable loans for qualified State agency projects with a demonstrated opportunity to create State savings to repay the loan	4.5	Short-term	49
Create a target span of control of 8:1 and division layers of management of no more than 5 and establish annual goals to achieve it	4.6	Long-term	50
Central Purchasing Recommendations			
Implement an integrated eProcurement system to automate the procurement and contract administration process	5.1	Long-term	57
Utilize reverse auctions as part of the State's overall procurement strategy	5.2	Short-term	61
Expand purchasing card program use to increase rebates to the State and streamline the procurement process for applicable goods and services	5.3	Short-term	63
Information Services Recommendations			
RFP Desktop Support Services	6.1	Short-term	74
Improve the daily IS Operations and Intelligence (O&I) meeting efficiency and adjust content to more closely align with objectives	6.2	Short-term	75
Identify and assist agencies that would most benefit from a larger online footprint	6.3	Medium-term	78
Realign IS grants management and program staff to ensure program-level needs are considered when grants management decisions are made.	6.4	Short-term	82
Mandate that IS provide and support cyber security in the State of Oklahoma.	6.5	Medium-term	84
Eliminate a now-obsolete IS-related mandate	6.6	Short-term	86
Capital Assets Management Recommendations			
Invest in strategic facility planning to reduce building costs and improve efficiency	7.1	Long-term	94
Conduct a comprehensive fleet life cycle, right-sizing and optimization study	7.2	Short-term	97
Identify additional strategies to address deferred maintenance needs in the absence of appropriated resources to do so	7.3	Short-term	100

Recommendation	Number	Implementation Timeframe	Page Number
Employees Group Insurance Division Recommendations			
Improve EGID vendor reporting	8.1	Short-term	107
Enact legislation to allow EGID to select, where appropriate, a group of highly qualified alternative insurers without materially constraining consumer choice	8.2	Short-term	109
Provide EGID with greater flexibility to conduct its business	8.3	Short-term	111

While ranking recommendations is a subjective exercise, based on potential value to OMES and the State, the project team would identify the following as the ‘top 10’ recommendations for OMES:

1. Implement eProcurement System (5.1).
2. Utilize Reverse Auctions (5.2).
3. Initiate Performance-based Contract for Predictive Analytics Hardware/Software (4.4)
4. Consolidate Services within OMES and away from Individual Services (4.3)
5. Improve the Daily O&I Meetings (6.2)
6. RFP Desktop Support Services (6.1)
7. Develop Greater Clarity and Acceptance of the OMES Chargeback System (4.1)
8. Greater EGID Flexibility (8.3)
9. Increase Agency Span of Control (4.6)
10. Evidence-based Budget Framework (3.1)

1. Introduction and Project Background

The Oklahoma Legislature passed the Agency Performance and Accountability Act (Act) in May 2017. The Act created the Agency Performance and Accountability Commission (APAC or Commission), which is composed of nine private citizens appointed by the Governor, Speaker of the House and President Pro Tempore of the State Senate. The APAC is charged with conducting independent, comprehensive performance audits, including (but not limited to) a review and analysis of the economy, efficiency, effectiveness and compliance of the policies, management, fiscal affairs and operations of State agencies, divisions, programs and accounts. The results of the audits may be used by the Legislature to implement the best budgeting and policy-making practices for government services to run in the most cost-effective way.

The performance audits to be conducted under the Act have four primary objectives:

- **Analysis of Mandates**: Conduct a comprehensive diagnostic analysis of services provided to determine if the services are legally mandated by authorities, including statutorily, constitutionally, legal agreement or grant requirements.
- **Analysis of Performance**: Conduct a comprehensive assessment of those services which are legally mandated and determine if the performance of those services is measured as achieving or non-achieving against established goals and objectives of the agency.
- **Analysis of Structure and Budgeting Process**: Conduct a comprehensive assessment of the organizational structure of the agency to determine if it is designed to reach the maximum potential for the effective and efficient delivery of the services provided by the agency. Included in this is an assessment of the State's budgeting and appropriation process.
- **Analysis of Opportunities**: As a result of the findings, recommend opportunities for any or all of the following: cost savings, revenue generation/recovery, elimination of services, identification of best practices that can be implemented, public/private partnerships, consolidation, outsourcing and statutory and/or regulatory changes.

Under the Act, each appropriated executive branch agency having total state appropriations for a fiscal year which rank the agency in the highest 20 agencies are required to be audited. The Office of Management and Enterprise Services (OMES) is one of six agencies undergoing a comprehensive performance audits in the first year of the process. PFM Group Consulting LLC (PFM or project team) was retained by the State to conduct the OMES audit. To satisfy the audit's objectives, PFM undertook the following activities:

- Reviewed over 100 relevant documents, including internal and external reviews, audits, budget and financial documents, policies and procedures, performance reports and surveys.
- Reviewed all references to OMES in Oklahoma State Statutes.
- Conducted over 50 detailed internal stakeholder interviews and 13 external stakeholder customer satisfaction calls.
- Administered and analyzed the results of an electronic survey of OMES employees (with over 1,000 responses).
- Benchmarked organizational structure and performance with OMES peers in other states.
- Identified and vetted key alternatives and opportunities with OMES leadership and subject matter experts.
- Provided biweekly written project management reports as well as weekly calls with OMES leadership and the APAC liaison.
- Drafted and submitted a preliminary report.

The preliminary report included a determination of the services OMES is legally mandated to provide and an assessment of whether those legally mandated services are measured against OMES' established goals and objectives. In addition, the report provided an evaluation of whether OMES's organizational structure is designed to maximize the effective and efficient delivery of services. The report included an assessment of the State's budgeting and appropriation process. A component of the preliminary report was an inventory of cost savings and efficiency recommendations (grouped into short-, medium- and long-term alternatives) and an analysis of opportunities to make improvements to the State's revenue discovery/recovery enhancement efforts and to the efficient management and operations of State services.

This final report builds upon the preliminary report by outlining an implementation plan for each of the recommendations identified, including:

- A list of the required critical steps, including any statutory or regulatory changes needed;
- An estimate of the financial and personnel resources required;
- An estimate of the timeframe to implement the recommendation; and
- A recommended measuring standard to determine how to gauge progress and achievement of recommendations.

To facilitate its use by the Commission, the final report has been organized based on functionality within OMES and within the categories of interest within the APAC legislative act. To accomplish this, the report first provides a summary of key duties and responsibilities for each division within OMES. These will describe statutory responsibilities, measures of performance and information related to benchmarking and other ways to compare performance to similar organizations.

The audit also discusses overarching issues that do not lend themselves to discussion by division. These include the overall OMES organizational structure, budgeting methods and key opportunities. While some of the key opportunities relate to a specific division, in other cases, there are inter-related factors that are discussed broadly, as over-arching issues.

While undertaking its work, the project team was mindful of the differing approaches and areas of focus of financial and performance audits. In Oklahoma, State agency financial audits are conducted by the Auditor of State. Financial audits are primarily concerned the fairness of the information contained within an entity's financial statements. These also regularly focus on financial controls as they relate to reporting and accounting controls present in the general ledger or sub-ledger systems. As a result, the project team has not focused on these issues, except as they relate to specific duties of OMES. Performance audits, by contrast, are predominantly focused on the efficiency and effectiveness of a program or organization, with analysis and discussion around determining approaches, processes or methods that will lead to improvements in how the organization or program performs.

The project team wishes to thank the Director of OMES, Denise Northrup, her management team and staff for their outstanding assistance throughout the course of the performance audit. Even during a very busy time for the agency, OMES leadership and staff were highly responsive to requests for data, information or to discuss follow-up questions and comments. We sincerely appreciate their professionalism and dedication to the work of the Agency and Oklahoma State government.

2. OMES Overview

OMES Background

OMES manages multiple state government enterprise functions, including accounting and reporting, budget, assets management, information technology, human capital management, self-insured employee health plans, transparency and accountability and purchasing.

Unlike most state agencies (that provide direct service to citizens and/or businesses or for the State as a whole), OMES primarily assists other State agencies with a variety of administrative and operational functions. At the same time, OMES also serves as an oversight agency, particularly related to assisting the Governor with preparation of the State budget and carrying out duties and responsibilities to efficiently and effectively execute the enacted budget.

In general, the services provided by OMES are similar to the duties and responsibilities of similar central administrative agencies in other states. A recent analysis of administrative functions provided by U.S. state governments identified 17 commonly centralized functions within its primary administrative service agency, of which OMES currently provides 15.[1] As shown in the following table, among states immediately surrounding Oklahoma, Missouri is most similar, with its Department of Administration also including 15 of 17 service areas. At the other end of the spectrum, Texas is the least centralized (which likely relates to its unique governance structure, where the independently elected State Comptroller assumes many of the duties and functions often located in an executive branch agency, including central accounting, payroll, financial reporting and procurement). Nationally, the average number of services provided by the primary administrative services agency is 11.3. The most commonly included services are facilities (49 states), procurement (47) and surplus property (46). The least commonly included services are employee benefits (13 states), audit (14) and state budget (19). A summary of the services provided by each state's OMES-like agency is provided in Appendix A.

Table 2: Services Provided by Internal Services Agencies (Oklahoma and Surrounding States)

Service Area	OK	AR	CO	KS	MO	NM	TX
Procurement Services							
Procurement	x		x	x	x	x	
General Services							
Fleet	x	x	x		x	x	
Mail	x		x	x	x		
Printing	x		x	x	x	x	
Surplus	x	x		x	x	x	x
Infrastructure							
Facilities	x	x	x	x	x	x	x
Construction	x	x	x	x	x	x	x
Information Technology	x	x			x		
Telecommunications	x	x			x		
Finance Management							
Risk Management	x	x	x		x	x	
Accounting	x	x	x	x	x		
State Budget	x				x		

[1] National Association of State Chief Administrators, Survey of State Administrative Functions, 2018.

Service Area	OK	AR	CO	KS	MO	NM	TX
State Insurance	x		x		x	x	
Audit				x			
Personnel							
Human Resources	x	x	x	x	x		
Training		x	x		x		
Benefits	x		x				
Total	**15**	**10**	**12**	**9**	**15**	**8**	**3**

Source: OMES analysis

OMES Mission Statement and Vision

OMES' mission statement is "Supporting our partners through unified business services." This mission is similar to that of peer organizations in other states. For example:

- The **Colorado** Division of Central Services' mission is to "provide quality services to enhance State government success through customer service, modernized business operations and employee engagement."
- The **Kansa**s Department of Administration's mission is to "provide excellent customer service, every time, and to lead the enterprise by modeling teamwork and cost-effective business practices."
- The **Missouri** Office of Administration's mission statement is "Supporting and inspiring excellence in Missouri state government through the stewardship of human resource services and solutions."
- The **Nebraska** Department of Administrative Services' mission is "to create government efficiencies and value through unified and agile shared services."[2]
- The **Oregon** Department of Administrative Services' mission is to "serve state government to benefit the people of Oregon."
- The **Utah** Department of Administrative Services' mission is to "deliver support services of the highest quality and best value to government agencies, institutions of higher education and the public."

OMES' vision statement is "OMES is a trusted, credible partner that empowers employees to provide valued business expertise allowing customers to focus on their missions across state government." This mission is also similar to those of other administrative agencies in state government.

OMES Strategic Goals

OMES' five strategic goals align with its primary duties and responsibilities.

- **Internal and external communication**: Educate and empower stakeholders to build relationships and inform customers and employees to ensure clear expectations.
- **Customer service**: Empower, educate and train OMES employees is order to effectively satisfy customer needs.
- **Continuous improvement in expertise and innovation**: Establish a culture of continuous learning and process improvement in such a way that streamlined processes, professional credibility and innovation are achieved by 2019.

[2] State of Nebraska Department of Administrative Services – About Administrative Services. Accessed electronically at http://das.nebraska.gov/about.html

- **Unified and productive culture**: Educate, develop and communicate through all stages of employment and hierarchy in such a way that employees and customers recognize and acknowledge the value of the OMES team.
- **Fiscal responsibility**: Increase the understanding of the fiscal impact of divisions within OMES and increase fiscal responsibility throughout the state through clear, concise and enforceable policy and guidance.

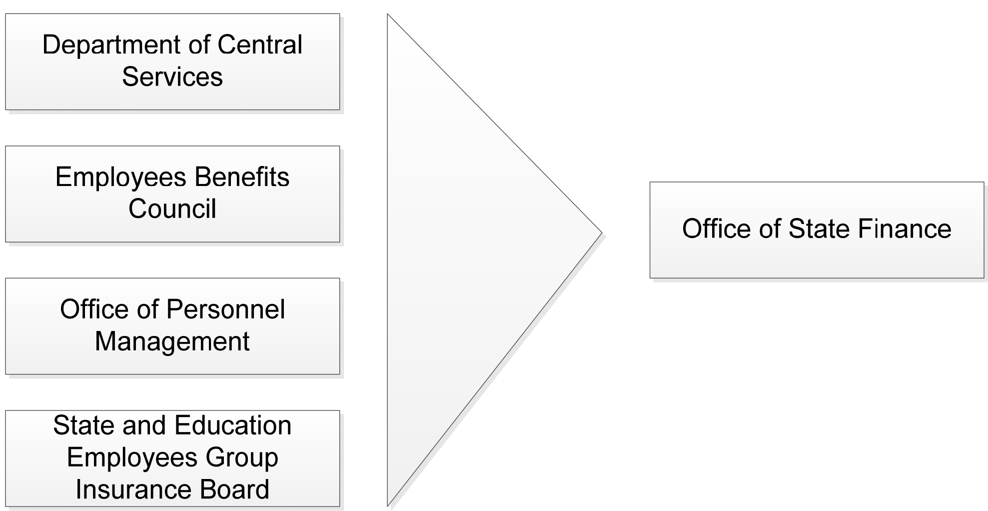
Generally, these strategic goals are similar to the goals and objectives of central service agencies in other states. For example, the State of Nebraska Department of Administrative Services has outlined the following strategic goals:[3]

- We are easy to do business with.
- We treat everyone with respect and dignity, and always act ethically.
- We are customer focused.
- We listen; our first answer is not "no."
- We are empowered to think and take initiative.
- We must continuously learn, including from our mistakes.

OMES History and Consolidation

The State Government Administrative Process Consolidation and Reorganization Reform Act of 2011 (HB2140) consolidated into the Office of State Finance four agencies and required the demonstration of cost reductions equal to 15 percent of the FY2012 appropriations to the consolidated agencies (approximately $3.2 million). The cornerstone of the State's consolidation efforts was to create an agency that is F.A.S.T. – flatter, agile, streamlined and technology-driven.

Figure 1: Agency Consolidation



In August 2012, the Office of State Finance was renamed the Office of Management and Enterprise Services. Today, OMES is comprised of the following programs (each of which is discussed in greater detail in this report):

[3] Nebraska Department of Administrative Services, 2016 Annual Report, p.7. Accessed electronically at http://das.nebraska.gov/assets/2016AnnualReportWEB.pdf

- Central Purchasing (CP)
- Information Services (IS)
- Capital Assets Management (CAM)
- Employees Group Insurance Division (EGID)
- Budget, Policy and Legislative Affairs
- Central Accounting and Reporting (CAR)
- OMES Administration
- Human Capital Management (HCM)

There is a logical business case to be made for agency consolidation. In both the private and public sectors, consolidation may produce economies of scale, which can reduce the per-unit cost of providing services. Having a combined spend can contribute to these economies of scale by reducing the cost of key inputs. For example, it is commonly accepted that larger volume purchases will result in lower per-unit costs. This manifests itself in many ways. For example, an organization that purchases thousands of units of a product or service will generally pay less on a per-unit cost basis than an organization that buys in much smaller quantifies. As a producer, the per-unit cost to provide a service also generally declines in larger quantities. This can result both from the producer's ability to purchase its inputs in larger quantities (and thus enjoy better pricing) and because it can spread overhead and other fixed costs across a larger number of units. Specialization can also contribute to efficiency when individuals can develop or have expertise in a more narrow set of responsibilities.

However, there may be a trade-off between centralized efficiency and agility – sometimes characterized as a trade-off of efficiency versus effectiveness. For example, a common concern is that it takes longer or there are more 'hoops to jump through' for approvals and other activities in centralized agencies. However, the rise of shared services – and the need for greater system security (particularly in IT operations) – is trending toward greater centralization.

It is notable that while the pendulum has swung in both directions over time – toward and away from consolidation – there has been a trend to greater agency consolidation in the states for central services, particularly related to IT. A recent discussion of IT consolidation identified the states of in Alaska, Colorado, Hawaii, North Carolina, Oregon, Utah, Virginia and Washington as having passed laws recently to consolidate IT services or provide funding for consolidation.[4] Among additional examples, Louisiana has consolidated its IT services and identified tangible savings as a result,[5] and Nebraska is engaged in a similar IT consolidation effort.[6] Pennsylvania has also begun IT consolidation as the latest phase of a shared service initiative.[7] The annual survey conducted by the National Association of State Chief Information Officers (NASCIO) identified consolidation of IT services and governance as the third most critical issue facing states in 2018.

It is notable that consolidation of IT services across state government can occur with a free-standing IT agency. In fact, the State of Nebraska IT operation is a free-standing agency, and the State of Iowa split information

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[4] "The Case for IT Consolidation," State Legislatures, April 2018, National Conference of State Legislatures, accessed electronically at http://www.ncsl.org/Portals/1/Documents/magazine/articles/2018/SL_0418-InfoTech.pdf
[5] State of Louisiana Department of Administration, accessed electronically at https://www.doa.la.gov/Pages/ots/IT_Consolidation_PLan.aspx
[6] Jeffrey Morgan, "How Nebraska successfully consolidated state IT services," CIO, June 16, 2017, accessed electronically at https://www.cio.com/article/3200884/leadership-management/how-nebraska-successfully-consolidated-state-it-services.html
[7] Pennsylvania Office of Administration, "Shared Services Transformation Update: Delivery Centers Gearing Up for Next Phases of Transformation," October 19, 2017, accessed electronically at https://www.oa.pa.gov/sharedservices/Documents/SST%20Update%2010.19.17.pdf. See also "Pennsylvania begins shared services phase of decades-long consolidation," Statescoop, April 12, 2017, accessed electronically at https://statescoop.com/pennsylvania-begins-shared-services-phase-of-decades-long-consolidation/

technology out into a separate department under the direction of the State CIO and out of its Department of Administrative Services at the beginning of FY2015.[8]

Not all consolidation efforts are focused solely on IT. For example, the shared services consolidation effort in Pennsylvania also encompasses HR functions. The State of New Mexico is also engaged in implementation of a consolidation of its HR functions into a single agency.[9]

OMES Historical Budget and Staffing

OMES' operations are primarily funded by fees and charges for services from other State agencies (nearly 90 percent of the FY2018 budget) that are deposited into various revolving funds. Of more than $320.0 million budgeted in 29 revolving funds in FY2018, $158.0 million (48.3 percent) is attributable to the Telecommunications Revolving Fund. An additional $51.1 million (15.6 percent) is budgeted in the State Employee Group Health Insurance Revolving Fund, and $35.7 million (10.9 percent) is budgeted in the Risk Management Revolving Fund. While there is a valid business case for fees and charges (for example, so that provided services not treated as free goods), there is also a cost associated with using separate internal services or enterprise funds, as it requires a significant amount of accounting time and effort to move state funds from one agency and fund to another.

OMES' appropriated budget has fluctuated over the past five fiscal years. The amounts reflected in the following table are inclusive of appropriations for specific projects (e.g. $24.0 million in FY2015 for implementation of the Business Application Services system known as "CORE"). In addition, OMES has incurred significant full time equivalent (FTE – defined by OMES as working 40 hours per week) position reductions in recent years. Between FY2014 and FY2018, total FTEs were reduced by nearly 150 positions (11.1 percent).

Table 3: OMES Funding by Source, FY2014-FY2018

Funding Source*	2014	2015	2016	2017	2018
Revolving Funds**	$299,643,757	$343,701,329	$357,578,347	$312,283,662	$327,081,141
State Appropriation	$38,531,297	$38,826,154	$35,313,242	$29,402,534	$39,801,767
Federal Funds	$6,062,733	$2,406,018	$1,705,729	$2,203,523	$2,046,876
Total Budget	**$344,237,787**	**$384,933,501**	**$394,597,318**	**$343,889,719**	**$368,929,784**
Appropriation as % of Total Budget	11.2%	10.1%	8.9%	8.5%	10.8%
FTEs***	1,342.0	1,318.0	1,286.4	1,245.3	1,192.6

** Amounts shown based on analysis of FY2014-FY2018 Operating Budget Comparison Summaries by Account/Division as of August 10, 2018.*
*** Revolving Funds category is inclusive of Agency Special Accounts.*
**** FTEs per FY2019 Budget Book.*

As shown in the following table, reliance on State appropriation varies from program to program. For example, while EGID and Central Purchasing receive no appropriation, nearly 75 percent of the HCM budget is appropriated. This is primarily due to the nature of each program's operations. EGID is primarily dependent on premiums revenues for health care plans provided to Oklahoma employees, and Central Purchasing is funded by administrative fees collected for its management of statewide contracts. The HCM Division's operations are

[8] State of Iowa Office of the CIO, "Annual Report," December 2014, p. 2, accessed electronically at https://ocio.iowa.gov/sites/default/files/ocio_annual_report_jan_2015_w_appendices_updates_150528_report_only_0.pdf
[9] State of New Mexico State Personnel Office, accessed electronically at http://www.spo.state.nm.us/hr-consolidation.aspx

less focused on its provision of shared services. As a result, it collects less fee revenue and requires State appropriation to fully fund its operations.

Table 4: OMES Funding by Program and Source, FY2018

OMES Program	State Appropriation	Revolving Funds	Federal Funds	Total Budget	% of Budget Appropriated
EGID*	$0	$51,348,740	$0	$51,348,740	0.0%
Central Purchasing	$0	$4,997,832	$0	$4,997,832	0.0%
ISD	$12,031,678	$169,021,353	$2,046,876	$183,099,907	6.6%
CAM	$16,681,261	$93,071,094	$0	$109,752,355	15.2%
Administration	$5,829,057	$6,857,581	$0	$12,686,638	45.9%
HCM	$5,259,771	$1,784,538	$0	$7,044,309	74.7%
OMES Total	**$39,801,767**	**$327,081,138**	**$2,046,876**	**$368,929,781**	**10.8%**

Source: FY2018 Operating Budget Comparison Summaries by Account/Division as of August 10, 2018.
** Includes EGID IT*

Using FTEs per service provided as a general point of comparison, Oklahoma is generally similar to its peer states regarding the number of total FTEs performing a similar number of services (the average FTEs per service, excluding Oklahoma, is 77).[10]

Table 5: FTEs per Service Provided

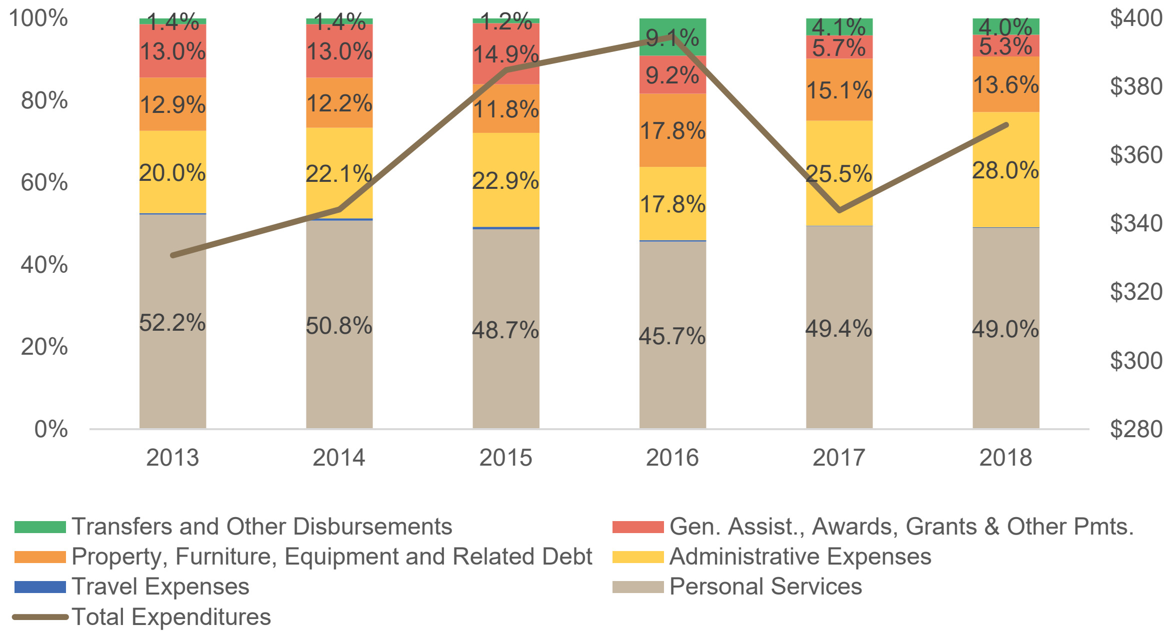
State	Department Name	# of Services	FY2018 FTEs	FTEs per Service
AR	Department of Finance and Administration	10	2,876	288
MO	Office of Administration	15	1,891	126
KY	Finance and Administration Cabinet	14	1,686	120
TX	Facilities Commission	3	354	118
OK	**Office of Management and Enterprise Services**	**15**	**1,193**	**80**
OR	Department of Administrative Services	14	903	65
UT	Department of Administrative Services	10	473	47
NE	Department of Administrative Services	14	587	42
KS	Department of Administration	9	369	41
NM	General Services Department	8	292	37
CO	Department of Personnel and Administration	12	426	36
LA	Division of Administration	16	504	32
IA	Department of Administrative Services	12	237	20

OMES Expenditures

Due to its role as a staff intensive back office agency, approximately 50 percent of OMES' expenditures are related to salaries and compensation, as shown in the following figure.

[10] The project team understands that the services provided vary in breadth and complexity from state to state. This calculation is for general comparison purposes only.

Figure 2: OMES Expenditure Categories as a Share of Total Expenditures, FY2013-FY2018



Source: Operating Budget Comparison Summaries by Account/Division

Table 6: Expenditures by Expense Category, FY2013-FY2018

Expenditures by Category (in Millions)	2013	2014	2015	2016	2017	2018
Personal Services	$172.8	$174.8	$187.3	$180.2	$170.0	$180.9
Travel Expenses	$1.2	$1.9	$2.3	$1.4	$0.5	$0.5
Administrative Expenses	$66.3	$75.9	$88.1	$70.3	$87.7	$103.3
Property, Furniture, Equipment and Related Debt	$42.8	$41.9	$45.4	$70.3	$51.9	$50.0
Gen. Assist., Awards, Grants & Other Pmts.	$43.0	$44.8	$57.2	$36.5	$19.6	$19.5
Transfers and Other Disbursements	$4.7	$4.9	$4.6	$35.8	$14.2	$14.7
Total Expenditures	**$330.8**	**$344.2**	**$384.9**	**$394.6**	**$343.9**	**$368.9**

Source: Operating Budget Comparison Summaries by Account/Division

In summarizing expenditures by program area, the Information Services Division accounts for nearly half of all budgeted OMES expenditures. The Division of Capital Assets Management accounts for $109.8 million (29.7 percent). Combined, the Administration, Human Capital Management and Central Purchasing program areas account for $24.7 million (6.7 percent) of budgeted expenditures, as shown in the following table.

Table 7: Expenditures by Program Area, FY2018

Program Area	FY2018 Budget	% of FY2018 Budget
Information Services	$183,099,908	49.6%
Capital Assets Management	$109,752,356	29.7%
EGID/EGID IT	$51,348,740	13.9%

Program Area	FY2018 Budget	% of FY2018 Budget
Administration	$12,686,639	3.4%
Human Capital Management	$7,044,309	1.9%
Central Purchasing	$4,997,832	1.4%
Total Budget	**$368,929,784**	**100.0%**

FY2018 Operating Budget Comparison Summary by Account/Division as of August 10, 2018.

Performance Measures Overview

The Oklahoma Program and Performance Budgeting and Accountability Act (HB3053, Laws of 2012) requires all State agencies to prepare and report on performance metrics. These metrics are to account for input, output and outcome measures and provide benchmarks for comparison for evaluation purposes. They must include at least three consistent scales demonstrating that a performance expectation or benchmark has been achieved, partially achieved or not achieved. At least one metric is to demonstrate the cost per person served by the agency. These metrics are to be available online.

Generally speaking, it can be difficult to select performance measures for a multi-faceted agency. There is a danger of having too many measures that overwhelm collection, analysis and reporting. Conversely, there is a question of whether the measures are, in total, relevant to overall agency performance.

Good performance measures are often characterized by the acronym SMART. SMART measures are generally defined as:

- **Specific**: Described in an unambiguous way.
- **Measurable**: Necessary data can be collected on a regular basis and its relatability determined.
- **Achievable**: OMES activities can significantly impact on the indicator.
- **Relevant**: The indicator has a strong connection to a strategic goal.
- **Time-Bound**: There is a determined start and end point.

Performance measures themselves generally fall into five categories:

- **Input**: The amount of resources invested, used or spent for services, products or activities.
- **Output**: The number of services, products or activities produced or provided.
- **Outcome**: The effect on customers, clients, the state or state government that reflects the purpose of the activity.
- **Efficiency**: The unit cost or level of productivity associated with a given service, product or activity.
- **Quality**: How well the service, product or activity was delivered, based on characteristics important to the customers.

OMES has five strategic goals. Within these goals, there are between two and four key performance measures (KPMs), as detailed in the following table.

Table 8: OMES Strategic Goals and Performance Measures

Strategic Goal: Continuous Improvement in Expertise and Innovation
1. Increase the State government rating of security risk from 60 percent in 2014 to 70 percent by 2018.
2. Increase the percentage of State agencies participating in shared IT support services from 63 percent in 2014 to 100 percent by 2017.
3. Decrease the total energy use index of State-owned facilities from 127.60 kBtu/square foot in 2012 to 109.04 kBtu/square foot by 2018.
4. Increase the percentage of Compressed Natural Gas (CNG) light-duty and passenger vehicles in the statewide fleet from 7.4 percent in 2014 to 18 percent by 2018.
Strategic Goal: Internal and External Communication
1. Increase percentage of customers who report agreement with "knowing who to call" on annual OMES Customer Shared Services survey from 65 percent in 2017 to 90 percent in 2023.
2. Increase the number of managers and supervisors meeting regularly in-person with the OMES Director from 10 in 2017 to 200 in 2018.
Strategic Goal: Customer Service
1. Increase the percentage of issues resolved on the first call from 54 percent in 2014 to 66 percent by 2019.
2. Increase the percentage of customers who report agreement with "satisfied with overall customer service provided by OMES" on annual OMES Customer Shared Services Survey from 55 percent in 2017 to 90 percent in 2023.
Strategic Goal: Unified and Productive Culture
1. Increase the percentage of new employees participating in onboarding training from 0 percent in 2016 to 100 percent in 2020.
2. Increase retention rate of first-year OMES hires by 1% each fiscal year through FY2023.
3. Maintain OMES's voluntary resignation turnover at 10% or less.
Strategic Goal: Fiscal Responsibility
1. Increase the amount of annual cost savings resulting from statewide procurement contracts from $20.2 million in 2014 to $30 million by 2019.
2. Maintain accurate general revenue estimates to ensure collections between 97 percent and 103 percent of the final annual estimate every year through 2018.
3. Increase the portion of tax collections that are distributed into the General Revenue Fund from 46.7 percent in 2014 to 48 percent by 2018.

Source: OMES FY2020 Budget Submission

Additional Performance Measures: Surveys

In addition to KPMs, surveys are a useful tool to measure customer satisfaction (and OMES performance). Performance surveys are a common method for measuring progress and/or results for customer service agencies, as they can help determine how the organization performs on output, outcome and quality measures.

OMES conducts yearly surveys of both its customers and employees and maintains a set of consistent questions to establish a baseline and measure changes from year to year. These performance surveys adhere to survey common practices. For instance, they are designed to survey respondents targeted at their areas of OMES services, and the survey population has been broadened to reduce selection bias. Questions are framed as statements with agree/disagree options, and the surveys use a typical 5-point Likert scale for responses. This scale asks the respondent to characterize their support for statements related to OMES, both for the organization as a whole and for specific functions. Generally, the scale used for the survey is:

- Strongly Agree (5)
- Agree (4)
- Neutral (3)
- Disagree (2)
- Strongly Disagree (1)

While satisfaction has improved year-over-year, both the employee and customer scores are generally below the ‘agree’ response (i.e. an average score of 4) for survey statements. The following tables detail the average scores for customer and employee perception survey questions in 2017 and 2018. A summary of survey results is provided in Appendix B.

Table 9: Changes in OMES Customer Perception, 2017-2018

Customer Survey Perception Question	2017	2018	% Change
I am satisfied with the knowledge and attitude of the staff.	3.86	4.08	5.8%
I am satisfied with the accuracy and timeliness of service provided.	3.68	3.91	6.2%
I am satisfied with the follow-through on commitments of service provided.	3.72	3.92	5.4%
I am satisfied with the fairness of service rates being charged.	3.40	3.66	7.7%
I am satisfied with the quality of customer service provided.	3.70	3.99	7.8%
I am satisfied with the overall level of customer service provided by OMES.	3.42	3.66	7.1%
I know who to call for information or when I have a problem.	3.59	4.08	13.7%
OMES makes it easy for me to work with them.	N/A	3.41	N/A

Source: 2017-18 OMES Survey Briefing

Table 10: Changes in OMES Employee Perception, 2017-2018

Employee Survey Perception Question	2017	2018	% Change
OMES provides accurate and timely service to customers.	3.56	3.74	5.1%
OMES follows through on its commitments to customers.	3.67	3.80	3.7%
OMES is concerned for the customer business needs.	3.86	3.92	1.7%
OMES charges fair rates to customers for shared services.	3.44	3.50	1.8%
OMES provides a high level of customer service to customers.	3.48	3.77	8.6%
OMES provides the necessary resources and environment for my team and me to be successful in executing our responsibilities to our customers.	3.12	3.36	7.5%
I make my customers feel it is easy to work with OMES.	N/A	4.30	N/A

Source: 2017-18 OMES Survey Briefing

Additional Performance Measures: IT Consolidation Cost Savings

As mentioned previously, the consolidation of four agencies into the agency that became known as OMES was to result in a set percentage of savings – and much of that savings was anticipated within the IT service area. The State of Oklahoma Progress on Unification Close Out Report provided estimates of cost savings over 6 years in 3 categories:[11]

[11] State of Oklahoma Progress on Unification Close Out Report (October 31, 2017). Accessed electronically at https://www.ok.gov/cio/documents/HB1304QuarterlyReport10312017.pdf. Notes: Savings do not reflect the impact of inflation. Based on the project team’s review, the Cost Avoidance – Purchasing figure may be over-estimated because it is calculated based on the amount

- **Consolidation Project Savings**: $111.9 million. More than half of the total savings is attributable to 6 initiatives: (1) Payroll Lapse Numbers; (2) Statewide Mainframe Consolidation; (3) People Move 2012; (4) Health Department Network Unification; (5) Department of Education IT Consolidation; and (6) Microsoft Enterprise Agreement Cost Savings Project.
- **Cost Avoidance – Projects**: $47.4 million. A total of 19 projects generated cost avoidance. Significant projects include Mainframe Emulation Transformation and the FY2017 Microsoft Enterprise Agreement.
- **Cost Avoidance – Purchasing**: $212.9 million. This figure is based on the estimated annual IT contract savings.

In total, IS estimates that the IT unification initiative resulted in IT cost savings/cost avoidance in excess of $328 million.[12] It is notable that the Close Out report does not provide a comprehensive breakdown of costs before and after consolidation. Additionally, it does not provide a framework to assess which projected savings were realized or not realized and whether any savings would have occurred without consolidation. As this relates to financial reporting, the project team determined this was an issue to be addressed in a financial audit and did not seek to validate these past savings estimates. That said, the categories of savings are similar to those reported by other states who have undertaken IT consolidation.[13]

Organizational Structure Overview

There are generally three types of organizational structures used in the public sector:

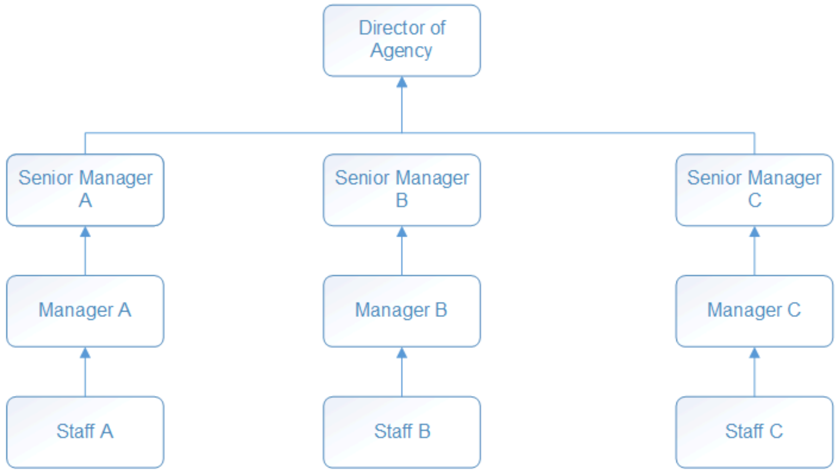
- **Vertical structures** are characterized by a small number of directors or other leadership positions and increasing numbers of middle management managers and supervisors and non-supervisor front line positions. This is often regarded as a 'command and control' structure, where decisions are made at the highest (leadership) levels of the organization and are moved down through the chain of command, with the day-to-day work done at the lower levels of the structure. These structures generally rely on an orderly work flow, and responsibility for completing key tasks and solving problems is shared and communicated up and down the structure.

paid compared to the MSRP, which is typically higher than the true cost. For instance, OMES averaged a 28 percent discount and $45.8 million in savings.

[12] There is some duplication of projects within the three categories listed. For example, the Microsoft Enterprise Agreement cost savings of $5.3 million appears in both the Consolidation Project Savings and Cost Avoidance – Projects categories. For this reason, summing the three figures results in an amount higher than $328 million.

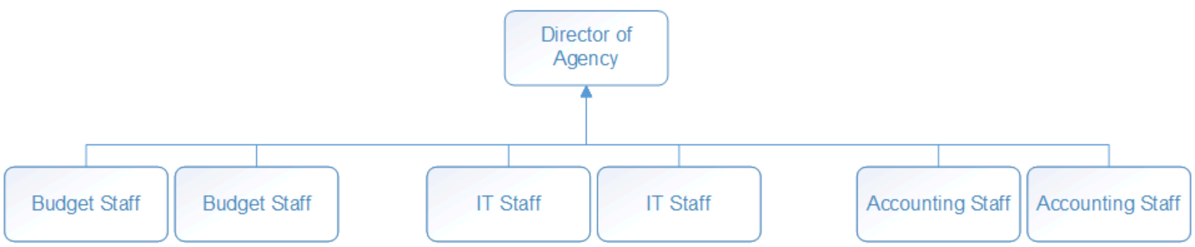
[13] "The Case for IT Consolidation," State Legislatures, April 2018, National Conference of State Legislatures, accessed electronically at http://www.ncsl.org/Portals/1/Documents/magazine/articles/2018/SL_0418-InfoTech.pdf. For an example from Louisiana, see "How Louisiana saved $70 million with IT consolidation efforts," Statescoop, accessed electronically at https://statescoop.com/how-louisiana-saved-70-million-with-it-consolidation-efforts/

Figure 3: Vertical Organizational Structure



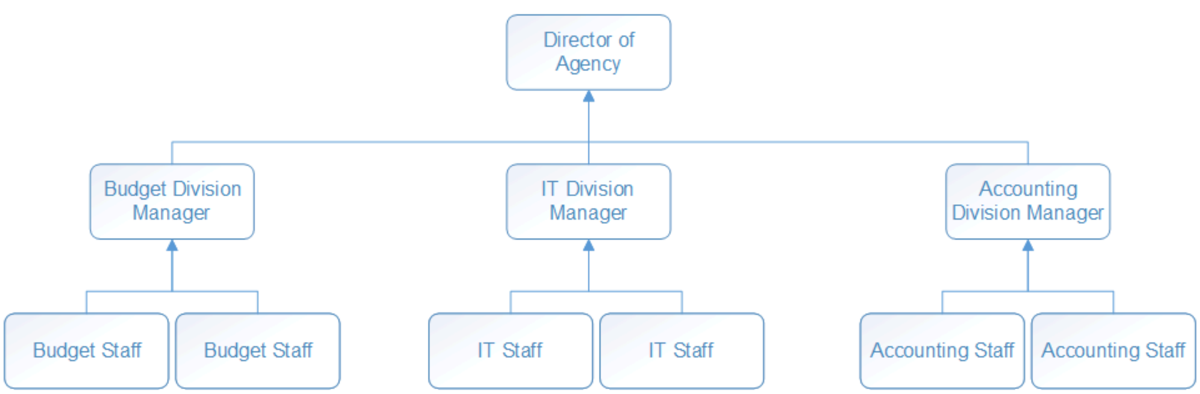
- **Horizontal structures** are characterized by fewer supervisors and many peers or equals. In this structure, work is often accomplished by developing self-directed work teams that form to tackle specific problems or tasks and then are dissolved when the problem is solved or the task is completed. These organizations generally seek to be more 'agile' and responsive to specific needs or circumstances.

Figure 4: Horizontal Organizational Structure



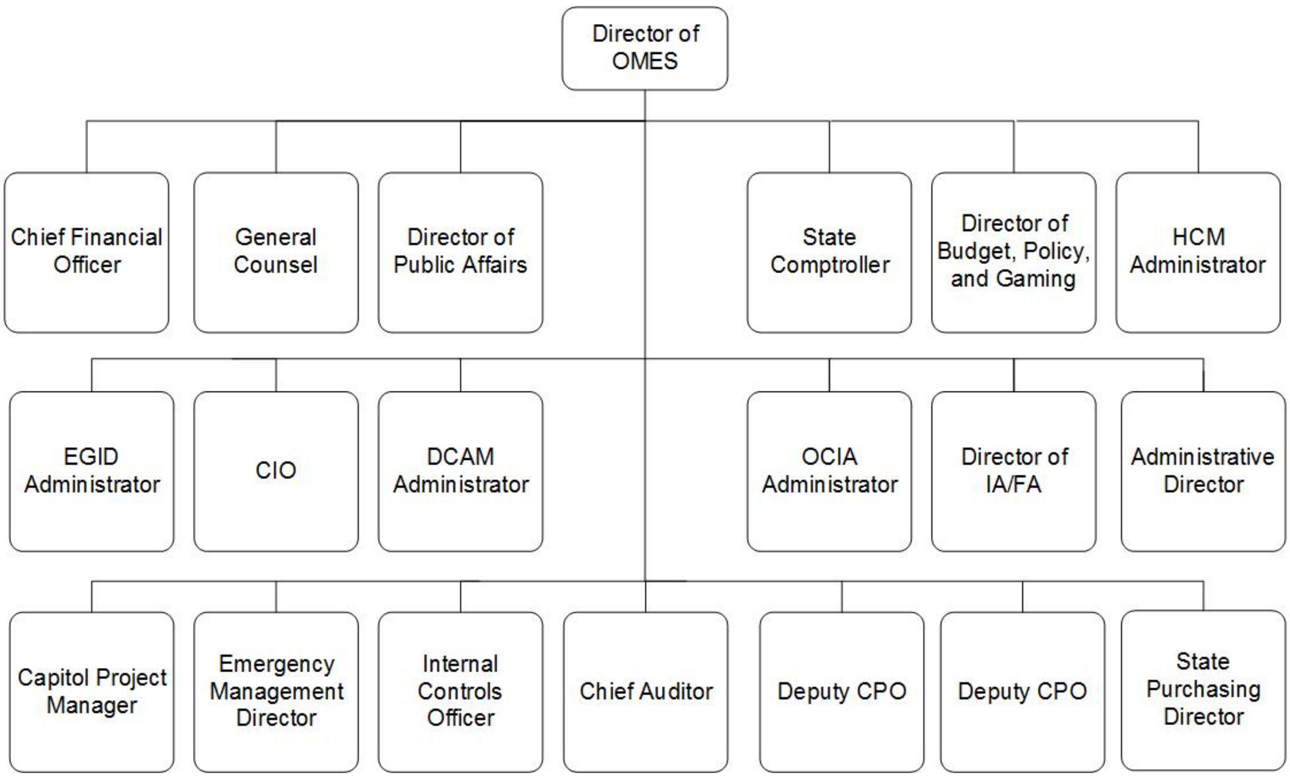
- **Functional or divisional structures** are organized around function and responsibility and are usually based on specialty or geography. These structures are generally used when an organization has multiple responsibilities that are not readily shared throughout the organization.

Figure 5: Functional Organizational Structure



When OMES was consolidated, a key goal was to create a ‘FAST’ (flatter, agile, streamlined, technology-driven) organization. This suggests that OMES consolidation was intended to create a more horizontal organizational structure (flatter, agile and streamlined, and technology is often viewed as a key method to facilitate the creation of this type of organizational structure). However, it is not clear that the organization has moved in the direction of becoming more of a horizontal structure. In fact, many of the characteristics of the organization (when judged using span of control analysis, which is discussed in the following pages) suggest that it is more of a vertical and functional structure.

Figure 6: OMES Organizational Chart (as of July 2018)

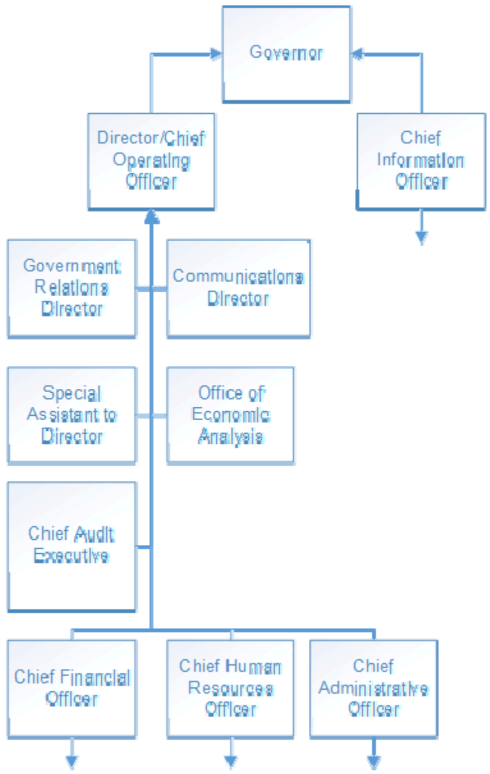


Source: OMES

Many state agencies, including OMES, adopt vertical structures because they create defined job scopes and powers. These structures often stress accountability through a command-and-control approach to decision making and roles and responsibilities.

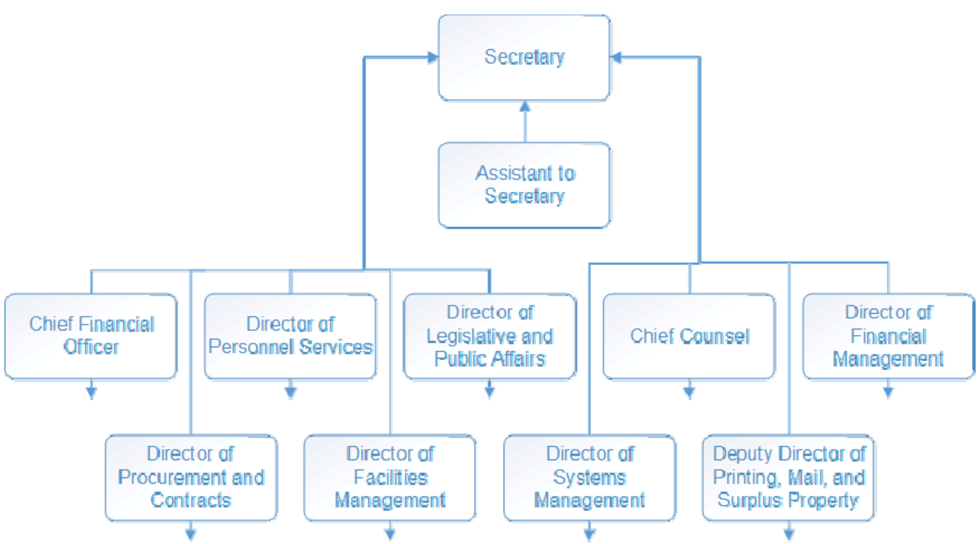
For example, the State of Oregon’s Department of Administrative Services (DAS) is organized vertically, with two senior executives reporting directly to the governor. Oregon’s DAS differs from OMES, in part, because of the co-equality of the Chief Information Officer (who has broad jurisdiction over the State’s IT services) and the Chief Operating Officer/Director (who heads all other aspects of the agency).

Figure 7: Oregon DAS Organizational Chart



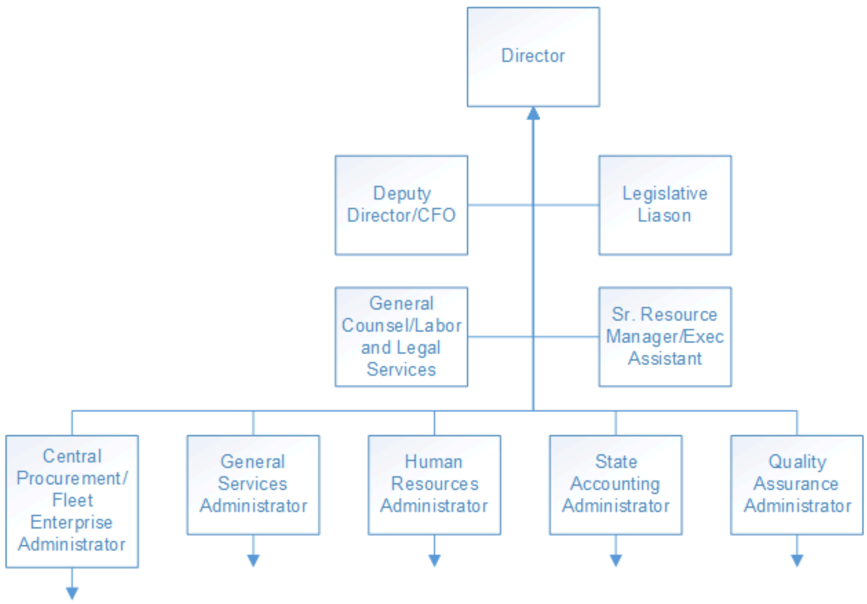
Kansas's Department of Administration (KDA) has a single executive, the Secretary, who reports to the Governor. The Secretary has ten direct reports, nine of whom head departments or divisions in a vertically-oriented structure. The KDA is distinct from the Oregon and Oklahoma agencies due to its lack of IT consolidation within the central services agency.

Figure 8: Kansas Department of Administration Organizational Chart



Iowa's Department of Administrative Services (DAS) also employs a vertical organizational structure, with a single executive reporting to the Governor. The director of the Iowa DAS has nine direct reports: five of which direct subordinate departments, and four of which serve an advisory role. As previously noted, IT operations were split off from the central services agency in 2014, after having been a part of the agency since 2003.

Figure 9: Iowa DAS Organizational Chart



In reviewing OMES' organizational structure, the agency has a larger number of layers of management than is considered desirable for an organization of its size. In some instances, there are as many as eight layers of management between front-line workers and the OMES Director. Additionally, managers and supervisors are often responsible for just one to three non-managers or supervisors, which is less than the norm.

Besides layers of management, span of control analysis is often used to benchmark organizations. Span of control describes the ratio of non-supervisory to supervisory positions within an organization. The calculation indicates how many staff members are reporting to each manager. While simplistic, span of control has important implications for the study of organizations. From an economic perspective, spans of control determine the number of managers and the costs associated with requiring that decisions be made across multiple layers of management. From a human resources perspective, spans of control impact relationships between leaders and subordinates at all levels of the organization and how those members approach their work.[14]

Span of control can, under the right circumstances, be a useful tool for improving organizational performance. Generally, management experts advocate for high ratios of staff to managers for homogeneous work environments that perform relatively uniform, less complicated tasks. It has been suggested that wide spans of control increase employee involvement in decision making, which has a positive effect on employee morale.[15]

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[14] Kenneth Meier and John Bohte, "Span of Control and Public Organizations: Implementing Luther Gulick's Research Design," *Public Administration Review,* 63 (January/February 2003), 61.
[15] Bohte, J., Meier, K., "Structure and the Performance of Public Organizations: Task Difficulty and Span of Control." *Public Organization Review* (September 2001), 342.

It has also been suggested that as organizations shift from those requiring clerical workers to knowledge-based structures based on self-direction, they can become more efficient.[16]

While traditional management theory generally favors smaller spans of control to increase supervisory oversight, contemporary management theory holds that these older "command and control" structures are inefficient. Proponents of this view suggest that higher spans of control and flatter organizations serve to increase the productivity and efficiency of organizations by reducing problems such as slow, ineffective decision-making and action; information distortion as it is transferred through agency layers; functional "walls;" an emphasis on bureaucratic controls rather than customer service; and limited responsibility assumed by subordinates for the quality of their work.[17]

During the industrial era, the general rule of thumb was that span of control could not, in most instances, exceed 6:1. However, for a variety of reasons, including improvements in communications and technology and the rise of entrepreneurial and self-guided work team approaches, that rule of thumb has generally been doubled. For example:

- The federal government, per guidelines established by the National Performance Review, set a general span of control target of 15:1.[18]
- The States of Iowa and Texas - both of which have used span of control analysis as part of an overall performance management strategy - have set respective span of control targets of 12:1 and 11:1.

Under the right circumstances, higher spans of control and flatter organizations may yield significant benefits, including:

- Lower management costs;
- Greater employee satisfaction and motivation;
- More opportunities for development of employee skills;
- Greater management focus on planning and goals;
- Less duplication of tasks, roles and responsibilities;
- Less micro-management and faster decision making;
- Clearer communication between bottom and top layers;
- Less paperwork due to fewer reporting requirements;
- Decreased need for management-support staff; and
- Fewer planning and coordination meetings.

As a simple illustration, in an organization with 600 front line service delivery personnel, a span of control of 4:1 would require a total of 202 supervisors in five layers. Increasing the span of control to 5:1 would eliminate 52 supervisors and eliminate one of the layers of management from the organization. Given typical compensation levels for middle level managers, that could yield a savings of anywhere from $4 to $8 million.

It should be noted that span of control is an aggregate ratio, and there will (and should) be variations between different operations within organizations. There are factors, including highly regulated or extremely complex

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[16] State of Texas State Auditor, State Classification, Background and Initiatives in Texas (2003). Accessed electronically at http://www.hr.state.tx.us/systems/fte/BackgroundandInitiatives.html
[17] Richardson, H., McDaniel, N, Thomsen, B. King County Auditor. Report No. 94-1. June 2002.
[18] National Performance Review: Transforming Organizational Structures, Part 1 (1993). Accessed electronically at http://www.clintonpresidentialcenter.org/legacy/090193-national-performance-review-transforming-organizational-structures-part1.html. NPR's recommendations for streamlining management control structures also included: establishing self-managing work teams; empowering employees; simplifying control structures, improving the use of communication and technology, and reengineering work processes to shift emphases to service delivery.

functions, where lower spans of control are likely to be the norm. The following diagram, adapted from a span of control analysis performed by the City of Portland, Oregon Audit Services Division, summarizes some of the tasks and situation characteristics that can help determine the number of subordinates that should report to a manager:

Figure 10: Factors Influencing Span of Control

Lower Spans		Higher Spans
Complex	Nature of Work	Not complex
Different	Similarity of Activities Performed	Similar
Not clear	Clarity of Organizational Objectives	Clear
Fuzzy	Degree of Task Certainty	Definite Rules
High	Degree of Risk in the Work for the Organization	Low
High	Degree of Public Scrutiny	Low
Small	Organization Size	Large
Many	Number of Intermittent Staff	Few
Fast	Employee Turnover	Slow
Weak	Supervisor's Experience and Skill Managing Staff	Strong
Heavy	Supervisor's Burden of Non-Supervisory Duties	Light
High	Degree of Coordination Required	Low
None	Availability of Staff Assistance	Abundant
Weak	Qualifications and Experience of Subordinates	Strong
24/7	Hours of Operation / Number of Shifts	9 to 5
Dispersed	Geographic Location of Subordinates	Together
More Supervisors		**Less Supervisors**

Source: City of Portland, Oregon Audit Services Division

Based on a standard methodology, OMES has a span of control of 4:1.[19] It is notable that certain divisions, such as IS and Central Purchasing, already have higher spans of control - and this would be expected based on the type of work done.

Key Findings

OMES as an agency has undergone significant – and nearly constant – change since its formation as a consolidated agency in 2011 (and renaming in 2012). As its name implies, the agency has an enterprise focus with widely divergent responsibilities.

In interviews with internal and external stakeholders, review and analysis of performance and key agency initiatives, the project team identified five key themes that are important in assessing OMES performance and contemplating changes and organizing initiatives to improve overall agency efficiency and effectiveness. These are:

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[19] To evaluate the current ratios of supervisory to non-supervisory personnel in each in-scope division within the Authority, PFM adopted the methodology used by the states of Texas and Iowa for their respective managerial streamlining initiatives. The basic ratio used for this method is shown in the formula below:

$$\text{Span of Control} = \frac{\text{\# Non-Supervisory Personnel} + (\text{\# Supervisory Personnel} - 1)}{(\text{\# Supervisory Personnel})}$$

Notably, this formula uses headcount, not FTEs, for number of personnel; part-time and full-time employees are both counted as a full employee for this ratio, although volunteers are not counted. In addition, the formula (# Supervisory personnel – 1) excludes the Authority Executive Director from supervisory personnel on the basis that he or she should not be considered a supervised employee. For a Division within AS, the administrator would be counted as the top executive. Divisions with more than one top executive would adjust the number subtracted from supervisory personnel accordingly. Broadly, the criterion for classifying supervisory personnel, which include both managers and supervisors, should be based on whether the individuals in question actually manage or supervise people, not whether the function of their title merely implies such responsibilities.

- **Infrastructure**. It is readily understood that structures require a strong foundation to endure and withstand countervailing forces. Of course, in an organization, a strong foundation/infrastructure includes major capital assets, but it also requires a well-trained and equipped workforce (human capital) and well-designed and functional processes (such as information technology hardware and software and similar types of systems). Where that infrastructure is lacking, it is important to determine, via a cost-benefit analysis, whether up-front (or ongoing) investments will yield beneficial savings or improvements in productivity.
- **Resource Needs**. The State economy has had to withstand several economic shocks – related both to the rise and fall of prices in the energy sector and the repercussions of the Great Recession. This has challenged the State budget, and, as a result, it has challenged State agencies, including OMES. A lack of financial and human resources is often cited as a key issue related to lack of progress on key agency initiatives. While additional funding is rarely the only answer to a deficiency, it is an important area for analysis of overall performance. It is also worth investigating alternate methods of financing initiatives, including the use of public-private partnerships and performance-based contracting.
- **Service Delivery**. OMES primarily provides services to other State agencies. For most service-oriented business, it is critical to define the provided service, the cost to be charged for each service and the 'contract terms' for both the customer and provider. Well-defined expectations help ensure that this process satisfies both the customer and the service provider. If there are gaps in methodology or communication related to what services are being provided and at what cost, opportunities to improve on the existing process should be explored. This is most evident in discussions related to the methodology surrounding charges for OMES shared services.
- **Efficiency**. In a free market with multiple service providers, competition helps drive efficiency, as providers seek to provide an optimal mix of desired services at acceptable prices. This can be complicated by institutional and other factors for a state agency providing services to other state agencies. The question often becomes one of whether a different method of providing the service (whether it is private sector competition or competition around pricing of a service) might foster greater efficiency.

The discussion of recommended initiatives for OMES will often touch on these key issues. Throughout, there is sometimes tension between issues, particularly as it relates to dedicating resources for particular needs. It is a fact of budgeting that there will always be finite resources and infinite needs – both the State budget dollars but also human capital and other resources. In every instance, this competition will require balancing priorities. This balancing is all the more difficult when examining a single state agency, as these budget decisions do not get made within the vacuum of a single state agency. As a result, some form of cost-benefit analysis is the desired starting point for identifying readily supportable priorities (the so-called 'low hanging fruit') in this sort of exercise. The project team has sought to undertake and present that analysis where possible.

Because of the history of reduced FTEs and resources, OMES has been challenged to 'do more with less' – or at least maintain reasonable levels of service while making budget cuts. There is evidence that the consolidation business model put in place has resulted in efficiencies that result in cost savings to the State. Estimates of savings from OMES efficiencies have been presented in areas including information technology, procurement and shared services. Of course, the counterpoint to consolidation efficiency can be a loss of "local control" by agencies over parts of their operation, and there are some agencies who have made the case to the Legislature and resisted consolidation. From the project team's perspective, the burden of proof should be on those agencies to demonstrate that these exceptions make sense on a cost-benefit basis – and the project team recommends that the State require that analysis for any exceptions to the consolidation and shared services approach embodied in the creation of OMES.

To move beyond the basic benefits of consolidation and shared services, it is likely that the State is going to need to make some judicious investments in technology and other infrastructure. Other public sector organizations have demonstrated that, with the right planning and execution, these investments can yield cost savings and productivity improvements that justify the investment. In some cases, the risk associated with the investment can be borne (or shared) by the vendor – and these performance-based contracts and/or public private partnerships are discussed in some of the following recommendations.

There is always a danger that this sort of performance review will focus on change opportunities and not acknowledge and recognize the many areas where OMES performs well and has achieved notable successes – that would be an incorrect perception from the following discussion. OMES is an agency that fulfills critically important functions in State government – activities like central accounting and payroll, purchasing and budget execution are necessary for the day-to-day operation of all of State government. OMES has many of the enterprise responsibilities that 'are necessary for the sustained operation of state government, and their successful execution of these are notable.

There are, however, opportunities to drive additional process improvement and efficiency in the agency, and those will be the primary focus in the remainder of the report.

3. Analysis of the Oklahoma Budgeting Process

Overview

In both public and private sector organizations, the budget is an important driver of policy objectives. In the public sector, this role is magnified, as a significant component of the revenues that support the budget come from taxes that the State's citizens and businesses are compelled to pay. As a consequence, a budgeting process that ensures that resources are committed in a way that advances the State's goals is an important factor.

The performance audit process identifies discussion of the appropriate method for budgeting as intrinsic to each agency performance audit. However, the discussion and analysis for OMES is unique, as it is the agency given the statutory responsibility for assisting in the preparation of the Governor's recommended budget, and it is also given the responsibility for administering many aspects of the budget as approved by the Legislature and the Governor.

There is a duality that exists with this responsibility. First, the budgeting process for OMES as an agency takes into consideration all of the factors that apply to individual agencies as established by State Statute. However, a more important factor is to consider the appropriate methods and processes for establishing, administering and reporting on the State budget for the current and coming fiscal year. This is more critical for the success of OMES – and the State as a whole – and will be the primary focus of this chapter.

Oklahoma State Statute (including the Program Performance Budgeting and Accountability Act) provides a detailed description of agency budget and reporting requirements:[20]

- Agency budget requests must be submitted to OMES by October 1st.
- Requests must include actual program expenditures for current and prior fiscal years.
- Budgets must include itemized estimates of needs for the next fiscal year and the following two fiscal years.
- Budget analysis of existing and proposed programs requires using 'performance-informed budgeting techniques.'
- Budgets must include a list of quantifiable program outcomes that measure the efficiency and effectiveness of each program.
- Budgets must include a ranking of programs by priority.
- Budgets must include a description of any revenues expected to be generated by each program.

Oklahoma is among the 30 states that enact annual budgets; the other 20 states prepare biennial budgets. Oklahoma's 'starting point' for agency budget requests of October 1st is fairly common: 20 states use an October starting point and an additional 21 use a September starting point.[21]

The traditional approach to budgeting focuses on incremental changes in detailed categories of expenditures. According to the National Association of State Budget Officers, 30 states identify incremental budgeting as its primary budgeting method.[22] The State of Oklahoma is among those 30 states that identify incremental budgeting as its primary budgeting approach. Oklahoma lists program and performance-based budgeting as its secondary approach.

[20] Title 62 Public Finance, Chapter 1. Oklahoma Program Performance Budgeting and Accountability Act. § 45.1
[21] "Budget Processes in the States," National Association of State Budget Officers, 2015, accessed electronically at https://www.nasbo.org/reports-data/budget-processes-in-the-states
[22] Ibid., p. 69.

Among the states, 13 identify program budgeting as the primary budget approach, and an additional 32 identify program budgeting as a secondary budgeting approach (including Oklahoma). Three identify performance-based budgeting as their primary budget approach, and 25 identify it as a secondary budget approach.

The following discussed the various budgeting approaches states may choose from.

Performance-Based Budgeting[23]

As previously noted, state budgeting is primarily incremental, both in its approach and its evolution. The area of greatest focus beyond incrementalism when crafting, managing and reporting state budgets is currently related to performance. Significant research has been conducted in states on how to enhance budget preparation, implementation and reporting to focus more on performance.

The current process in Oklahoma (via its Program Performance Budgeting and Accountability Act) has the necessary components to be a 'best in class' approach to performance budgeting. It is notable, however, that this is still a work in progress – which is a consistent theme in the literature and discussions with state budget experts. In fact, a series of NASBO meetings and discussions around performance-based budgeting developed a common theme: performance-based budgeting is a useful approach, but it is not a panacea, and it will not yield specific formulas or equations that can determine an agency budget.[24] In fact, several summary findings of the NASBO report touch on key agency engagement in a performance-based budgeting system:

- Agencies must see real value in the initiative;
- Performance budgeting should not be simply a budget cutting exercise;
- Agencies must build knowledge and capacity, and be held accountable for results;
- Integration and communication increase the opportunities for successful use of performance information;
- Performance budgeting is a tool, not a cure-all; and
- The system must be flexible enough to adapt to different agency missions and changing state priorities.

In the project team's review of current activities, OMES can best support these initiatives through continued training of agency staff and focusing on ways to integrate performance expectations and discussions into all aspects of the budget process. As with other OMES activities, having systems in place that support these activities is a key consideration, as much of the current budget system development and reporting is done in stand-alone shadow systems (such as Microsoft Excel spreadsheets) and is not maintained in a consistent, readily accessible format or centralized site.

While performance-based budgeting has obvious value, there has been significant experimentation among the states with other approaches that might build or improve on performance-based budgeting. There continues to be significant interest in how best to use different budgeting tools to improve on the overall end result – which is primarily focused on improving outcomes.

Budgeting for Results/Outcomes

[2323] For additional information regarding the performance-based budgeting approach, see the National Conference of State Legislatures' Performance-Based Budgeting Fact Sheet, available electronically at http://www.ncsl.org/research/fiscal-policy/performance-based-budgeting-fact-sheet.aspx

[24] "Investing in Results: Using Performance Data to Inform State Budgeting," National Association of State Budget Officers, 2014, p. 15. Accessed electronically at https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Reports/NASBO%20Investing%20in%20Results.pdf. It is notable that PFM was a subcontractor to NASBO in the research and writing of this report.

In recent years, some states have experimented with elements of the budget process. Budgeting for Results/Outcomes is a market-driven process where the Governor seeks to purchase results/outcomes. Agencies – and in some cases, private entities – compete on price and outcomes. The process can be repeated in a form of reverse auction until a clear winner emerges. Offers are put in priority rank and are purchased until the funding within a budget area is exhausted.

Budgeting for Results/Outcomes has been tried in multiple states (primarily Washington, Iowa and Illinois, but also on a pilot basis in Louisiana). While the process has been used by multiple governors to prepare budgets, it has not been memorialized in statute by any state legislature.

Zero-Based Budgeting

While the standard budgeting process is incremental, zero-based budgeting is a 'blank slate' approach that builds the new budget from scratch. The lines between zero-based budgeting and incremental budgeting are often blurred, as some portion of the prior year budget is accepted as a 'modified base' – such as 50, 75 or 80 percent – with the remainder requiring justification. The primary concern with this budgeting technique is information overload; to be truly 'blank slate' would require significant re-justification documentation for hundreds of programs. In fact, most state budget commentators do not believe zero-based budgeting is worth the time and effort it would require.

According to NASBO, 13 states use some version of zero-based budgeting, but only one (Oregon) considers it to be its primary budgeting approach.[25]

Evidence-Based Budgeting

A recent development in the efforts to improve the connection between budget planning, decision-making and outcomes is a greater focus on using evidence to make budget decisions. This approach borrows and builds upon performance-based budgeting concepts and other aspects of different state budgeting methods.

In recent years, this concept has been developed and championed by a joint effort by The Pew Charitable Trusts and the MacArthur Foundation, both of whom have been engaged in efforts to improve the overall functioning of state and local government for many years. This particular effort, the Results First Initiative, outlines a comprehensive framework that policymakers can follow to build a system of evidence-based governing. In this respect, the initiative extends beyond just the budgeting component of government. The theory (which is sound) is that budgeting should not be divorced from other aspects of policymaking, and the good governance tenets of budgeting also apply to a range of activities.

The Results First initiative presents five key components to implementing evidence-based policymaking:[26]

- **Program assessment.** Systematically reviewing available evidence on the effectiveness of public programs.
- **Budget development.** Incorporating evidence of program effectiveness into budget and policy decisions, giving funding priority to programs that deliver a high return on investment of public funds.
- **Implementation oversight.** Ensuring that programs are effectively delivered and are faithful to their intended design.

[25] Ibid., p. 69.
[26] "Evidence-Based Policymaking: A Guide for Effective Government," The Pew Charitable Trust, November 13, 2014, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/reports/2014/11/evidence-based-policymaking-a-guide-for-effective-government

- **Outcome monitoring.** Routinely measuring and reporting outcome data to determine whether interventions are achieving desired results.
- **Targeted evaluation.** Conducting rigorous evaluations of new and untested programs to ensure that they warrant continued funding.

While none of these are revolutionary concepts – and state governments have been using variations on each of them for many years – the goal of the initiative is to institutionalize all aspects of this approach in a holistic way. One of the arguments against many performance-based budgeting efforts is that they have 'taken on a life of their own' and are not effectively integrated into governance decision-making. They often become a stand-alone exercise with little relationship to state government operations or, for that matter, decisions on how or what to fund within the budget.

This broad-based approach appears to have more 'staying power' than some of the other budgeting variations that have been presented. While Pew and MacArthur are strong proponents – and have dedicated significant resources to developing guides to assist in its use – other organizations are also calling attention to the concept. For example, the National Association of State Budget Officers (NASBO), which is a key budget stakeholder organization, has provided examples of the use of data and evidence in state budgeting. In fact, another key 'good government' organization, the Annie E. Casey Foundation, provided funding for a 2017 NASBO meeting of budget directors and analysts from 34 states to discuss how to advance the use of performance data and evidence in budgeting, planning and management.[27] An Urban Institute research report on sustainable budgeting in the States also highlighted the importance of a focus on evidence.[28]

Oklahoma Budgeting Process Recommendations

3.1 Develop and implement an evidence-based framework for budget decision making.

As previously noted, an evidence-based budgeting process is generally part of a broader framework of the use of evidence in state government policymaking. The components of that overall framework align with the intent of the Oklahoma Legislature and Governor in establishing and funding the Agency Performance and Accountability Commission, as the evidence-based policymaking framework relies on rigorous and regular performance assessment and outcome monitoring, both of which are embodied in the performance audit process of the Commission.

It is also notable that the Commission, when guiding the work on the performance audits, has also targeted implementation planning and the overall budget process as topics for discussion within the performance audits – and these align with two of the other five key components of the framework.

One of the criticisms of the current performance-based budgeting process as practiced in Oklahoma is one that is often encountered among the states: while there is a lot of performance data that is accumulated and reported, there is little evidence that it is relied upon in the budgeting process at the key points in the process (agency budget development, Governor's budget recommendations, Legislature's enacted budget and its implementation, including how to effectively measure results on a program basis).

[27] Kathryn White, "Using Data and Evidence in State Budgeting, National Association of State Budget Officers, September 6, 2017, accessed electronically at https://www.nasbo.org/blogs/kathryn-white/2017/09/06/using-data-and-evidence-in-state-budgeting
[28] Megan Randall and Kim Rueben, "Sustainable Budgeting in the States," Urban Institute, November 2017, pp.67-68, accessed electronically at https://www.urban.org/sites/default/files/publication/93461/sustainable-budgeting-in-the-states_2.pdf

The components of the framework related to budget development should be established and used by all agencies in the State budget process. These components are:

- Integrate performance information into the budget development process;
- Present information to policymakers in user-friendly formats that facilitate decision-making;
- Include relevant studies in budget hearings and committee meetings;
- Establish incentives for implementing evidence-based programs and practices; and
- Build performance requirements into grants and contracts.

These activities can be folded into the performance budget requirements already existing in Oklahoma state statute. In some instances (such as building performance requirements into grants and contracts), these can be added as requirements for agencies as part of the appropriations process.

Implementation

Administrative

Any significant change in a budgeting process takes time, as agencies have to become knowledgeable about and comfortable with the requirements – and gain sufficient experience and expertise to productively guide their actions. In this case, a major foundational activity that can begin in the short term is to inventory all funded programs by agency and develop a standard data set related to them. This can include funding levels, services delivered, populations served and the evidentiary support for the program.

One key need for this type of inventory is to establish common terms and a framework for the information to be provided. For example, the State of Iowa, in establishing its performance budgeting system, developed 31 services, products and activities that encompassed the core functions of state government. These then provide a common platform for discussion of performance.[29]

One implementation concern for Oklahoma is the unsettled nature of the technology used to create the State budget and implement and report on results. This is one of the technology needs identified elsewhere, and its eventual replacement and successful implementation will be necessary for full integration and use of performance evidence in the budget process.

The primary steps in this process would be to develop the inventory and begin the process of building performance requirements into grants and contracts. The next step would be to build incentives into the budgeting process (at both the Executive and Legislature levels) for evidence-based initiatives. This could be initiated into the budget process for FY2021.

Statutory Changes Required

While the budget process changes could conceivably be adopted under OMES' broad authority to support the Governor's budget activities, it is likely that the components of evidence-based budgeting will want to be enacted in the State's performance budgeting statute.

Financial and Personnel Resources Required

All agencies are currently engaged in the budget process, and the changes will not necessarily require additional resources. Developing a methodology for inventorying and reporting on agency programs will require some time, but this should be able to be implemented within the normal budgeting process.

[29] "Guide to Agency Performance Planning," State of Iowa Department of Management, August 2017, accessed electronically at https://dom.iowa.gov/sites/default/files/documents/2017/08/performance_planning_guidebook_fy2018.pdf

Timeframe

The system changes can begin in the short-term, particularly related to program inventories. Some changes (such as performance contracting and grants) can also be built immediately into the process. Ultimately, it will likely be one to two budget cycles before the changes can be institutionalized.

Performance Measures

In the short-term, input measures (program definitions for inventories) and output measures (completed inventories, number of performance clauses included in grants and contracts) will be appropriate. Ultimately, the share of the budget that contains evidence-based support – and the percent of program funding that goes to evidence-based programs that demonstrate positive outcomes – will be much stronger, results-focused performance measures.

3.2 Require agencies to reallocate 10 percent of program funding that is not evidence-based to programs that are.

As a method to spur agencies to adopt evidence-based standards, OMES, under its broad authority to assist the Governor with efficient operation of State government, should establish a requirement that agencies reallocate a portion of their budget from non-evidence based programs to those that are. In the case where no evidence-based programs exist, the agency would be required to develop a corrective action plan to develop an evidentiary basis prior to the next budget cycle.

This would act as an effective ‘carrot’ for agencies to focus their time and attention on evidence-based practices. It would also provide an opportunity for the Governor to focus resources on accountable programs related to demonstrated (or demonstrable) results.

This change would not require statutory changes or additional resources. This change could be initiated with the next budget cycle.

4. Enterprise-Wide Recommendations

Introduction

As noted in the OMES overview, there are issues that touch on multiple functions within OMES. In order to provide a more holistic discussion, these are presented separately in this chapter. In some instances, these recommendations will also complement Division specific initiatives. Because of their ‘cross cutting’ nature, these recommendations will likely require a broader implementation focus. The final chapter of the performance audit discusses some of the issues around broad-based implementation efforts.

4.1 Develop greater clarity around and acceptance of the OMES chargeback rate system.

As is and will be evident throughout the OMES performance audit, central to the ability of the agency to effectively perform its duties and obtain buy-in from its customers is an understandable and accepted rate structure for the various services provided. The interviews conducted and survey results reviewed with external stakeholders – and also with internal OMES leadership and staff – suggest that this is an area of friction in the current system. Some of this will likely always be the case – customers are generally seeking the best possible ‘deal’ (in terms of the services they receive versus the cost to pay for them) – and other similar state agencies encounter the same issues. In fact, developing an easy-to-understand-and-explain rate methodology for information technology services has become a particularly critical issue for state CIOs – a 2018 survey of state government CIOs identified agency funding and cost recovery models as the second greatest obstacle to state IT departments acting as a broker of IT services.[30]

There are at least six commonly cited principles associated with an effective charge for services system:

- **Accountability.** A charge-back system provides both end user and provider accountability. The end-user cannot expect ‘something for nothing’ and the provider cannot expect to charge for service without an established paper trail of what services are being provided/charged and what/why they cost what they do. An effective chargeback system provides a better perspective on how efficiently both the provider and the consumer are operating. It also should contribute to maximizing the ‘highest and best use’ of resources.

- **Consistency.** There are multiple reasonable methods that can be used for charging for services. Rates may be set at market rates, for example, which includes a profit margin (for comparison to other providers). Rates may be set at actual cost (based on the argument that governments do not make a profit). In either case, there may be concerns raised about how the costs are calculated, but at least the philosophical starting point should be established and applied consistently.

- **Predictability.** Customers need to be able to build charges for services into their own budget planning processes, and this requires them to have sufficient notice and understanding of how rates are likely to move – and by how much from year to year. As a result, changes in the cost of providing services should be regularly communicated, and rates should be adjusted regularly to prevent sudden large increases. In general, replacement should also be built into rates to deal with obsolescence and avoid ‘stranded costs’ associated with technologies or equipment that is being phased out.

- **Established Methodology.** Each service to be charged to other agencies should have a written process in place that identifies how (and why) an agency will be charged for the services it uses.

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[30] National Association of State Chief Information Officers, “The 2018 State CIO Survey,” October 2018, p. 7, accessed electronically at https://www.nascio.org/Portals/0/Publications/Documents/2018/2018StateCIOSurvey.pdf

These will, of course, vary by the service, but they should be clearly articulated. Examples include hourly rate, number of square feet of occupied space, number of vehicles assigned, class of vehicle, positions filled, etc. In instances where a rate is established, it should be the same for all agencies and based on the methodology applicable to the specific service provided. Likewise, any overhead costs built into rates should be transparent and applied uniformly.

- **Communication.** An effective chargeback system provides data that the end user and the service provider – as well as enterprise decision makers – can use in their business planning and execution of their mission. Data on use of services should be generated and communicated throughout the enterprise. In many effective chargeback systems, end user input into rates is also an established part of rate setting.

- **Efficient Use of Limited Resources.** An efficient and effective chargeback system will place a higher value on the time of experts in the organization in order to help appropriately allocate their time. This helps to ensure that employees are available when demand for their skillsets arise. This requires setting rates based on value and demand rather than just on cost, since in government the actual cost differential between the most expert staff and the next level of staff may be limited. Increasing the rates for the most skilled staff will incentivize agencies to use expensive resources sparingly and rely on lower priced and appropriately skilled resources. Employees at the highest skill level are rare and their time should be conserved for planning, strategy and crisis management. Day-to-day activities should be priced at significantly lower rates based on costs.

One of the challenges for OMES is the variety of services offered and methods for determining appropriate charges to its customers. The following details examples of these methodologies by services (which is not exhaustive but provides examples of the variation that exists):

- IS sets rates based on estimated full costs to provide services, including materials, depreciation for capital costs, labor, administrative expenses in connection with the data center and IS operations, expenses with acquiring, installing and operating IT/Telecom infrastructure, hardware and software for use by State agencies.

  Within this category, for technology maintenance and applications rates, IS runs reports on historic time spent supporting applications to estimate labor for each operation. IS then conducted an inventory of the infrastructure and platform licenses required to operate the application. Based on that inventory, standard OMES rates for servers, storage and platform licenses are applied to aggregate the rates.

- ABS provides services in 7 functional areas, and each have differing rate models:

  - **Purchasing**: based on the purchase order count and amount multiplied by the cost allocated to the service;
  - **Accounts Payable**: based on voucher line counts for an agency divided by total voucher lines for all agencies, with additional weighting for certain factors; the total is calculated as the unit rate multiplied by the number of voucher lines for the full year prior to the rate setting;
  - **P-card**: very few agency customers and it is established based on the number of transactions and level of service required;
  - **Billing and Accounts Receivable**: based on number of invoice lines as a share of total invoice lines processed multiplied by the cost allocated to this service;

- **Direct Journal Deposits**: based on the number of direct journal deposit lines as a share of total number of direct journal deposit lines multiplied by the total cost allocated to this service;
- **Budget Support**: there are six cost levels based on the complexity of departments, funds, ongoing history of budget revisions and the number of steps handled by ABS compared to the number handled by the agency; and
- **Reconciliations**: based on the direct journal deposit count for the agency as a share of total direct journal deposits multiplied by the total cost allocated to the service.

ABS handles transactions for a total of 63 State agencies – only 5 of which participate in the ABS P-card service. There are five employees in ABS that occasionally do P-card processing (estimated as 25 percent of one FTE).

- Payroll (proposed for FY2020) charges for services based on a sliding scale by agency that takes into consideration the number of employees, the frequency of payroll and the number of supplemental payrolls.

- Fleet management monthly vehicle charges are calculated based on vehicle purchase price, replacement value subtracting residual value at disposal, depreciable value per month, overhead fees, prep costs (including special equipment) and property damage coverage per month.

While the methodologies for charges reflect typical costs associated with providing the various services, there are opportunities for OMES to gain greater acceptance related to the charges. It is also possible that providing more effective communication and feedback related to charges for services will improve the overall OMES product. The following detail steps to improve this process:

- **Increase Transparency Related to Charge Back Rates.** While the project team was able to obtain information on rates when it queried OMES stakeholders, there was less clarity about the rates with customers. One approach to boost that communication and transparency would be regular publication of a centralized, readily accessed document – written in regular English – that describes the entire process. The State of Massachusetts Office of Information Technology has published a Chargeback Guide to provide greater understanding. That guide covers, among other things, it describes the chargeback principles, the products and services delivered, the process for obtaining products and services, the business planning cycle, the cost accounting and charge back cost models and how costs are allocated. It also describes the billing process and the components of a customer's bill.[31]

- **Provide Greater Customer Input into the Rates Themselves.** A method that is used in both the private and the public sector is the establishment of formal Customer Councils that provide regular advice and input on business operations. In the private sector, these councils are generally a cross-section of customers that provide direct feedback on products and services – and often also provide helpful intelligence on the industry as a whole, markets and competitors.[32]

  These councils have been adapted to serve the needs of public sector entities as well. In Massachusetts, the Office of Information Technology has been governed by an Infrastructure Services Board (ISB), which is described in their Chargeback Guide as "an 'uber' user group" that

[31] "Massachusetts Office of Information Technology Chargeback Guide, FY17 Edition," Massachusetts Executive Office for Administration and Finance, August 1, 2016, accessed electronically at https://www.mass.gov/files/documents/2017/09/05/massit-fy17-chargeback-guide-final-wkb-update.doc

[32] Christopher Mirabile, "Taking it to the Streets: The Argument for Using a Customer Council," Inc., January 26, 2017, accessed electronically at https://www.inc.com/christopher-mirabile/taking-it-to-the-streets-the-argument-for-using-a-customer-council.html

is comprised of representatives from state departments. The ISB oversees the optimization of IT resources and is also charged with ensuring that individual agencies maintain alignment with enterprise priorities. In this way, individual agencies are tasked with both ownership and caretaker responsibilities for State IT services.

The State of Iowa has extended this concept to encompass all of its Department of Administrative (central agency) Services. The State relies on statutorily created customer councils for reviewing and approving the Department's annual business plan for the performance of services to its customers (including rates for each individual service). The Council is comprised of representatives from small (under 70 employees), medium (70-700 employees) and large (over 700 employees) customer agencies.[33] There are other examples of state government customer councils, including in California[34] and Maryland.[35]

These activities can be accomplished in the short-term and should not require additional resources. While they will not necessarily have a material impact on state finances, they provide an opportunity to gain greater buy-in on enterprise operations. To the extent that occurs, it is possible that it will be easier to move forward on initiatives that increase consolidation and efficiency in central services.

4.2 Establish a regular process to update rent methodology and rates.

OMES (through CAM) currently manages 21 state buildings. Funds to operate the buildings comes from direct appropriations ($4.4 million received in FY2019) and collection of rent ($11.5 million) on some of the buildings. With the available resources, CAM is generally responsible for the maintenance and operational costs associated with maintaining the buildings.

While CAM has done regular analysis of lease rates compared to market rates and federal allowable rates (for inclusion in the statewide cost allocation plan), this analysis has not, of late, been translated into changes in building rental rates. According to the data provided by CAM on historical rent, regular modifications in rents were made in some facilities dating back to FY2004 – and changes in rents reflected both increases and, in some cases, decreases in the rent per square foot of space.

However, the review of State building data indicates that most buildings have had no change in standard rents since FY2009. The only exceptions (other than new tenants having a rate established upon first entering a State building) are the Transportation building (which had the rent reduced from $9.00 per square foot to $8.50 in FY2012) and the ISD Data Center (which has had rate fluctuations, both increases and decreases, since its opening in FY2013).

As a result, several of the buildings are running significant negative balances (where annual expenses, which may include capital costs, are exceeding the annual rent). While it is understandable that some of the buildings are probably better supported by direct appropriation (including the State Capitol and Governor's mansion), in other cases, a strong business case can be made for raising rental rates (some of the rents are below the federal allowable rate, which may allow for additional federal reimbursement; some departments may choose to reduce their used space if rents increase, which may allow for other

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[33] The mechanics of the Customer Council and the rate methodology for the Iowa DAS are explained at https://das.iowa.gov/das-core/finance-and-operations/faq-about-das-financing-methodology

[34] California Department of General Services, the Information Technology Customer Council, https://www.documents.dgs.ca.gov/resd/EOs/EO%20W-37-92.pdf

[35] Maryland Department of Public Safety and Correctional Services, Customer Council and Management Council, accessed electronically at https://www.mce.md.gov/About-MCE/Company-Reports

departments to relocate from non-State building leased space – particularly given that State rents are generally well below market rates.

The project team supports the revised analysis and presentation of rental rates provided by OMES and the recommended changes to those rates. Further, this analysis should be updated on a regular basis – preferably annually but at least biennially to ensure that facilities can be adequately maintained and that decisions reflecting the use of space by state agencies are market-driven.

Implementation

Administrative
OMES has already undertaken the necessary market analysis. That market analysis should be updated on a regular basis.

Statutory Changes Required
OMES already has the statutory authority to undertake this analysis and make the necessary adjustments.

Financial and Personnel Resources Required
None.

Timeframe
This could be implemented as a part of the budget process for FY2020.

Performance Measures
Ultimately, the costs associated with maintaining property should be roughly balanced with the revenue associated with it.

4.3 More fully consolidate services within OMES and away from individual services.

Two specific recommendations within this broad guidance are (1) review agency exemptions from consolidation; and (2) increase investment in and autonomy over the State's IT needs. Each of these is detailed in the following discussion.

Recommendation: Review Agency Exemptions from Consolidation

The purpose of the State Government Administrative Process Consolidation and Reorganization Reform Act of 2011 (HB2140) was to create a streamlined agency that would provide centralized services to State agencies, thereby enabling them to concentrate on their core missions. This centralized services model is gradually becoming the standard approach for state governments.

Multiple exceptions and carve-outs currently exist within State of Oklahoma government that do not promote efficient service delivery. For example, the Department of Human Services (DHS) has several statutory exceptions to consolidation, including:

- **Per 47 O.S. § 156(A)(2), DHS is authorized to own its own vehicles**. OMES has engaged DHS in recent years to determine if it would be cost beneficial to the agency to turn over its fleet operations to OMES – and OMES believes that it would be. DHS has been willing to meet and discuss but has not been willing to make the change or acknowledge potential cost savings.

- **Per 61 O.S. § 204(B)(5) and 61 O.S. § 207.2(B)(1), DHS is authorized to employ its own architects**. OMES has a construction unit in place that could administer DHS' contracts (as they do for nearly every other agency in State government).
- **Per 62 O.S. § 275.7, DHS is authorized to construct, rent or lease certain storage facilities, and per 61 O.S. §§ 329-331, DHS may lease land around Pauls Valley,** DHS does all of its leasing, including County leases. DHS goes through OMES for all non-County leases; however, they provide information for all leases for reporting purposes. DHS has not been able to replace employees due to budget cuts and recently, the DHS property management team lost staff that handled leasing and property management items. OMES would need to evaluate DHS' buildings and staffing to confirm the likelihood of savings, but standardization and economies of scale in this area often generate a net savings.

Based on discussion with OMES, it appears that there are six state government print shop operations that are separate from the Central Printing and Inter-Agency Mail Department. These print shop locations:

- Education
- EGID
- Human Services
- Legislature
- Tax Commission
- Tourism

Because all but one of these (EGID) fall outside the purview of OMES, for performance audit purposes it is not possible to determine possible savings associated with consolidation of these print operations. It is, however, worth exploring from an inter-agency perspective.

<u>Implementation – Review Agency Exemptions from Consolidation</u>

Administrative
The State could "flip the standard," requiring agencies to prove they can perform a function more cost effectively than OMES in order to be exempt from using OMES shared services. OMES would need to document all statutory exemptions from consolidation and work with agencies to implement the new process.

Statutory Changes Required
The following provision could be enacted in the statute pertaining to "Consolidation of Certain Agencies into OMES" (62 O.S. § 34.3.1) to address the exceptions:

"All administrative services supporting the core functions of any state agency that can be provided by the Office of Management and Enterprise Services shall be provided by the Office of Management and Enterprise Services. The Office of Management and Enterprise Services shall bill the agency for the administrative services in accordance with its service agreements and pricing schedules. An agency may seek an exemption from the Secretary of Finance. If the Secretary finds that administrative and cost efficiencies cannot be realized, all parties shall work with OMES to overcome the lack in efficiency. A Secretary of Finance finding creates an exemption from this section for one year. If an exemption exists for multiple years, the Director of OMES must disclose its inability to create administrative efficiencies to the Governor, the President Pro Tempore and the Speaker of the House in a report submitted by November 1 each year."

Financial and Personnel Resources Required
Initially, resources would be required to inventory all current exemptions to OMES consolidation. On an ongoing basis, this initiative would require an OMES designee (full or partial FTE) to review and approve or deny agency requests for exemption. It would also require administrative effort for agencies. It would also require a dispute resolution process.

Timeframe
This initiative would likely take several years to fully implement as inventorying is conducted and OMES works with agencies to adopt the new process.

Performance Measures
Number of agency requests reviewed and approved or denied; demonstrated cost savings from the decision.

Recommendation: Increase Investment In and Autonomy over the State's Information Technology Needs

As the unification of IS functions is finalized, it is recommended that IS be provided with increased investment and autonomy to provide leadership and direction for the State's needs. IS can provide direction on phasing out legacy systems that are no longer efficient or secure. IS can also help target investment in new technologies that will have the best return on the investment (and identify when the technology is mature enough to make the investment). User departments know their programs, while IS knows technology. An improved framework will leverage the expertise of both user departments and IS.

Increased autonomy (and associated funding) can allow IS to become more proactive in identifying and implementing new technology for State agencies and would enable IS to be a broker of those services. Agency directors are not often versed in current technology trends, best practices and what technology is available in the marketplace. IS can work with each agency to proactively identify relevant technology in the marketplace that can be implemented for each agency's unique needs. In 2015, NASCIO's Annual CIO Survey found that 85 percent of state CIOs see themselves evolving to be a "broker" of services, delivering solutions that must integrate multiple offerings, platforms, suppliers and the CIO's own internal organization. Under this model, IS would serve as a market maker for the exchange of collaborative and diverse IT services into a complete business solution.

It is important to note that Oklahoma's current use of technology ranks favorably among other states. The 2018 Digital States Survey released by Government Technology gave Oklahoma a "B" – up from a "B-" in 2016.[36] The survey cites, among other initiatives, Oklahoma's launch of "Innovate Oklahoma" and the website "projects.ok.gov" in the first quarter of 2018.

While great State progress has been made, additional advancements, such as video/teleconferencing and the use of robotics process automation can further increase efficiency and effectiveness statewide.

Video/Teleconferencing
A number of states have begun to invest in video/teleconferencing in recent years. An example of its usefulness has been in engagement with state legislatures. For example, Alaska and Nevada have both pioneered remote committee hearings. Alaska began holding remote hearings for residents in 1978 and by 2014, more than 4,000 citizens participated remotely in 5,000 hours of legislative teleconferences. In the

[36] Government Technology – Digital States Survey 2018 Results (October 2, 2018). Accessed electronically at http://www.govtech.com/cdg/digital-states/Digital-States-Survey-2018-Results.html

case of Nevada, over three-quarters of the population lives in the Las Vegas area, roughly 400 miles from the capital of Carson City. The Legislature began videoconferencing hearings in 1991, and by 2015, nearly 6,700 citizens attend 737 committee meetings via videoconference. In 2016, the State of Washington expanded video testimony options to all committees and has approved equipment upgrades. Other states have begun to follow suit, including Michigan, Virginia, Colorado and Nebraska. This technology can go well beyond engagement with Legislature (for example, in court hearings), saving the cost of transportation and healthcare to residents in more remote communities.[37]

Robotics Process Automation

Robotics process automation (RPA) is an emerging form of business process automation technology based on the notion of software robots or artificial intelligence workers. RPA is becoming increasingly popular on government websites, where “bots” assist customers in finding answers to a wide variety of questions. In Los Angeles, for example, CHIP (which stands for “City Hall Internet Personality”) responds to thousands of queries from the public each day.[38] This technology is also receiving attention at the federal level. In August 2018, the U.S. Office of Management and Budget issued a memorandum on “Shifting from Low-Value to High-Value Work” – and one of the key recommendations was promoting the use of RPA.[39]

In addition to video/teleconferencing and RPA, IS should continue pursuing the use of new and existing technologies to improve the efficiency and effectiveness of State functions and should establish a framework that supports these innovations. These technologies include E-gov, Internet of Things, digital signatures and the use of drones. It is notable that this approach aligns with the Oklahoma IT Strategic Plan, which directs IS to solve business problems using “innovative and disruptive technology.”[40]

Currently, IS reacts to requests for assistance from user departments (rather than being the proactive driver of change). For example, despite OMES efforts to encourage use of electronic signatures, staff cannot currently evaluate the level of adoption of electronic signatures by agencies. Ultimately, IS sets standards, but agencies determine if they want to implement those standards. Increasing the investment in and autonomy given to OMES and the areas it oversees will provide to OMES the agility to test new technologies and phase out the legacy systems that are no longer the most efficient or secure. This should involve the development of written procedures for evaluating the “need” versus the “want” for new systems. The movement toward incorporating new technologies can create consistent service models for technical support throughout the State.

<u>Implementation – Increase Investment in and Autonomy Over the State’s IT Needs</u>

Administrative

Ultimately IS should be responsible for building the State’s interactive websites. Until that is possible, care needs to be taken to ensure that vendor contracts align with State objectives.

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[37] National Conference of State Legislatures – Connecting Remotely (July 27, 2016). Accessed electronically at http://www.ncsl.org/bookstore/state-legislatures-magazine/technology-helps-constituents-submit-remote-testimony.aspx

[38] City of Los Angeles Information Technology Agency – ITA Receives 2019 Digital Edge 50 Award from IDG CIO for its Chatbots” (December 10, 2018). Accessed electronically at https://ita.lacity.org/blog/ita-receives-2019-digital-edge-50-award-idg-cio-its-chatbots

[39] U.S. Office of Management and Budget – Shifting from Low-Value to High-Value Work (August 27, 2018). Accessed electronically at https://www.whitehouse.gov/wp-content/uploads/2018/08/M-18-23.pdf

[40] Oklahoma Office of Management and Enterprise Services – Oklahoma IT Strategic Plan, 2017-2021. Accessed electronically at https://omes.ok.gov/sites/g/files/gmc316/f/ITStrategicPlan2017-2021.pdf

Statutory Changes Required
As part of a support agency, IS has wide latitude to provide IT services. Under this recommendation, it is not envisioned that IS will have complete control of all technology decisions and therefore, a statutory change is likely not necessary to increase authority to provide direction on new technologies.

Financial and Personnel Resources Required
The specific level of resources needed for new technologies implementation will be dependent on numerous issues and not feasible to estimate in this report. The recommendation of providing training to State management on technology is an envisioned as a high-level training and should only require approximately 80 hours of time by existing staff to prepare. The training will likely require an additional 40 hours of time to coordinate and deliver statewide. Using a webinar will help reduce the time needed.

Timeframe
This work can likely be accomplished within 4 months.

Performance Measures
A question should be added to the customer service survey that asks customers to indicate their agreement with the statement "IS explains technology options to me."

4.4 Initiate performance-based contracting for predictive analytics hardware/software to improve revenue performance.

Governments at all levels have an interest in ensuring that taxes legally owed are collected. High levels of compliance help foster trust and confidence in government and assure taxpayers that all are paying their legally obligated 'fair share.' Of course, the more taxes that are raised voluntarily, the less the compliance costs for the government and, ultimately, the lower the overall tax rates have to be to raise sufficient revenue to pay for services.

It is generally understood that there is a 'tax gap' at all levels of government – the difference between the taxes legally owed and those collected. State governments have used a variety of approaches to close this gap, including employing additional auditors and investigators. While these are generally determined to be cost beneficial, there is often a hesitance to add additional permanent employees, particularly as health and pension benefit costs continue to grow.

For a number of years, state governments have been partnering with technology firms to develop analytical approaches using big data to identify and collect taxes owed to the state. To date, this approach has been successfully used in multiple states around the country. These systems are frequently put in place as pay-for-performance contracts, where the state government repays the vendor with the new revenue discovered by the system.

Examples of states that have used this approach include:

- The Texas Comptroller of Public Accounts implemented its Advanced Database System employing data from multiple sources, advanced data analytical capabilities, and faster querying and reporting. The initiative triggered $1.2 billion in additional revenue collections over 13 years.
- The Iowa Department of Revenue implemented an enterprise data warehouse system to enhance efficiencies and boost taxpayer compliance. The effort has produced $250 million in revenue over 12 years and continues to generate $14 million annually.

- The Missouri Department of Revenue improved its various operating systems to focus on accurate reporting, better case management and more effective audit targeting. Over seven years the strategy has netted 500,000 discovery leads and $375 million in additional revenue.
- The New Jersey Division of Taxation implemented an enterprise data warehouse and an enhanced tax compliance system to boost compliance and generate more useful audit leads. The effort has netted $350 million in revenue over six years.
- The Ohio Department of Revenue implemented an enterprise data warehouse with modules aimed at business intelligence, analytical case management and reporting. This strategy has collected$70 million over three years.[41]

The opportunities for using big data continue to evolve. It is likely that this investment will continue to yield results in future years as well as the technology matures and the experience in other states provides additional examples of use of the technology.

Another approach that has been used in several states relies on the use of predictive analytics to help guide existing activities, such as identifying the most likely targets for tax audits. The State of Texas, for example, found that using predictive analytics increased its audits average yield of $255 per auditor hour to more than $500 per hour. Additionally, more than 90 percent of the audits resulted in a significant tax assessment.[42]

There are a variety of ways to procure – and pay for – a data mining and/or predictive analytics solution. One option, given the State's resource limitations, would be to RFP and enter into a 'pay for performance' contract with a qualified vendor. This is the approach that the State of Iowa used to establish its data warehouse and tax gap collection program.

As detailed by the Iowa Department of Revenue, the Iowa General Assembly authorized the Department of Revenue to initiate a public-private partnership for the purposes of "identifying nonfilers of returns and nonpayers of taxes." The legislation authorized the Department to cover the cost of this partnership from funds generated by the enhanced compliance program rather than from annual appropriations.[43]

In November 1999, the Department entered into a three-year partnership with NCR-Teradata to design, develop, and implement a data warehouse solution. Given that the program was self-funded, the selected vendor placed a premium on generating revenues quickly (which was certainly also in the State's interest). Five months later, in April 2000, the State recognized the first revenues from this initiative. While the initial payback for the program was estimated to be three years, the State realized sufficient new revenue to fully cover the cost of the contract in the first five months of its operation. In the first three years, the program generated additional revenue of $26 million; in succeeding years, it has continued to provide over $10 million of new revenue on an annual basis.[44]

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[41] Michael Bulogna, "State Tax Directors Focus on Fraud, Economic Substance and Closing Tax Gap," Bloomberg Tax Daily Report, March 13, 2014, accessed electronically at https://www.bna.com/state-tax-directors-n17179882909/

[42] Daniele Micci-Barreca, PhD and Satheesh Ramachandran, PhD, "Predictive Tax Compliance Management," SPSS, accessed electronically at http://www.insol.lt/software/modeling/modeler/pdf/tax_administration.pdf

[43] State of Iowa House File 266, 77th General Assembly, 1st Session, codified as Chapter 421, Section 17, Subsection 23, Iowa Code (2005)

[44]Michael Lipsman, PhD, Research Director, Iowa Department of Revenue, "Warehouse with Many Floors and Many Doors: Data Warehousing and Data Mining at the Iowa Department of Revenue," FTA Revenue Estimating and Tax Research Conference, September 2006, accessed electronically at https://taxadmin.memberclicks.net/assets/docs/Meetings/06rev_est/lipsman_paper.pdf

<u>Implementation</u>

Administrative
For a successful outcome, it will be necessary to combine the expertise and gain buy-in from OMES (both Central Purchasing and IS) and the Tax Commission. The project team has raised this issue with leadership of both OMES and the Tax Commission, and both are receptive.

Statutory Changes Required
There are no statutory changes that would be necessary to implement this recommendation.

Financial and Personnel Resources Required
As previously discussed, this initiative may be structured as a performance-based contract, with the payments to the vendor made from new tax revenue identified because of the initiative. In this way, the State's initial resource investment is limited. While the implementation will likely require time and support from IS, this may be handled by existing staff – or, should additional staff be required, it may be built into the terms of the contract.

Timeframe
The State of Iowa was able, once a contract was in place, to start obtaining results within five months; it is likely that the timeframe for this project would allow it to be implemented within the first year of initiation.

Performance Measures
The logical performance measure will be additional annual tax revenue identified and collected based on the initiative. Should the State also pursue opportunities to use predictive analytics for tax auditing purposes, the logical performance measure would be the percentage increase in average audit earnings per hour of auditor time.

4.5 Create an Innovations Fund administered by OMES to provide repayable loans for qualified State agency projects with a demonstrated opportunity to create State savings to repay the loan.

Discussions with stakeholders in Oklahoma government suggest that there are a variety of good ideas for cost saving opportunities in state government, but often these ideas languish because they would require an up-front capital (or other financial) investment. Over the years, state and local governments have devised approaches to carry out these projects through a variety of financing methods.

One method, which is discussed in recommendation 4,4, is to use a form of performance incentive contracting that relies on the successful completion of the project and obtaining the contracted services to generate additional State revenue or savings and to pay for the services in that way. Besides the tax revenue example provided, this has also been used to reduce operating costs, such as energy management in buildings.

Another approach that has been successfully used in state and local government is to capitalize a fund (sometimes called an innovations or productivity fund), and to then make loans from that fund for qualified investments with a demonstrated potential for pay back of the funds from savings. Besides energy efficiency measures, this could provide for technology enhancements or even staffing or other improvements that then lead to increases in revenue or productivity or reduced costs.

The State of Iowa has used this approach for many years, and the investments have provided enough positive pay-back that the Legislature has, on occasion, re-directed some of the fund balance for other purposes. Under this approach, the fund was designed to stimulate and encourage innovation and entrepreneurship in State government by awarding repayable loans to State agencies. As required, the Director of the Department of Management established an eight-member State Innovations Fund Committee to review all requests and approve qualified loans.

A project loan may be funded if the Committee determines that an agency request will result in cost savings or added revenue to the General Fund. In order to be eligible, projects must not be able to be funded from the agency's operating budget without adversely affecting the agency's normal service levels, and projects may include, but are not limited to, the purchase of advanced technology, contracting for expert services and acquisition of equipment or supplies.

When considering applications for project loans, the Committee uses a return on investment concept that demonstrates how General Fund expenditures will be reduced or how General Fund revenues will be increased. In order for the Innovations Fund to be self-supporting, the Committee establishes repayment schedules for each loan. Agencies repay the loans with interest over a period not to exceed five years at a rate to be determined by the Committee. A review of the program determined that net savings of over $11 million had been generated by the Innovations Fund investments.[45]

<u>Implementation</u>

Given that the process for establishing this type of fund and how to carry it out is already established, this should be implementable without significant obstacles.

Administrative
OMES would need to establish application procedures, guidelines for eligible projects, payback mechanisms and the Committee (and criteria) that would decide on loans from the fund. There will be a need to establish a new fund and account for transfers in and out of the fund.

Statutory Changes Required
The Legislature will likely want to establish guidelines for how the program would operate.

Financial and Personnel Resources Required
The fund would need to be capitalized. Iowa initially capitalized its fund with $1 million, although a larger capitalization may provide for more substantial opportunities for payback as well.

Timeframe
This could be initiated in the short-term. Realizing the benefit will depend on the opportunities presented and the length of time for those initiatives to generate savings. In the case of the State of Iowa, this was generally within 1-2 years.

Performance Measures
Initial input measures would relate to the funding framework being in place, including establishing the Committee to review applications, creating the application and review process, and processing applications. Follow-on performance measures should focus on the return on State investment.

4.6 Create a target span of control of 8:1 and division layers of management of no more than 5 and establish annual goals to achieve it.

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[45] "Iowa Innovations Fund," Iowa Legislative Services Agency Fiscal Services Issue Review, January 8, 2004, accessed electronically at https://www.legis.iowa.gov/docs/publications/IR/2247.pdf

As noted in the OMES overview, the current agency span of control is approximately 4:1. This is significantly lower than targets established in other states and the federal government that have created a management focus around span of control. It is also lower than private sector traditional theories of organizational span of control.

It is true that there is no single correct ratio for span of control, and it will vary depending upon activities, roles and responsibilities. In fact, there are component parts of OMES (particularly some parts of the IS operation) with much higher spans of control. It is also true that this may be expected, as this is the largest operation within OMES, and smaller operations tend to have lower spans of control. It is also likely that some of the low spans related to the multiple rounds of reductions in FTEs within the organization – it is often the case that these reductions disproportionately impact newer workers who tend to not be managers and supervisors, and this can reduce these spans of control.

Regardless of the reasons, a review of the OMES organization reveals that it is ‘middle-heavy’ in terms of managers and supervisors. In many parts of the organization, managers and supervisors are responsible for just a handful of non-supervisors (and in many instances a manager/supervisor is managing/supervising only one person). As noted in the earlier discussion of span of control, these often create bottlenecks, slow down activities and add non-productive steps and approvals or reports to processes.

On a division-by-division basis, OMES should develop a plan to flatten its organization and reduce its middle-management bulge. There are many examples of parts of OMES where managers and supervisors have 8 to 20 direct reports – it is not unreasonable to expect that the agency as a whole can significantly increase its span of control.

Based on the organization’s current span of control and number of employees, it is possible that, simply through differences in compensation and benefit costs, a 50 percent increase in the current span of control could generate savings of over $10 million a year for OMES (keeping in mind, of course, that much of that benefit would ultimately be returned to customers in the form of lower charges for services).

<u>Implementation</u>

A review of the current structure and an implementation plan could be completed within the short-term timeframe. Many organizations use attrition as the method for changing spans of control – although it would be possible to use desk audits to seek to redefine some employees from supervisory roles, although this is generally seen as having a negative impact on overall agency productivity. Should the agency use attrition as the method of changing its span of control, this becomes a long-term issue.

Administrative

OMES leadership would have to task an individual (or individuals) with gathering the span of control data and performing calculations. Each Division should be able to readily determine the supervisory and non-supervisory positions on a specific point in time for this analysis. Once the span of control has been determined, each Division would be tasked with providing a ‘corrective action plan’ for changes to its span of control to reach an agreed-upon target level within a timeframe. Usually, agencies develop an approval and an exception process to deal with situations where the agreed-upon span of control cannot (or should not) be met.

Statutory Changes Required
There are no required changes, although the States of Iowa and Texas have specific guidance on span of control by agency within state statute. If this is to be an enterprise-wide policy, putting guidance in statute (likely with a phased implementation) would be worthwhile.

Financial and Personnel Resources Required
The responsibilities for this analysis are generally not time consuming and can be assigned to existing staff. There are no significant resource needs to calculate or report this metric.

Timeframe
This can be accomplished (in terms of reporting) in the short-term. Changes to actual spans of control are generally done over a period of years, and most organizations phase them in over time, often using attrition.

Performance Measures
Changes in span of control from year to year.

5. Central Purchasing Background and Recommendations

Central Purchasing Overview

The Central Purchasing Division is comprised of four Departments: State Use, Statewide Procurement, Agency-Specific Procurement and Administration and CPO Training. The core functions of these departments are summarized in the following table.

Table 11: Central Purchasing Core Functions

Department	Core Functions
State Use	A mandated purchasing program that facilitates contracts between the State of Oklahoma and statutorily qualified organizations. Qualified organizations include not-for-profit agencies intended to create long-term employment and job training for persons with disabilities.
Statewide Procurement	Is the lead agent for statewide procurement and contracts.
Agency-Specific Procurement	Assists agencies with purchases that are not on statewide contracts in compliance with the Central Purchasing Act, determines the procurement method for purchases and manages the Performance Information Procurement System (PIPS), sole source contracts, and solicitations including Request for Proposals (RFP), Request for Quote (RFQ) or an Invitation to Bid (ITB).
Administration and CPO Training	Responsible for conducting training and certification for Certified Procurement Officers (CPOs). This department focuses on the reporting and other programs that address compliance for Central Purchasing as a whole.

Source: OMES Glossary of Core Functions and Services, April 2018

Central Purchasing receives its funding from administrative fees for managing statewide contracts. It receives no appropriations. It is currently staffed by 40 FTEs.

Table 12: Central Purchasing Budget and Staffing, FY 2017 – FY 2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$5.3	$0.00	0.00%	35.5
2018	$5.3	$0.00	0.00%	40.0
% Increase/(Decrease)	**0.00%**	**0.00%**	**0.00%**	**12.68%**

Source: OMES Transition Documents, FY2017-FY2018

Analysis of Mandates

The Division's duties and responsibilities primarily fall under the Oklahoma Central Purchasing Act (O.S. 74 § 85.1 et. seq.). Many of the State Purchasing Director's mandates reference broad authority and responsibilities, including the responsibility for all acquisitions used or consumed by State agencies and determining the method of acquisition. A key mandate for the Division is to satisfy agencies in terms of cost, quality and timeliness of service. Many employees referenced this as a central goal for the division, and OMES as a whole and Central Purchasing both make an effort to regularly measure customer satisfaction.

Key Mandates:

- The State Purchasing Director has authority and responsibility for all acquisitions used or consumed by State agencies. (very broad authority);
- Determine the particular brand, model or other specific classification of each acquisition. (broad authority);
- Provide training for State agency purchasing officials and other purchasing staff;
- Contract with an auditor for the audit of State commissions or departments;
- Promulgate rules pursuant to the provisions of the Oklahoma Central Purchasing Act and monitor compliance with its provisions among State agencies; and
- Operate with the goal to satisfy State agencies in terms of cost, quality and timeliness of the delivery of acquisitions by using bidders who have a record of successful past performance, promoting competition, minimizing administrative operating costs and conducting business with integrity, fairness and openness.

A full list of all OMES mandates is provided in Appendix C.

Analysis of Performance

Over the past two decades, strategic approaches to procurement have become a major area of interest for state purchasing agencies. Oklahoma's Central Purchasing operation has been active in many areas, including:

- Development and required use of statewide contracts;
- Cooperative purchasing agreements; and
- Ability to procure via other public sector contracts.

These initiatives have been shown to create opportunities for cost savings based on combined spend, economies of scale, identifying best value, etc. Accomplishments in recent years include utilizing mobile technology to reduce the Division's footprint and revising and updating solicitation templates to allow for the utilization of prompt payment discounts. Recent savings, efficiencies and shared services initiatives include expanding statewide contract usage via new partnerships and offering online certification and continuing education procurement training ($1.6 million in savings for State agencies).[46]

One method of measuring success is by determining the amount of savings generated by the Division. OMES prepares an annual report that identifies procurement cost savings associated with these and similar 'best practices' savings. As shown in the following table, savings as a percentage of spend have increased over the last few years. Central Purchasing typically calculates savings based on the average bid price minus the award bid price.[47] In order to calculate the savings percentages in the following table, the total dollar amount reporting by Central Purchasing was divided by the sum of total spending and savings.

Table 13: Procurement Savings, FY2014 through FY2017

Savings	FY 2014	FY 2015	FY 2016	FY 2017
Statewide Contract	**$19,831,383**	**$20,964,912**	**$24,110,207**	**$21,781,750**
Percent of Statewide Contract Spend	*12.1%*	*9.4%*	*9.0%*	*18.3%*

[46] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf
[47] This methodology can vary based on the type of purchase. For example, IT statewide contract savings are calculated using the average discount off MSRP minus the price paid.

Savings	FY 2014	FY 2015	FY 2016	FY 2017
Acquisition Team	**$9,881,946**	**$4,808,356**	**$1,344,202**	**$863,924**
Percent of Acquisition Team Spend	*20.8%*	*18.0%*	*10.2%*	*18.3%*
IT Statewide Contract	**$35,146,666**	**$36,736,079**	**$45,762,620**	**$49,784,807**
Percent of IT Statewide Contract Spend	*16.9%*	*16.9%*	*24.9%*	*22.7%*
IT Acquisitions Team	**$200,754**	**$870,195**	**$964,206**	**$16,997,311**
Percent of IT Acquisitions Spend	*12.6%*	*11.3%*	*12.6%*	*55.2%*
State Agency Certified Procurement Officers	**$4,606,201**	**$8,389,222**	**$3,916,709**	**$7,785,665**
Percent of IT Acquisitions Spend	*18.1%*	*25.3%*	*20.7%*	*21.5%*
Total	**$69,666,950**	**$71,768,765**	**$76,097,943**	**$97,213,458**

Source: OMES Annual Procurement Cost Savings Reports

Procurement savings is listed as a strategic goal for the State and is a KPM. More specifically, the State has a goal of increasing Statewide Contract savings to $30 million by FY2019. Although savings in this area as a percentage have been increasing, the amount of savings has been well below the $30 million goal in recent years, as shown in the following table.

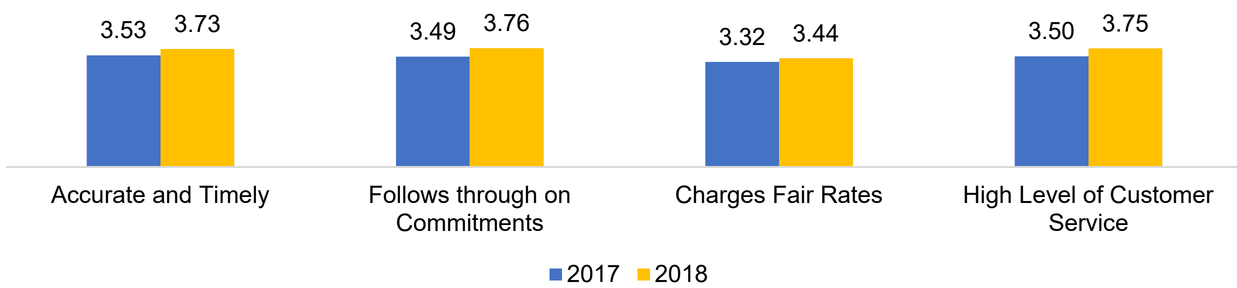
Table 14: OMES Strategic Goals – Procurement Savings KPMs

KPM:	**Statewide Contract Savings**							
KPM Description	Increase the amount of annual cost savings resulting from statewide procurement contracts from $20.2 million in 2014 to $30 million by 2019							
Actuals					**Budget**	**Targets**		
FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
$20.2 million	$20.9 million	$23.7 million	$21.8 million	$21.9 million	$30 million	$30 million	$30 million	$30 million

Source: FY2020 Agency Program Information – OMES Strategic Plan

Another method of evaluating Central Purchasing's success in meeting its mandates is to survey its customers. In response to whether customers agree that service is accurate and timely, Central Purchasing received an average score of 3.73 in 2018, a 5.6 percent increase from its 2017 score of 3.53. Customers also indicated improvement in customer service, with Central Purchasing receiving an average score of 3.75 in 2018, up from 3.50 in 2017. While the trend shows improvement from the previous year, they are still below the 4.0 threshold for general agreement, and the Division should continue to work to improve these ratings.

Figure 11: Central Purchasing Customer Survey Responses, 2017 and 2018



Source: OMES Customer Survey, 2017-2018

Central Purchasing Recommendations

5.1 Implement an integrated eProcurement system to automate the procurement and contract administration process.

The term electronic procurement (eProcurement) refers to conducting all or some procurement functions over the Internet. It implies that point, click, buy and ship Internet technology is replacing paper-based procurement and supply management business processes.[48] The National Association of State Procurement Officials (NASPO) recommends that states leverage the use of eProcurement systems to reduce cost, increase return on investment and increase data use to conduct electronic trade. Indeed, most states have transitioned to these platforms: among 47 states responding to NASPO's 2018 Survey of State Procurement Practices, only the State of Washington indicated that it does not use an electronic procurement system.[49]

There are two primary eProcurement solutions currently in use: Enterprise Resource Planning (ERP) systems and dedicated eProcurement systems. ERP is a business process management software for improving the performance of an organization's internal business processes; these systems cover all core divisions of an organization (finance, accounting, human resources, etc.) and often offer eProcurement as an add-on module. Alternatively, dedicated eProcurement systems are designed specifically to meet an organization's procurement needs from beginning to end (e.g. sourcing, spend analysis, vendor management, contract management, purchasing).

It is notable that not all solutions are created equal. Functionality common in eProcurement tools that is unlikely to be offered in standard ERP packages includes supplier self-certification, personalized vendor portals, requisitioning, complex catalog hosting and shopping capabilities, electronic bidding (including

[48] National Institute of Government Purchasing (NIGP) – Dictionary of Procurement Terms (2018). Accessed electronically at http://www.nigp.org/home/find-procurement-resources/dictionary-of-terms
[49] National Association of State Procurement Officials – 2018 Survey of State Procurement Practices Executive Summary. Accessed electronically at https://www.naspo.org/Portals/16/2018%20Survey/2018%20FINAL%20Survey%20Report_6-14-18.pdf?ver=2018-06-14-080105-470

reverse auctions), team-based evaluations and open/unlimited vendor access to catalogs, accounts and reports.[50]

Oklahoma's Current eProcurement System

The State of Oklahoma currently uses its PeopleSoft ERP system as a procurement platform. Because ERP systems are primarily designed and built to serve the needs of finance departments and accountants but are generally not intended for procurement, the State's current system has been "customized to the point of dysfunction." One key challenge is that decisions made at the time of implementation have permanently limited the requisitioning process; another is that the State currently does not have a contract management system. PFM's interviews with OMES leadership indicated that certain key procurement functions are, at best, difficult to perform. For example, the status of procurement requests is not easily or adequately tracked, an issue that had inadvertently led to the lapsing of contracts. The reporting of enterprise-wide data cannot readily be generated, making it difficult (if not impossible) to capture the State's existing inventory as well as the breadth of what the State is currently in the process of procuring. Several key processes are performed outside of the system and/or completed manually, including document retention, which requires physically scanning multiple barcodes. Permissions are also an issue: tasks assigned to former employees block the system's workflow, and employees do not have super user permissions to clear out workflow items. The current system also poses possible confidentiality risks, as bidders submit bids via email due to the lack of an online bidding system. PFM's survey of OMES employees regarding workplace challenges confirmed many of these issues:

- "The system does not capture all spend data from cities, counties or other non-affiliates."
- "The currently system crashes often and is not user-friendly."
- "The very slow and clunky procurement system sometimes requires three or four different steps to get the data you need to do the job. For example, there are four ways you must pull a vendor list to get a complete list."
- 'We have a very manual process. Older manual processes were translated into electronic processes to interface with the finance system. In essence, we garnered the ability to create electronic Purchase Orders and very little else as it relates to procurement."
- "The biggest challenge is not having an eProcurement system strictly for procurement, unlike other states."
- "Restricted access to the software we use is an issue."

Implementing an integrated eProcurement system will improve transparency and reporting capabilities, streamline processes and standardize forms and terms and conditions. A new system may also reduce, through attrition, the need for the State's 800 procurement officers. This would also be beneficial for the business community, as eProcurement systems are generally preferred by vendors (as opposed to traditional procurement formats), as they expedite responses and reduce production costs.

Importantly, Oracle has begun to phase out its support of on-premises PeopleSoft, and the State will need to determine how to move forward (e.g. migrating to a cloud-based PeopleSoft system or opting to implement a new eProcurement system). OMES has explored alternatives and improvements to the current system in recent years – and in fact, it completed a project initiation request for a procurement system in 2016 and again in 2018. Those efforts have not materialized in system changes.

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[50] National Association of State Procurement Officials – ERP and eProcurement Systems (June 2013). Accessed electronically at http://www.naspo.org/dnn/portals/16/documents/NASPOERPandeProcurementSystems6313.pdf

OMES has also considered a "clean" version of PeopleSoft that would require identifying and "undoing" the design decisions that were made at implementation that limit that capabilities of the procurement module (this was determined to be an unfeasible option and would not resolve many of the current system issues).

Other State eProcurement System Successes

Greater use of integrated eProcurement systems to automate procurement and contract administration processes has been a key feature of every major state procurement reform initiative in the last few years, including in the following states:

- Since its inception in 2001, Virginia's online, electronic procurement system (eVA) has transformed the way the Commonwealth buys goods and services, dramatically improving transparency of government purchasing and delivering more than $30 million in savings annually.[51] One module of the system, Quick Quote, enabled the State to determine the ideal number of bids to receive maximum savings and identify a total savings of $17.7 million over three fiscal years through competition created via the module. The savings realized supports entities in determining how best to use eVA tools and allows the eVA team to demonstrate quantifiable value provided by the system.[52]

- Florida's centralized procurement solution (MyFloridaMarketPlace or MFMP) was implemented statewide in 2003, streamlining interactions between vendors and State government entities. Since the project's inception, requisition cycle time has decreased by 40 percent and invoice cycle time has decreased by 45 percent, while spend through the system has increased to nearly $2 billion annually in purchase orders. The MFMP team reports to Department of Management Services leadership and legislators annually on the system's return on investment; as of FY2016, 97 percent of agencies were using the system for purchase orders and contracts and the invoicing utilization rate was 89 percent, resulting in $21.0 million in total savings for the State.[53]

- A recent performance audit by the Oregon Secretary of State identified the state's current reliance on manual processes and legacy systems with limited functionality to process and track state and agency procurements as a major cost driver. It found that significant reduction in costs and other benefits could be realized by modernizing Oregon's procurement systems and practices through an eProcurement system modernization. The audit suggested that the state could realize savings of at least $400 million during its fiscal biennium.[54] It is notable that in one ranking of state purchasing operations, the Oregon operation was ranked as the 11th best among the states, and the Oklahoma operation was ranked 25th.[55]

<u>Implementation</u>

Administrative

The following are the critical steps to be undertaken in order to successfully implement an integrated eProcurement system for the State:

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[51] Virginia Department of General Services – Division of Purchases and Supply. Accessed electronically at https://dgs.virginia.gov/procurement/eva---virginias-eprocurement-portal/eva-overview/

[52] Commonwealth of Virginia Innovative Technology Symposium – Governor Northam Announces Technology Award Winners. Accessed electronically at https://www.covits.virginia.gov/winner-folder/2018-winners/

[53] National Association of State Procurement Officers – The Value of eProcurement/ERP Solutions: Case Studies (2016).

[54] Oregon Secretary of State, "Significant Cost Savings Can Be Achieved by Modernizing Oregon's Procurement Systems and Practices," December 2018, accessed electronically at https://sos.oregon.gov/audits/Documents/2018-45.pdf

[55] Ibid., p. 2

- *Assess and document current procurement process and the desired future procurement strategy.* Understanding the issues with the current process and areas for improvement are key steps in determining an appropriate solution.

- *Identify the gaps between where the State is now and where it wants to be, then identify the process and system solutions that will be required to bridge the gaps.* The State may wish to consider hiring an experience consulting firm to help develop the functional requirements to be included in the RFP and Statement of Work.

- *Create a business case.* This should address the most challenging issues of the current system and document the important benefits that will come from implementing an eProcurement system (including hard, soft and intangible benefits). *Note: In 2016, and again in 2018, OMES completed a project initiation request for a procurement system that documented the business need.*

- *Secure buy-in.* As with any large scale IT project, eProcurement implementation can encounter resistance by stakeholders and involve classic change management challenges. In the end, there must be top-down and bottom-up support for the project. Oklahoma's eProcurement approach should be viewed holistically as an integrated part of the State's overall procurement strategy to ensure its strategic goals are met.

- *Review and select the optimal eProcurement solution provider for the State's needs.* Through a formal RFP process, identify a vendor to implement the system. If possible, the contract should include claw back provisions to protect the State and guarantee its satisfaction. Primary providers used by other states include SAP Ariba and Jaggaer.

Statutory Changes Required

Currently PeopleSoft is the State's "Book of Record." Any change in the primary system of use would require legislation to update. Currently, there is no mandate requiring OMES to change the State's financial system (including its procurement system).

Financial and Personnel Resources Required

There would be up-front costs associated with the implementation as well as ongoing expenses related to maintenance, support and licensing. The actual cost to the State would depend on a variety of factors, including system specifications and the manner in which the State chooses to pay for it.

In 2017, the State of Oregon was evaluating whether to formalize its Oregon Buys projects, which began as a pilot in 2015. It estimated that the initial implementation of the system would cost approximately $10 million and annual license and infrastructure fees would total $750,000. The $10 million estimate did not include any funding for ala carte services (ongoing training, spend analysis, vendor support etc.) and the license would limit local government use to only price agreement access and posting of solicitations. Additionally, the implementation plan called for the hiring of two permanent FTEs.[56]

There are three general approaches to funding procurement services (inclusive of eProcurement systems), though other sources have included technology funds and budget surpluses: [57]

- Traditional state appropriations are used on 28 states;

[56] Oregon Legislative Information System – Saving Money through Better Procurement (2017). Accessed electronically at https://olis.leg.state.or.us/liz/2017I1/Downloads/CommitteeMeetingDocument/139443

[57] National Association of State Procurement Officers – The Value of eProcurement/ERP Solutions: Case Studies (2016).

- User/agency fees (typically charged for agency use of statewide contracts) are used in 14 states. This is a potentially viable partial funding source for Oklahoma. The Central Purchasing Division currently imposes on agencies a one percent contract management fee based on the price of the statewide contract. The Division estimates that by transitioning sole source contracts to statewide contracts (thereby making them subject to the fee), OMES could generate an additional $1 million each year.
- Public-private partnerships (funded via vendor registration/administrative fees) are used in 8 states. Under this approach, the system is built by a third party vendor at no initial cost to the State. The State imposes a fee on vendors for use of the system, which is then used to repay the vendor over time. Among states charging vendor fees, amounts range from a one-time fee of $12 in Hawaii to annual fees of $125 in West Virginia. Oklahoma currently charges an annual fee of $425 per commodity code for vendors wishing to be placed on the supplier list for bid notifications. While sometime unpopular, this approach is understood by the vendor community.

It is likely that the system would require a combination of funding sources – and many states have successfully funded similar efforts. For example, Virginia's eVA program has been self-funded for over 15 years through both vendor and nominal agency fees. Vendor fees are one percent (1%) and capped at $500 per transaction for a Virginia-certified small business, with a $1,500 cap per transaction for all other (large) businesses. Agency fees are one-tenth of one percent (0.1%) and capped at $500 for a Virginia certified small business purchase with a $1,500 cap for all other (large) businesses. Roughly 90 percent of discretionary spend within the Commonwealth of Virginia is captured in eVA.[58]

Timeframe

As with any large scale IT project, eProcurement implementation can take several years to implement. It is likely that this system would be fully functional in 2-4 years.

Performance Measure(s)

OMES should develop key performance indicators to measure success against identified procurement goals. Possible indicators could fall into the following general categories:

- Participation: Number of participating agencies and governmental entities; number of state and local government users; number of suppliers registered; number of catalogs/items;
- Transactions: Number of orders per year; total spend per year; number of online solicitations per year; number of supplier bid emails;
- Savings: Value of the reduced prices of goods and services; value of the more efficient administrative processing of purchase orders; and
- Competition: Percentage increase in average number of suppliers invited to bid; percentage increase in bids submitted on procurements under $50,000.

5.2 Utilize reverse auctions as part of the State's overall procurement strategy.

In recent years, many states have adopted an approach known as "reverse auctioning" as an efficient and cost-effective way to make the procurement process more transparent while driving down the total cost of acquisitions and increasing savings to taxpayers.

In a reverse auction, bidders are invited to bid on specified goods or services through real-time electronic bidding held during a pre-announced time and Internet location for a specified duration. Multiple suppliers (anonymous to each other) submit bids to provide the goods or services. Bidders' prices are revealed and bidders have the opportunity to modify their bid prices for the duration of the time period established for bid opening. The award is made to the lowest responsive and responsible bidder.

[58] Ibid.

It is notable that reverse auctions are not appropriate for all types of purchasing; instead, they work particularly well with traditional, well-defined commodities and other products and services where uniform specifications can be introduced. When pricing is the key denominator, having specific, detailed specifications makes for an easy “apples to apples” comparison.

There is significant government experience with reverse auctions around the country. A 2018 Government Accountability Office (GAO) report found that reverse auctions saved (federal) agencies more than 23 percent while also improving transparency and collection of data and reducing acquisition processing time and costs. The report notes that “Reverse auctions are one tool used by federal agencies to increase competition and reduce the cost of certain items.” At the same time, the GAO recommends agencies use multiple bid facilitators and urged the executive branch to develop clear guidelines and safeguards for agency use of reverse auctions.[59]

Recently, the Federal Communications Commission (FCC)’s Connect America Fund Phase II project, which aims to provide internet access to rural areas of the U.S., recently used reverse auctioning to award $1.5 billion over 10 years to 103 bidders for providing fixed broadband and voice services to over 700,000 locations in 45 states.[60]

In addition, there are documented realized savings in multiple states, including:

- The State of New Jersey used a reverse auction process in 2017 to procure a pharmacy benefits contract that will save the State an estimated $1.5 billion on prescription drug spending over a three year period – without imposing benefit cuts on State health plan beneficiaries.[61]

- In 2015, the State of Pennsylvania reinstated its use of reverse auction technology as a way to meet the challenge set forth by the creation of Governor Wolf’s GO-TIME (Governor’s Office of Transformation, Innovation, Management and Efficiency) initiative. Reverse auctions on two contracts saved an estimated $26 million.[62]

- In 2017, the State of Maryland utilized a reverse auction for the provision of energy to State-owned facilities and will save an estimated $25 million over four years as a result.[63]

- In 2010, the State of Delaware used reverse auctioning on an electricity contract, saving an estimated $13 million over a three-year period and securing a guarantee that 30 percent of the power would come from renewable sources for the first year of the contract.

- Other states that have experienced cost savings with reverse auctions include Iowa, Minnesota and Nebraska.

[59] United States Government Accountability Office – Reverse Auctions: Additional Guidance Could Help Increase Benefits and Reduce Fees (July 2018). Accessed electronically at https://www.gao.gov/assets/700/693190.pdf
[60] Federal Communications Commission – Connect America Fund Phase II: Auction 903 Results (August 28, 2018). Accessed electronically at https://www.fcc.gov/reports-research/maps/caf2-auction903-results/
[61] New Jersey Senate President Steve Sweeney – State Adopts Sweeney Plan to Save $1.5 Billion in Prescription Drug Costs (July 5, 2017). Accessed electronically at http://senatorsweeney.com/press/state-adopts-sweeney-plan-save-1-5-billion-prescription-drug-costs/
[62] Pennsylvania Pressroom – PA Department of General Services Uses Reverse Auction Technology to Generate Savings in Response to GO-TIME Challenge (June 11, 2015). Accessed electronically at https://www.media.pa.gov/Pages/DGS_details.aspx?newsid=71
[63] State of Maryland Office of the Governor – Maryland Acquires Lowest Cost in History for Electricity Rates for State Buildings and Facilities (June 7, 2017). Accessed electronically at https://governor.maryland.gov/2017/06/07/maryland-acquires-lowest-cost-in-history-for-electricity-rates-for-state-buildings-and-facilities/

<u>Implementation</u>

Administrative
Reverse auctions require a proprietary platform that provides a real-time, secure, web-based electronically sealed bidding process. The State would need to select a vendor (most commonly a private sector provider) to provide this service. In addition to hosting the auctions, the provider may offer other services such as vendor notification, distribution of solicitation documents and vendor training.

Note: The PFM team is also recommending the State invest in a new eProcurement system. The electronic bidding modules of these systems often have reverse auction capabilities built in. If the State moves forward with implementing a new system, the selection of a third-party reverse auction provider may not be necessary.

Statutory Changes Required
The Oklahoma Central Purchasing Act (74 O.S. §85.5(M)) provides that the State Purchasing Director may authorize state agencies to utilize reverse auctions to obtain acquisitions, so no statutory changes would be needed.

Financial and Personnel Resources Required
Many providers charge a fee for service with each auction conducted. It is typically no more than 3.0 percent calculated against the winning bid. This fee could be charged to the winning vendor.

Timeframe
Because reverse auctions use a web-based platform, implementation would not require a significant amount of time.

Performance Measure(s)
The success of reverse auctions can be evaluated primarily based on the cost savings realized by using the approach. This can be done both by comparing the cost of goods and services against OMES estimates as well as against historical costs for goods and services that have been purchased in the past using other procurement methods.

5.3 Expand purchasing card (P-card) program use to increase rebates to the State and streamline the procurement process for applicable goods and services.

The Government Finance Officers Association (GFOA) recommends that governments explore the use of P-cards to improve the efficiency of their purchasing procedures, and all State governments have implemented programs. The purpose of a P-card program is to provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume purchases. This type of program is used as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices and checks processed. P-cards can be used whenever a purchase order, check request or petty cash would have been processed and with any vendor that accepts credit cards. As shown in the following table, P-cards streamline the procurement process, enabling organizations to procure goods and services in a timely manner and reduce transaction costs.

Table 15: Performance Metrics of Procurement Methods, 2017

	Cost per Transaction	Procurement Cycle Time (Days)
Traditional Paper-Based PO Format	$89.99	9.9
Electronic Version of PO	$44.25	5.9
P-Card	$20.14	2.9

Source: RPMG Research Corporation – 2017 Purchasing Card Benchmark Survey

An additional benefit of P-card programs is the provision of rebates. Among states, the rebate structure is typically somewhat complex, based upon a combination of the total dollar volume of transactions, average transaction volume and speed of payment. A full list of the fee/rebate structure of state P-card programs is provided in Appendix D.

State of Oklahoma P-Card Program

The State's P-card program is authorized by the Oklahoma Central Purchasing Act (74 O.S. § 85.5). The current contract with Bank of America was implemented on June 30, 2010 and, after three two-year renewals, is set to expire on June 30, 2020. Authorized users of the program include all State departments, boards, commissions, agencies and institutions as well as counties, hospitals, school districts and municipalities. It is not mandatory to participate in the program, however, the current contract is a mandatory statewide contract for State agencies that utilize a P-card as a payment mechanism.

Per O.S. 74 § 85.5 L, purchases are generally limited to $5,000 per single transaction, but unlimited purchases of the following are authorized:

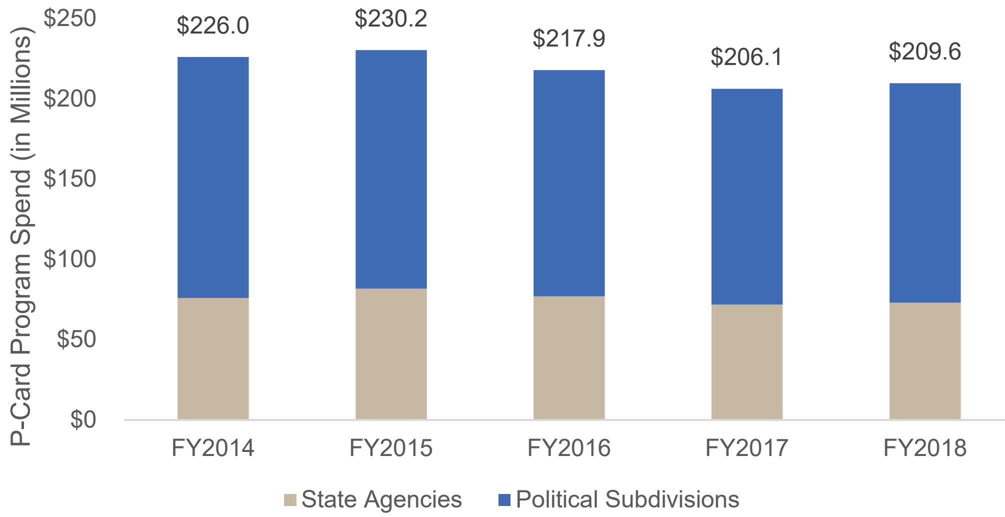
- Purchases from statewide contracts issued by the State Purchasing Director;
- Utilities;[64]
- Interagency payments; and
- Professional services (as defined in 18 O.S. § 803).

Each state agency using the program is responsible for establishing certain controls and limits on each P-card, including card limit (dollar amount per cycle), which is based on State agency needs or past usage and single purchase limit (dollar amount per transaction). This may be set to less than $5,000, if desired; or an amount greater than $5,000 for those making statewide contract purchases and paying for utilities. P-card purchases must follow the State purchasing hierarchy, meaning that potential vendor types shall be considered in order unless the vendor does not have the item that the entity wishes to purchase or cannot meet certain other requirements.

As shown in the following figure, the State's P-Card program spend has been between $200 million and $230 million for the past five fiscal years; political subdivisions typically account for roughly two-thirds of total spend.

[64] Per OMES policy, each utility invoice is to be paid in its entirety with one single transaction. Suppliers who place restrictions on payments that cause multiple transactions to pay a single invoice should not be paid by P-card. If choosing to utilize the P-card for utility payments, the annual cumulative convenience fee totals may not exceed the amount of the P-card rebate for those purchases.

Figure 12: Oklahoma P-Card Program Spend, FY2014-FY2018



Source: OMES Total P-Card Spend by Fiscal Year

The State's contract with the issuing bank provides a rebate to agencies based on their level of use. Rebate percentages differ based on dollar thresholds. The bank remits the entire rebate to OMES on an annual basis with a breakdown of the amount due to each State entity. OMES distributes the rebate to entities through inter-agency transfer if the entity has a clearing account, and through paper warrant if no clearing account exists. The bank sends a check or EFT directly to participating political subdivisions. Rebates are based on the following factors (detailed incentive tables for each are provided in Appendix E):

1. **Dollar purchase volume and average transaction size.** Rebate percentages are based on the combined annual spend volume of all current participating entities' accounts. Percentages range from 0.05 percent (for an entity with an average transaction size of between $300 and $400 with a net annual purchase volume of less than $4 million) to 1.47 percent (for an entity with an average transaction size of greater than $300 with a net annual purchase volume of at least $600 million). Incentives exclude large ticket transactions, cash advances, convenience check amounts and fraudulent charges.

2. **Prompt payment.** Basis points are based on the number of days after billing statement date that payment is made. State agencies' accounts are 'central bill, central pay.' Local governments' accounts are 'separate bill, separate pay.' Basis points range from -6 (for payments made 30 days after billing statement is due) to +23 (for payments made within 1-3 days after billing statement is due). The schedule includes escalators of between 18 and 37 basis points added, depending on the frequency and timeliness of payments.

3. **Large ticket transaction volume.** Large ticket interchange transaction volume earns a rebate of 50 basis points (subject to adjustment of the incentive schedule for prompt payment).

The State's P-card spend has generated approximately $3.2 million in rebates in recent years, with most (roughly two thirds) awarded to political subdivisions. This share is in alignment with total spend.

Table 16: P-Card and Rebate Activity, FY2015-FY2018

	2015	2016	2017	2018
Volume Total	$230,162,228	$217,854,592	$206,096,553	$209,627,893
Total Large Ticket Transactions	$17,922,612	$15,050,949	$13,771,682	$14,762,511
Total Less Large Ticket Transactions	$212,239,616	$202,803,643	$192,324,871	$194,865,382
Total Number of Transactions	515,307	540,148	551,408	576,760
Average Transaction Size	$446.65	$403.32	$373.76	$363.46
Rebate Rate	1.431%	1.431%	1.500%	1.500%
Standard Rebate	$3,314,884	$3,184,260	$3,152,271	$3,171,728
Large Ticket Rebate	$127,381	$102,698	$93,593	$98,419
Total Rebate	**$3,442,265**	**$3,286,958**	**$3,245,864**	**$3,270,148**
State of Oklahoma Rebate	$945,082	$888,839	$871,875	$890,708
Political Sub. Rebate	$2,260,912	$2,175,909	$2,156,020	$2,156,763
Political Sub. Admin Fee	$236,271	$222,210	$217,969	$222,677

Source: OMES Rebate Calculations, FY2015-FY2018

Other State Case Studies

In recent years, many states have expanded their P-card programs and have captured increased efficiencies and additional rebates as a result. For example:

- A 2018 analysis of Connecticut's P-card program found that efficiencies gained by use of P-cards have saved an estimated $27 million over a 3-year period. The report also recommended additional measures that would further increase the benefit to the State: Making certain recurring purchases within the P-card program would generate an estimated additional $1.2 million in rebates and $2.7 million of workflow savings annually, and structuring P-card bill payments to reduce the grace period for payment from 30 days to 14 days would generate an estimated additional $160,000 to $320,000 of rebates for the General Fund without increasing P-card usage.[65]

- In 2018, the State of Maryland received a $5.7 million rebate as a result of 77 state agencies spending approximately $285 million on small purchases through Maryland's Corporate Purchasing Card program over a one year period.[66]

- In 2015, the State of Louisiana reformed its P-card program as part of a business transformation of its Office of State Procurement to increase the efficiency of operations and reduce the cost of procuring goods and services. Cardholder limits were raised (from $500 or $1,000 to $5,000) to allow low-dollar, non-competitive purchases to be completed with P-cards. The paper-based month end accounting process was converted into an electronic workflow for approval and documentation and interface to the State's financial system was implemented. After implementing the changes, the average monthly low-dollar spend in the financial system decreased by 43 percent, resulting in a 17 percent gain in efficiency (measured as man hours saved from reduced administrative effort

[65] Connecticut Auditors of Public Accounts – Auditors' Special Report: Statewide Purchasing Card Program for Fiscal Year Ended June 30, 2015 (February 8, 2018). Accessed electronically at https://www.cga.ct.gov/apa/reports/special/SPECIAL_Statewide%20Purchasing%20Card%20Program%20-%20Enhancing%20Rebate%20Opportunities_20180208.pdf

[66] Comptroller of Maryland – Comptroller Franchot Reports $5.7 Million Rebate in Purchasing Card Program (June 5, 2018). Accessed electronically at http://comptroller.marylandtaxes.gov/Media_Services/2018/06/05/comptroller-franchot-reports-5-7m-rebate-in-purchasing-card-program/

to procure non-competitive purchases). This change is estimated to yield savings of $1.7 million annually. P-card spending increased by $88.4 million, resulting in larger State rebates.[67]

Implementation

Administrative
The State should explore the following strategies to expand P-card program use:

- **Analyze agency spend data.** Regularly review purchases to identify those that could be paid more effectively with a P-card. Define user profiles based on spend behavior to identify spend categories unique to employee groups. The bank may work with agencies to analyze where P-card usage can be increased.
- **Continually educate and encourage or mandate agency use.** Determine whether to mandate or encourage use of the purchasing card for all eligible purchases for relevant employee groups. Notifying eligible entities of their ability to participate in the P-card program could provide additional benefits to new and current members of the contract.
- **Increase the number of employees who are issued P-cards.** P-cards do not incur setup or ongoing fees and can therefore be provided to all staff making purchases, however infrequent.
- **Increase purchase limits**. Currently, purchases are generally limited to $5,000 per single transaction (with certain exceptions), and agencies have the option of setting the purchase limit to an amount less than $5,000. Increasing this limit is likely to increase total spend.
- **Broaden list of approved P-card purchases.** Target specific additional commodities or services that can be paid for with P-cards. For example, utility payments could be put on a card, as these invoice rarely need to be questioned.
- **Identify merchants who accept P-cards and channel business to them.** Identify suppliers who will accept payment by purchasing card. Let suppliers know that you prefer to pay by purchasing card.
- **Change the frequency of payments to vendor.** This will increase the rebate percentage.

Statutory Changes Required
Depending on which changes are adopted, it is likely that the Oklahoma Central Purchasing Act (74 O.S. § 85.5) would need to be amended. For example, increasing the transaction limits would require modification of O.S. 74 § 85.5 L.

Financial and Personnel Resources Required
This change will likely require minimal additional financial or personnel resources.

Timeframe
This change can likely be completed in a short period of time following the change in law.

Performance Measure(s)
Performance measures may include:

- Year-over-year growth in rebates received from vendor (also used in South Carolina);
- Year-over-year growth in dollar volume of purchases made with P-Cards (Colorado, Utah); and
- Percent of purchases made with P-Cards for certain vendors that do high-volume, low-dollar price agreement transactions (Colorado).

[67] National Association of State Purchasing Officials – State of Louisiana Procurement Business Transformation (July 2015). Accessed electronically at
https://www.naspo.org/dnn/Portals/16/2015CroninSubmissions/Louisiana%20Cronin%20Award%20Application%20July%202015.pdf

6. Information Services Background and Recommendations

Information Services Overview

The Information Services Division is comprised of several core teams, departments and sub-departments tasked with providing information technology to the State, including security, hardware and software. The core functions of these groups are described in the following table.

Table 17: Information Services Division Core Functions

Department	Core Functions
Information Security Team	Responsible for protecting mission-critical networks and the state's digital assets through technology, services and security best practices. Information security functions are organized under three general areas of work: Oklahoma Cyber Command; Unification of Central Security; and Business Continuity and Emergency Disaster Preparedness.
Public Safety and Defense IT Service Team	Supports the mission of public safety in Oklahoma by lending technology support in a vast number of areas. This department performs the baseline and escalated IT support functions for public safety agencies and oversees the Criminal Justice Information Systems Center for Excellence (CJIS CFE) program which facilitates the unification of IT for all law enforcement agencies. In addition, the director of the Public Safety and Defense IT Service Team is the executive sponsor to 35 partner agencies.[68]
Application Services Team	Supports existing statewide and agency specific technology applications and developing new statewide and agency-specific technology applications, including: conventional applications, web and mobile applications, enterprise applications and public safety applications as well as performing the functions of systems analysis and creating and enhancing user interfaces and experience.
Data Driven Service Team	Provides data management services for OMES and state agencies. Data management is defined as a common framework for cost effective and efficient sharing and analysis of information across organizational lines; creation of structures that support collaboration among stakeholders for the secured sharing of data; information and knowledge; a framework to leverage data and information as an asset; and transparency support.
SPARK (Strategy, Planning, Architecture, Research and Knowledge) Service Team	Focuses on strategic planning, enterprise architecture methodology and implementation, and research and knowledge to create a forward-looking, cohesive plan for state agencies and Oklahoma as a whole. As a forward-looking unit, this team stays current on IT problems and issues facing the state, and looks for long-term, relevant solutions. In addition, the director of the SPARK Service Team is the executive sponsor to 26 partner agencies.
Client Experience Service Team	Responsible for assuring overall client satisfaction by serving customers' needs each day. The department oversees the following functions: PC (personal computer) support; the service desk and customer relationship management, which includes technical account managers and the customer care team. In addition, the director of Client Experience is the executive sponsor to 27 partner agencies.

[68] An executive sponsor serves as a "champion" for agencies by coordinating with the executive team and accepting accountability, identifying and overcoming obstacles and resistance within the organization, and giving strategic direction to align OMES IS technology strategies with agency missions.

Department	Core Functions
State Health Information Exchange (HIE) Director	Unique position supporting both the State Department of Health and OMES. The OMES CIO is designated by the Governor as the State Health Information Technology Coordinator. The State HIE director supports the CIO in this role with health information projects, such as creating and supporting a statewide interoperable health information exchange system, creating legislation as needed and collaborating with other health agencies to find shared services solutions for health systems.
Mission Support Service Team	Challenged with establishing and maturing the supporting business processes to run a world-class service provider enterprise. This department oversees the following functions: service delivery, account management, catalog management, service costing/rating and new products/services deployment. This department is also involved in coordinating and structuring engagements for new and established vendors through the Strategic Alliance Management process by determining appropriate stakeholders. Mission Support works closely with OMES Finance to ensure consistency in the service/billing information provided as well as to communicate OMES IS priorities.
External Relations and Service Quality Team	Supports Central Purchasing on IT related procurement, assists agencies and affiliates with technology procurement, and seeks/establishes mutually beneficial partnerships with external entities. This team is also charged with establishing, maintaining and continually improving a quality of service program. Quality of service is focused on three main functions of work: service quality, quality assurance and control, and compliance.
Technology Services	Supports the state with IT Infrastructure, a server team and Information Technology Operations Command Center, as well as supports state agencies that have been through IT Unification, with customer services including service requests, projects, system enhancements and more.
Enterprise Programs Service Team	Provides resources and methodology for agency services such as IT governance, project management, business analysis, standards library creation and maintenance, and maintaining data center facilities. In addition, the director of Enterprise Programs is the executive sponsor to 30 partner agencies.

Source: OMES Glossary of Core Functions and Services, April 2018

Division Budget and Staffing

The Division's FY2018 budget was $154.4 million. Of that total, $15.4 (10.0 percent) was appropriated. The Division is comprised of 761.5 FTEs.

Table 18: Information Services Division Budget and Staffing, FY2017-FY2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$159.4	$14.5	9.1%	856.3
2018	$154.4	$15.4	10.0%	761.5
% Increase/(Decrease)	**-3.2%**	**5.9%**	**9.4%**	**-11.1%**

Source: OMES Transition Documents, FY2017-FY2018

IS Fees
A total of 86 percent of funding for IS comes from the Telecommunications Revolving Fund. Per 62 O.S. § 62-34.22, all such funds are appropriated and may be budgeted and expended by OMES for the purpose of providing telecommunications, Internet and eGovernment services.

The formula for IS rates is set in Oklahoma statute (62 O.S. § 35.5) and approved by the Government Technology Application Review Board (GTARB). Statute requires IS to set rates based on estimated full costs to provide services, including: materials, depreciation for capital costs, labor, administrative expenses in connection with the data center and Information Services operations, expenses with acquiring, installing and operating IT/Telecom infrastructure, hardware and software for use by state agencies.

Within IS, each service offering has a service owner. That service owner is responsible for all aspects of the offering, including profit and loss (P&L) and quality of service (QoS). To establish the rates, IS uses a pro forma tool to define all the direct and indirect costs of that service (numerator) and the anticipated demand for the service (denominator). Once the pro forma is completed, the financials are reviewed by OMES Finance. Once validated, any changes are passed through GTARB for approval.

Specifically, for Tech Maintenance – Applications rates, reports were pulled on how much time the team has historically spent supporting each application to estimate the labor required for operations. Then an inventory was conducted of the infrastructure and platform licenses required to operate the application. The inventory was then validated by the IT Strategist. Based on the validated inventory, the standard OMES rates were applied for servers, storage and platform licenses (which were created based on the methodology in the previous paragraph).

The only costs not accounted for in the FY2017 App maintenance rates are any 3rd party licenses that are required to support the application. Those are being incorporated into the FY2018 rates so the agency can see the full cost of ownership for each of their applications.

Analysis of Mandates

Oklahoma Statues provide general IS mandates, including creating and implementing an IT strategy for all State agencies; establishing and enforcing minimum standards for IT systems and processes; and implementing a shared services statewide infrastructure and application environment for all State agencies.

IS also has mandates related to external relations and service quality, including:

- Approving State agency purchases of IT and telecommunication services;
- Evaluating all technology and telecommunication investment choices for all State agencies; and
- Developing and operating a scalable telecommunications infrastructure that supports voice communications reliability, integrity and security.

In addition, IS is responsible for supervising application development and assisting agencies in the utilization of IT systems and hardware. A full list of all OMES mandates is provided in Appendix C.

Analysis of Performance

In addition to the completion of the six-year IT unification initiative mentioned previously, recent IS accomplishments include the construction of the Criminal Justice Information Systems Center for Excellence data center for law enforcement IT unification, the transition of more than 12,000 phones to current voice technology and telecommunication connectivity updates for 113 remote agency sites to increase speed, reliability and security.[69]

Customer Service Performance Measures

A significant category of performance measures are those that relate to customer service. It is important to consider how both internal and external customers experience technology. IS currently incorporates some customer service related performance measures (primarily pertaining to timeliness of responses and customer satisfaction).

Table 19: Customer Service Performance Measures

Customer Service Themes	Performance Measures	How Does IS Measure?
Timeliness of response	First response time (Adjusted by communication method)	Tickets Resolved or Ticket “Response / Restore” within SLA Time Frame
	Average reply time	
Successfulness of response	Complaint escalation rate	Tickets Resolved or Ticket “Response / Restore” within SLA Time Frame
	Next issue avoidance: Percentage of customer contacts with multiple support requests for the same subject area	
	One Touch Resolution: Percentage of support tickets solved with one response	
	Resolution rate:	
	- Average time to resolution	
	- Number of active issues	
	- Number of resolved issues	
Customer satisfaction	Customer satisfaction scores	Customer satisfaction scores
Website Effectiveness	Dropoff rates	Does not measure

Source: PFM Project Team
Customer Service Themes and Performance Measure are based on research of best practices.

Customer Satisfaction Surveys

A few key findings from the customer satisfaction surveys are:

- The fairness of service rates is the topic customers agreed with being satisfied about the least. However, the amount of respondents indicating they disagreed or strongly disagreed decreased in 2018.
- The knowledge and attitude of the staff is the topic customers agreed with being satisfied about the most.
- There were improvements in results overall in 2018 over 2017 with the amount of respondents indicating they disagreed or strongly disagreed decreasing for each topic.

[69] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

In addition to the annual surveys, IS would benefit from conducting short post-interaction surveys. These surveys would be administered shortly after a customer has an interaction with IS and would allow for real-time feedback when interactions are fresh in customers' heads.

Oracle HCM Implementation

Between 2011 and 2015, the State of Oklahoma determined that its human resource management (HRM) system, Oracle PeopleSoft, needed to be replaced. Two key issues led to this decision: (1) Oracle had announced that it would stop supporting on-premises PeopleSoft by 2022; and (2) Custom modules were making it increasingly difficult to upgrade to the most recent updates of PeopleSoft.

In August 2015, Ernst and Young (EY) was commissioned to prepare an ERP Cloud Assessment of OMES, including recommendations and a high-level roadmap. Among the recommendations were to issue requests for proposals (RFP) for both software vendors and implementation/integration vendors. An RFP for an implementation and integration vendor was posted on May 20, 2016, and KPMG was awarded the contract effective October 20, 2016.

Despite EY's recommendation, no RFP was issued for the software contract. The justification for this appears to have been that it was an extension of the existing Oracle contract.

In June 2016, under the project name "Empower," Oracle's HCM Cloud e-learning and recruitment modules were approved to implement. These would be developed to interface with the existing payroll module. The e-learning module was launched successfully and was generally well received, but problems existed with the recruitment module and its implementation team. Nonetheless, the decision was made to expand the scope of the project to include payroll. As development continued, several problems were encountered, including:

- The payroll system lacked two important features: reconciliation and the ability to prevent a previously issued payroll from being rolled back and reissued;
- It was difficult to customize the system for the complexity of state government use;
- Many of the promised features were not delivered; and
- Oracle was not providing the expected level of implementation support.

In October 2018, OMES determined that the project would not be able to deliver the features that were initially sought or the full set of expanded features that the State required, which ultimately justified cancellation of the project. It is estimated that between $2.5 and $5 million of state resources were committed to the project before the decision was made to terminate the project. It is notable that these costs are not viewed as 'lost' as they may provide a significant starting point for the development of a future system.

From the project team's perspective, there are key issues surrounding the conceptualization and termination of the Empower Project that are relevant to the overall findings and recommendations of the performance audit:

- Undertaking a full RFP process for the software contract would have better identified specific features and requirements prior to the release of the implementation/integration RFP. The review of multiple proposals would have helped to identify features and requirements to include in the contract. Additionally, an RFP process would likely have achieved the most competitive pricing.

- State funding of technology services is currently not properly aligned. The fees charged to user agencies are not fully funding IS operations, and agencies are often not paying OMES on a timely basis. These issues result in delayed payments to Oracle (and potentially less cooperation and assistance from the company).

The Path Forward

Oracle recently announced that it will support on-premises PeopleSoft until 2030, removing some of the pressure to transition to the cloud-based version that was a factor in the moving forward on the Empower Project. While the current PeopleSoft system lacks certain capabilities (such as reporting), it generally meets current needs.

Ultimately, the effort to date has provided the State an opportunity to gain greater understanding of what it needs in an HCM system. Detailed requirements, lists of features, security concerns and staff interactions are now well-documented and can be used to create a robust RFP – and will serve as a foundation upon which an appropriate HCM system can be built.

IS Division Recommendations

6.1 RFP Desktop Support Services.

IS leadership is working to align its resources and efforts around efforts to improve the strategic use of IT in state government. At the same time, IS has a significant staffing component that is focused on delivering desk top support for state agencies. According to the July 2018 staffing data provided to the project team, there are approximately 105 IS positions with workstation support job titles (and approximately another 20 related positions). The challenge, of course, is to fund the total cost of these positions – including salary, health and pension benefits.

Faced with these costs, many states have chosen to outsource desktop support services. Notable examples include the states of Iowa, Kansas and Texas. In these instances, IT service providers were able to provide a similar (or greater) level of service at less cost. As with discussions around consolidation in general, these savings can accrue because these IT service providers (and there are many who provide service to state and local governments around the country) focus on desktop support as their core competency and can realize economies of scale. Because IS is already calculating the cost of providing these services when building its rates, the RFP process can provide an 'apples to apples' comparison for the cost of these services to OMES and its customers.

Within in the category, desktop support is broken into three tiers of service. Tier I support is the most basic level of assistance and the most commonly outsourced. Tier II support handles more complicated cases based on work orders. These positions should also be considered for outsourcing. Tier III support requires specialized skills and often have direct experience in creating and maintain programs and applications. Due to their specialized knowledge, there is a strong business case to be made for not outsourcing Tier III support, although these concerns can be addressed to the prospective vendors for their approach and solution to this concern within the RFP process.

<u>Implementation</u>

Administrative
OMES (IS and Central Purchasing) should identify the current state (how desktop services are provided – remote, on-site, current benchmarks for response time, percentage of requests resolved on the first call, etc.) as well as any desired future state aspects of the service. The RFP may be structured as a response

to the existing services and associated costs as well as any proposed changes in service to either increase effectiveness or create efficiencies in the cost of the service. Once the RFP responses are received, the state should follow its existing methods for scoring and determining whether there is business case for outsourcing these services.

It is notable that other states have built performance requirements into these contracts, and Oklahoma should do so as well. One of the performance metrics for the Iowa contract is interesting: it requires that 85 percent of the service requests be resolved on the first call – a much higher percentage than the state has experienced with their own IT operation.

Statutory Changes Required
None.

Financial and Personnel Resources Required
There will be resources required to develop the RFP, read and score responses, etc. If a contract is entered into, there will be a need for project management resources dedicated to maintaining the contract. This should not require additional resources but should be implementable with existing staff resources.

Timeframe
The RFP process and contract award process should be able to be accomplished in the short term.

Performance Measure(s)
Comparison of cost of providing the service. Compliance with performance metrics within the contract. Use of the customer service survey to determine satisfaction with outsourced service (if outsourced).

6.2 Improve the daily IS Operations and Intelligence (O&I) meeting efficiency and adjust content to more closely align with objectives.

The development of IS' daily O&I meetings was based on concepts outlined in the books "Team of Teams" by Gen. Stanley McChrystal and "One Mission" by Chris Fussell. Both books argue that although a hierarchical system worked in the business (and military) world when decisions were made at the top and orders were followed at the bottom, that hierarchical system does not work in today's more competitive environment where everyone down the chain must be empowered to make correct decisions quickly.

These authors illustrate two concepts that encourage this change: (1) shared consciousness and (2) the team of teams. Shared consciousness is the idea that when short-term, medium-term and long-term objectives are understood by everyone in the organization, individual decisions will align with larger strategies. Team of teams is the idea that teams, when properly educated with the organization's shared consciousness, can make autonomous decisions that pursue the common goal and improve maneuverability.

One tool that these authors discuss for achieving shared consciousness and building a team of teams is the Operations and Intelligence meeting or O&I. In Gen. McChrystal's example, the O&I meeting was conducted with thousands of military personnel dialing in every day at 4:00 pm to hear what was going on at the front, in logistics, and in the minds of generals.

OMES has adopted this practice for their own daily O&I meeting, which brings together 200 employees from different departments to discuss IT issues throughout the state. Each meeting follows a similar agenda:

the meeting starts with the short-term challenges of outstanding requests, outages, changes and risks. The second section involves agency issues, updates and wins, and offers managers perspective into the eff orts of their peers. Finally, executives occasionally present high-level concepts which promise insight into long term goals. In general, one or two dozen people speak each day in an approximately 60-minute broadcast. Skype is used to allow people to follow along on slides, occasionally view the presenters' faces, and chat alongside for all to see.

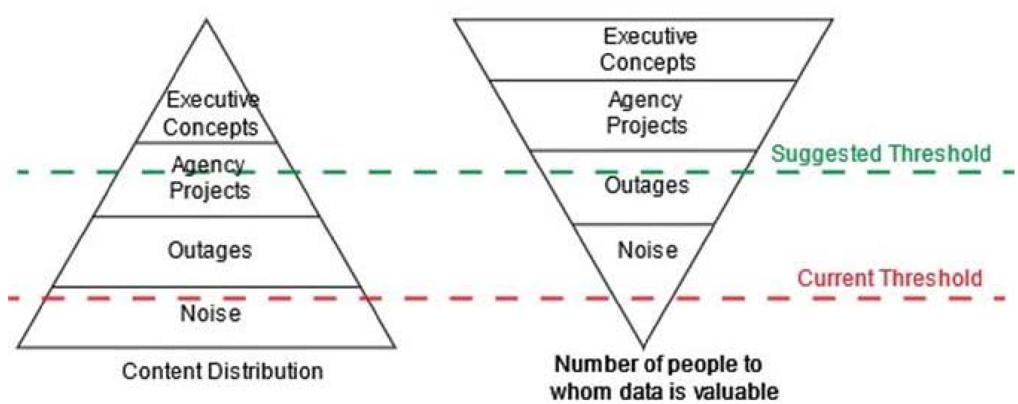
This meeting is a source of pride for OMES – each executive interviewed mentioned the call as a positive initiative. Meetings are well attended (mandatory for service managers and above) and have received national attention (including being featured in Fussell's aforementioned book). The director of these meetings is making an ongoing effort to break down silos, build teams, encourage collaboration and press for aggressive pursuit of solutions – all while identifying tools that reduce administrative overhead.

However, as a vehicle to attain shared consciousness, improvements can be made. Despite the expectation that listeners will not tune out, much of the meeting encourages users to do just that. For example, the lion's share of each meeting is spent addressing "priority cases" at the front of the session. Generally, these issues have very small constituent bases and may even be meaningless to the vast majority of the audience. Often the issues are understood outages, expected to be rectified within the allotted time, free of blockers, and requiring no discussion. Some issues from agencies such as Public Services were mechanically delivered without any apparent consideration for relevancy. And finally, we heard at least one issue which was brought up only to determine that not enough information was included to understand the problem.

Meanwhile, the executive content required to build shared consciousness was delivered at the end of the meetings or not at all. We did hear from agency directors who described their challenges and wins, but we were disappointed not to hear from executive directors and above.

The following figure illustrates the content and its value. The left side illustrates that much of the meeting is targeted at small sections of the audience, while executive content which is valuable to almost everyone is in thin supply and relegated to the end of the meeting when many people may have tuned out. The right side illustrates that executive concepts – those things that promote shared consciousness – offer the most value to the highest number of people.

Figure 13: Could Content be Reconsidered to Make it More Valuable to More People?



Source: PFM Project Team

The best way to build shared consciousness is to get executives into the meeting when people are paying attention. Furthermore, the best content is the discussion of how strategic decisions are being made, the acknowledgement of the challenges those decisions create, and the long-term justification for the strategy. When the direction that executives are leaning is known, employees down-stream tend to lean similarly in their decision making, and the efforts of the entire organization move in concert.

One example of consciousness not shared is with the problem of unrecoverable costs. Although everyone in the organization recognizes this as the biggest challenge facing OMES, the managers downstream view this as a problem which the OCIO could solve with little effort, while the executives describe this as a political issue which cannot be solved without difficult external compromises. This disconnect makes required cost cutting, lay-offs, and delayed payments more difficult than they already are.

As the diagram and our observations illustrate, it is recommended that the threshold is raised for including content in the meeting. By reducing the amount of noise and small impact content, the meeting would be more valuable for a greater number of people and tune-out would be reduced. Furthermore, it would result in more high level, transparent, strategy sharing.

The following table illustrates our estimate for the annual cost to Oklahoma taxpayers of this meeting. At approximately $2.5 million dollars, this is likely the most expensive meeting on the state's calendar. A common-sense rule when thinking about expensive meetings is they should be efficient or shorter.

Table 20: Annual Cost of O&I Meetings

Input	Amount
Number of Participants	200
Length of Meeting	1 Hour
Average All-In, Hourly Cost per Participant	$50
Meetings per Week	5
Meeting Weeks per Year	50
Total Annual Cost of O&I Meetings	**$2,500,000**

Source: Project team calculations

Returning to the diagram, the red line illustrates the current threshold for content and underscores meeting planners' desire to be inclusive. Certainly, there is value in knowing that everyone has a voice, but there are more efficient ways to accommodate the messages contained in priority cases, and outages, and ad hoc complaints. The green line in the represents a better return on the state's investment for this meeting. By moving the threshold for content up, relegating items with small audiences to email and other venues, and focusing on terrific executive content, the State can maximize the value of this meeting.

Implementation

Administrative

1. Scheduled executive presentations. As has been discussed, the most valuable messages in building shared consciousness are long-term strategy and the factors that influence decision making at the "general level". A weekly scheduled presentation from executive staff could be helpful.
2. Attendance by other members of the leadership team will add weight to the day's messages and their occasional comments will offer insight and help resolve issues sooner.

3. Encourage speakers to turn on their cameras to aid in the communication via non-verbal communication and make the meeting more personable.
4. Expanded Introduction. Obviously, keeping the meetings short is important, but concepts of Team of Teams, the intellectual parameters of the meeting, and the presence of executive presenters and guest directors (as mentioned in points above) are all great ways to start the meeting and let listeners know what's coming up and why.
5. Move content around for greater impact. Executive content should come early in the meeting – likely immediately after the introduction. More targeted stuff can move to the end of the meeting and people who know they are not affected can be quietly encouraged to return to work.
6. Reduce frequency, separate meeting into several meetings, and match participants to content. Perhaps meeting frequency is reduced to three days a week or audience is separated into content specific groups who only tune in when their content is on the agenda.
7. Utilize other communication methods for certain information including email, websites, and MS Teams.
8. Encourage better vetting from participants. The director tries to keep things relevant but does not always control content. Autonomous presenters must also understand the cost of their time at the microphone, and choose cheaper venues when available.

Statutory Changes Required
None known.

Financial and Personnel Resources Required
Implementing the changes outlined above is straightforward and can be done by the existing administrator supported by a consultant (80-120 hours). In return, creating more targeted meetings that required only three days day's commitment (down from five) would save 20,000 State employee man hours.

Timeframe
All tasks could be accomplished in a few months, and the program could be in full swing by the beginning of Q2 if started soon after the New Year.

Performance Measure(s)
O&I participants will be surveyed before and following changes. Questions might include:

- Do you feel the meeting is valuable?
- Do you multitask during the meeting? If so, how much? What do you do?
- Do you feel the O&I meeting builds shared consciousness across OMES?
- Do you feel that O&I meeting makes you better qualified to make decisions in your job?
- What percentage of the content each day is relevant to your job?
- From whom would you like to hear from more often?
- If you were put in charge of the meeting, how would you change it?

6.3 Identify and assist agencies that would most benefit from a larger online footprint.

The Internet is a perfect solution for efficiently delivering governmental information and providing many governmental services in a manner that is both user friendly and cost-effective to the State. Changes in content make it essential to update sites, but more critically, the on-going advancements with web-site functionality make it imperative for governments to constantly improve existing e-gov applications. Interviews indicated that agencies were concerned with the length of time required to develop and update websites, the ability to navigate sites and find information, and overall quality of the sites. Further assessment supported these concerns and raised some additional concerns.

One underlying area of concern is the development of websites is divided between three entities. The three groups responsible for maintaining State agency websites include:

1. OMES Public Affairs manages twelve websites, five of which require on-going active engagement. These sites are maintained in the open source tool "Drupal." Public affairs is also the department that sets and enforces styles and standards for all agency websites.

2. OMES Information Services maintains about 20 websites for smaller departments. These sites are maintained using a tool called "Feather CMS" which is an inexpensive and light content management system, or CMS.

3. The third group is a private company, Oklahoma Interactive (OI). The firm was awarded contracts to manage all of the Oklahoma Agencies' transactional websites. This includes everything from driver's licenses to professional certifications. In all, OI is responsible for about 120 transactional Internet systems. These are often part of larger websites being supported by one of the states content groups.

One open issue is the level of coordination required to use OI. It was reported by IS that prior to the recent unification process, agencies were allowed to directly contact OI to develop applications without coordinating through IS. This practice was stopped in the past year because it provided OI with too much free reign. However, the OI website allows direct contact with the note that "Once you have expressed interest in developing an online service, OI will assign a project manager who will help identify the project's high-level objectives and business/technical requirements. Your OI Project Manager will work closely with you to plan, build and deploy your desired applications and services to your intended audiences. → Contact the Business Development Team at OI"

OI builds the websites at no cost to the State in return for a per transaction fee. OI is also allowed to sell Driver's License information with both OI and the State receiving funds. Oklahoma Interactive is a subsidiary or department of NIC, a national, publicly-traded company that builds transactional websites for states throughout the United States.

As previously noted, each entity is using different tools to create and maintain websites. While some is based on specific needs, it also introduces multiple standards and complexity. It should also be noted that Public Affairs will be moving away from Drupal due to cyber security concerns.

A disconnect between OI's business model and a State mandate caused additional problems. In 2007, the State Legislature mandated that all state purchased software remain "open" which they described at the time as based in Linux and running on Apache servers – two popular open standards of the day. Unfortunately, the emergence of the cloud ushered in an entirely new standard of reusability that was not compatible with the 2007 mandate. As a result, the applications that OI was selling to the agencies came with an unexpected burden. They often had to be re-created from existing OI/NIC products into one-offs designed in an outdated environment in order to comply with the mandate. This onerous requirement meant that deliveries were slow, requested changes took longer than they should, and the perception of bad customer service was created. Recognizing the need to update the 2007 mandate, the State Legislature updated the mandate to allow cloud in 2015 which has helped. However, interviews indicated that OI is not performing at the desired level.

Implementation

- **Unification of Internet Maintenance**. The primary recommendation is the unification of the state internet maintenance departments into one body within Information Services.

  Administrative: Maintenance on all state websites should be handled by one central department under the umbrella of Information Services within OMES. The department's portfolio will include about 40 sites. They will be responsible for the server locations, software and tools, security, and coding. Agencies will be responsible for content. Public Affairs will be responsible for Style and Standards, including ADA compliance.

  It is recommended that IS improve customer services by:
  - Working with Public Affairs to prioritize the order for content site redesign. Consider which sites are most out of compliance with standards, which could benefit most from improved UIUX standards, and which agencies might be able to translate reduced transactional friction into reduced cost or increased revenue.
  - Measuring and improving response times.
  - Measuring and improving customer satisfaction
  - Considering adopting some agile components such as product owners and backlogs into the formal relationship with agencies. Agile allows the client (in this case the agency) to be part of the process and own the prioritization of feature development

  Related to this recommendation is that Public affairs should continue to create, manage, and enforce styles and standards for all state websites, but they should transfer maintenance of their set of websites to IS. We further recommend that Public Affairs raise the bar for styles and standards including:

  - Understand current standard practice UIUX principles. Incorporate all that are appropriate into Oklahoma's styles and standards.
  - Research and understand technology tools as they effect UIUX. Work with IS to ensure that the right tools are being selected and that they are being used to their potential. Pay particular attention to other complicated state websites, and make sure that if Oklahoma's sites are not best of breed, it is understood how to make them so. There is no technological reason for a web site redesign to prevent old bookmarks from working anymore.
  - Work with IS to prioritize the order for content site redesign. Consider which sites are most out of compliance, which could benefit most from improved UIUX standards, and which agencies might be able to translate reduced transactional friction into reduced cost or increased revenue.
  - Acknowledge and prepare for flexibility with respect to Styles and Standards. All sites should have a common look and feel, but likewise new ideas/approaches should be embraced and that the State's styles and standards remain fresh.

  Statutory Changes Required: None known

  Financial and Personnel Resources Required: This recommendation does not have any particular costs. However, it is important that all maintenance costs are recovered to ensure IS has a sustainable revenue model. The maintenance staff in Public Affairs should be moved to IS.

Timeframe: The amount of time to carry out the transfer is minimal, but consideration needs to be given to when it will not disrupt operations.

Performance Measure(s)
A straightforward performance measure for the consolidation of maintenance services is a customer service survey. Those agencies being supported by IS and those agencies being supported by Public Affairs should be analyzed separately. Questions could include:

- How satisfied are you with how quickly your request was addressed?
- How satisfied are you with the quality of the solution delivered?
- How satisfied are you with the way in which the solution was delivered?
- Relative to the manner in which similar problems were addressed in the past, are you more or less satisfied with (1) how quickly your request was addressed; (2) the quality of the solution delivered; and (3) the way in which the solution was delivered?

Because most requests are made electronically and have been for years, it is possible to measure the speed with which agency issues are addressed and completed. By comparing these metrics before and after consolidation, improvements can be quantified.

- **Migrate off Drupal and Feather CMS to new CMS.** The State should identify a new content management system for supporting all agency website content.

Administrative: As was noted earlier, public affairs uses the Open Source tool, Drupal. This tool has been demonstrated to lack the security needed by state agencies and needs to be retired. On the other side of the coin, Information Services uses a tool called Feather CMS which may have its own complications. There are many CMS tools available and one is likely to meet all the needs of the State of Oklahoma and agencies.

Additionally, the ability to leverage websites to efficiently and effectively management government operations continues to grow. The software should have the ability to fully utilize data analytics for simple tasks such as drop off rates to determine where website interactions are too complex. Likewise, the recent developments in Robotic Process Automation may be incorporated in websites. Full consideration needs to be given to identifying the underlying CMS that will serve Oklahoma in the future.

Statutory Changes Required: None known

Financial and Personnel Resources Required: This recommendation does have a cost component. Drupal is mostly free and Feather CMS may be inadequate for the State's needs. A new CMS will incur an additional direct cost. However, that cost will not be a significant line item financial statement and getting it up, running, and everyone moving towards it will be important. As stated above, in the long run, both teams will be more focused, more efficient, and less expensive to operate when division of labor is set and the right tools are in place and understood.

Timeframe: The amount of time to carry out the transfer is minimal, but consideration needs to be given to when it will not disrupt operations.

Performance Measure(s)
Performance metrics might include:

- The number of staff required to maintain the new system versus the multiple old systems.
- The volume of content that can be processed from the new system versus the old systems.
- The number of page views processed by the new system versus the old systems.
- The ease of populating the new system versus the old systems.
- The number of missing page errors generated under the new system versus the old systems.

▪ **Start planning now for the next RFP for Internet Services.** Oklahoma Interactive, LLC contract began in 2001 with the most recent contract awarded in 2014. The current contract ends 3/31/2019 and can be renewed until 3/31/2020.

A related issue is the business model for using OI or similar services is shifting. An article "Olathe Company Loses Big State Client" by Elise Reuter in Kansas City Business Journal, Feb 1, 2018 noted that NIC, Inc., the OI parent firm, lost the contract for management and development of State of Texas websites to Deloitte. The article quoted Peter Heckmann, senior vice president and senior research analyst for D.A. Davidson Cos., as saying "Texas is the 6th state to make major changes in their contract with NIC in the last five years," Heckmann wrote. "It is difficult not to conclude there is a major shift in state's practices at hand."

Administrative: OMES should begin preparing a RFP for this service now. The web interfaces are one of the most critical contracted services that the State procures. The current relationship leaves the State highly dependent on one vendor. Additionally, there are concerns about the quality of the products. More importantly, since the term of the contract is so lengthy it will be critical to allow adaptation to the changing IT environment.

Statutory Changes Required: None known

Financial and Personnel Resources Required: The cost structure of the contract needs to be assessed prior to issuing the RFP in order to protect the financial interests of Oklahoma. While it may cost more for the State to pay for website development up-front, there may be significant cost savings in the long term.

Timeframe: The current contract ends 3/31/2019 and can be renewed until 3/31/2020. This recommendation cannot be implemented until the current contract ends.

Performance Measure(s)

- Vendor contracts should not allow the vendor to make more than agreed upon profit, even in a revenue sharing agreement. Fee relationship should be capped based upon a net present value formula.
- Vendor contracts should have a provision for building to the State's priorities rather than to vendor priorities.

6.4 Realign IS grants management and program staff to ensure program-level needs are considered when grants management decisions are made.

Improving federal fund recapture and efficient use of grant funds. Improving the connection between those responsible for grants management and those responsible for program execution can result in more efficient use of the federal grant funding. If these groups do not work in concert, there is an increase need for grant extensions or, more critically, funds may be recapture by the granting organizations.

During interviews with OMES IS staff, an example was given of the need to hire two employees in market rate positions. Federal grant funding was identified to support the hiring of the new staff members at market rate. After the grant had gone through all approvals and was presented to the programmatic staff, only one below-market rate hire was approved. This lack of coordination leads to a misuse of staff time and resources correcting an avoidable personal staffing problem. This has the potential to cause temporary understaffing if there exists adequate time to correct the issue. If that time does not exist this underutilization of grant funding results in the need to increase State spending to address the issue.

A proposed solution is to realign grants management and program staff to ensure program level needs are considered when grants management decisions are made. During this realignment, the development of written procedures to define roles and responsibilities of each group will need to take place. These procedures should address issues related to final authority in cases of disagreement.

When managing grants, a number of variables need to be considered such as period of performance, match requirements, and eligible activities. It is recommended that OMES develop a comprehensive strategy that aligns grants with budget and staffing decisions to optimize grant management and thus the funds available to the state. The strategy would include a human resource plan that allows for the effective and timely hiring of State of Oklahoma employees and/or contractual employees. The strategy and its attendant roles, responsibilities, policies and processes will need to be communicated to state agencies to permit more informed decision making during the grant writing and management process.

Ensuring the accurate initial spending of grant funds gives Oklahoma agencies the ability to confidently reallocate remaining federal grant funds to maximize their consumption. This process will limit the potential need for potential grant extension requests, lessen the risk of recapture, and save State dollars for non-federally funded projects.

<u>Implementation</u>

Administrative

- Map the current grants management flow from initial application through drawdown.
- Determine the major decision points throughout the process and whom is currently responsible.
- At each of the major decision points, determine if this role would be better handled by program level staff, grants management staff or a combination of the two.
- Prior to a final decision being made for the use of grant funds the end user should be consulted to ensure that the highest and best use of the grant funds is being archived.

This process would assist in mitigating instances of ineffective use of grant funds and limit the risk for potential federal grant recapture.

Statutory Changes Required
None known.

Financial and Personnel Resources Required
This solutions calls for an assessment of staff responsibilities and possible realignment of some of those responsibilities which would not need to be any additional financial outlay or substantial personnel changes.

Timeframe
Three to four months.

Performance Measure(s)
A pre- and post-implementation staff survey.

6.5 Mandate that IS provide and support cyber security in the State of Oklahoma.

Cyberattacks on government, utilities, and other key infrastructure represent a significant threat to federal, state and local government and related infrastructure Likewise, ransom-ware attacks for profit, like the one that shut down the City of Atlanta, represent serious threats to government functions.

IS is currently seen as a national leader in providing Cyber Security to the state technology system.[70] Non-state government entities, such as schools and municipalities, have sought IS assistance in responding to attacks that have impacted their computer systems. This benefits serves the State, because (using a public health analogy), the infection of one entity risks the spread to other interdependent entities and a potential epidemic. However, the work undertaken to support other entities does not fall under current mandates. A fee-for-service system was deemed not feasible because it would discourage the entities who need the service the most from reaching out in a timely manner.

The expanded cybersecurity role has been deployed in other states, including Connecticut. In 2016, the Governor of Connecticut created a new position – Chief Cyber Security Risk Officer – to "enhance cybersecurity prevention and protection efforts in a comprehensive, cross-agency and cross-sector manner." The State of California recently enacted a state statute to create a "Cybersecurity Integration Center within the Office of Emergency Services to reduce the likelihood and severity of cyber incidents that could damage California's economy, its critical infrastructure, or public and private sector computer networks in the state."[71]

The two primary recommendations in the 2018 Deloitte-NASCIO Cybersecurity Study were to make cybersecurity a budget line item and to advocate for and demand funding from large federal agencies to implement their security requirements and controls.[72]

Benefits and Cost Savings of Preventing a Data Breach
There are clearly a number of benefits from preventing a ransomware attack that disables critical services or a data breach that impacts the integrity of an election, that are qualitative in nature. In terms of monetary impact, NASCIO's Ponemon Institute 2018 Costs of a Data Breach Study indicates:[73]

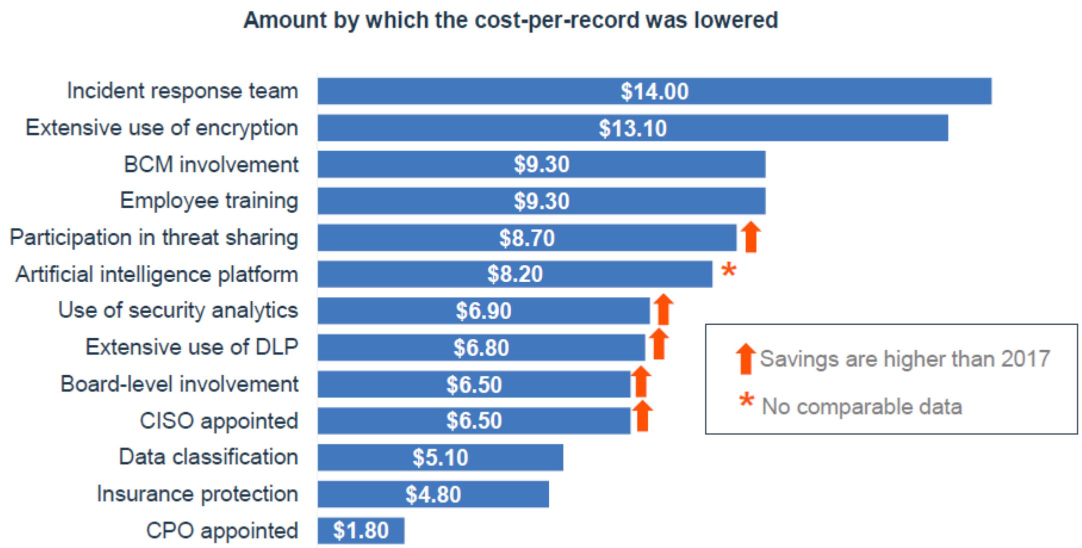
- 28 percent of "an organization in the study will experience a data breach over two-year period."
- Average cost of data breach for public sector organizations $2.3 million and $75 per compromised record (Approximately 30,600 records).

[70] For example, SecurityScorecard, a firm that monitors and measures cyber security risks, named Mark Gower one of its inaugural "Top 15 Chief Information Security Officers" in 2018. Of the 15 CISOs, only 3 were from government agencies.
[71] National Conference of State Legislatures – Cybersecurity Legislation 2018 (November 6, 2018). Accessed electronically at http://www.ncsl.org/research/telecommunications-and-information-technology/cybersecurity-legislation-2018.aspx
[72] Deloitte/NASCIO – Cybersecurity Study: States at Risk – Bold Plays for Change (October 5, 2018). Accessed electronically at https://www.nascio.org/Publications/ArtMID/485/ArticleID/730/2018-Deloitte-NASCIO-Cybersecurity-Study-States-at-risk-Bold-plays-for-change
[73] NASCIO – Ponemon Institute's 2018 Cost of a Data Breach Study (September 18, 2018). Accessed electronically at https://www.nascio.org/Portals/0/Publications/Webinars/Ponemon%20Institute%E2%80%99s%202018%20Cost%20of%20a%20Data%20Breach%20Study.pdf?ver=2018-09-18-152028-060

The study noted that the top factor for reducing the cost of data breaches for public sector organizations was the formation of an incident response team. OMES can provide the leadership and support needed to provide an incident response team for municipalities and school districts throughout the State.

If the State increases the staffing of IS to create an Incident response team, the approximate cost savings from one incident would be $429,000 ($14 per record for 30,600 records). This is strictly a reactive stance with additional cost savings possible from proactive steps identified above. Additionally, data is not available to determine how many government entities in Oklahoma would benefit annually from a more comprehensive Cyber Security approach.

Figure 14: What You Can Do to Help Reduce the Cost of a Data Breach



Source: NASCIO - Ponemon Institute's 2018 Costs of a Data Breach Study

<u>Implementation</u>

Administrative
Oklahoma should consider a mandate that IS provide and support Cyber Security in the State of Oklahoma. The scope of the mandate needs to consider:

- The services provided: education, technology support, and response
- The entities assisted: state agencies, other government units, non-profits, utilities, private entities, and general public
- The authority to enforce requirements.

The services provided will vary based on the type of entity with assistance to private entities and the general public focused on education. The education component should also include the related risk of Social Engineering Fraud, i.e., phishing scams. A risk assessment will be useful in identifying the types of assistance most needed. Properly executed, the program can also make Oklahoma more business friendly by both creating a larger IT safety infrastructure and nurturing residents into high-demand IT security jobs, which often can be worked on remotely.

Statutory Changes Required
Legislation would need to be created to mandate that IS provide and support cyber security in the State.

Financial and Personnel Resources Required
The assumptions for the sectors serviced and nature of the services are as follows:

- The work discussed is in addition to the existing IS Security Operations for the State Agencies.
- A coordinating task force for all sectors (private, public, non-profits, education, medical, etc.) should be created. This will allow for sharing of best practices, prepare for threats and create the framework/connections for sharing threats. It will also facilitate sharing of training materials, incident plans and other materials. Assuming the task force meets quarterly, the staffing can be part of the duties of a new outreach coordinator position.
- Other than the task force, the Cyber Security office would not provide direct services to the private sector, utilities, or universities until the program has been successfully established in other areas and warrants expansion.
- The Cyber Security Office will create an Incident Response Team. They would be responsible for assisting municipalities and other government units (prioritized based on risk) develop cyber security plans. They will also provide direct assistance in cases of ransomware attacks, data-breaches, and other cyber-attacks. It is anticipated that this will require two IT Cyber Security professionals.

The cost for staff will be as follows:

- IT Cyber Security Professionals – It is estimated that they would be paid a base salary of $70,000. With benefits and indirect costs, an estimate of $105,000 per employee for a total of $210,000.
- IT Cyber Security Outreach Coordinator – It is estimated that they would be paid a base salary of $50,000. With benefits and indirect costs, an estimate of $75,000 per employee.

In total, personnel costs will be approximately $285,000. There will be costs associated with travel, printed materials and software. The duties and responsibilities would need more definition to provide a detailed budget, but the cost is estimated at $50,000. This cost could increase if the budget includes costs associated with encryption software and other data security software for non-State entities.

Funding for the service could be obtained via grants, including but not limited to federal homeland security grant funds. But funding from the state will be needed. There may be the ability to create a user fee on broadband or a similar service to fund this initiative. Consideration should also be given to using reductions in insurance costs to offset increase in cybersecurity costs. As mentioned before, cost reimbursements are not deemed feasible because they will discourage requests for assistance and thus increase costs.

Timeframe
The budget and staff should be approved as part of the next budget process with the intent of hiring all three positions immediately when approved.

Performance Measures
The performance metrics used to assess the success of the initiative include:

- Number of successful data breach and ransomware attacks on protected entities;
- Mean Time To Identify (MTTI) and Mean Time To Contain (MTTC);
- Number of systems with known vulnerabilities; and
- Percentage of business partners with effective cybersecurity policies.

6.6 Eliminate a now-obsolete IS-related mandate.

The State can eliminate the statutory mandate (62 O.S. § 35.9) which requires the CIO to submit to the Director of OMES, the Speaker of the House of Representatives and the President Pro Tempore of the Senate quarterly progress reports on the State's IT consolidation efforts. A final consolidation report was prepared and submitted Oct. 31, 2017; therefore, there is no longer a need to provide the reports.

<u>Implementation</u>

Administrative
To remove this mandate, language repealing the statute needs to be drafted and approved.

Statutory Changes Required
Repeal of 62 O.S. § 35.9

Financial and Personnel Resources Required
This recommendation is unlikely to require financial and personnel resources except the time needed to draft the legislative change.

Timeframe
This recommendation could be implemented in the near term.

Performance Measures
N/A

7. Capital Assets Management Background and Recommendations

Capital Assets Management Overview

The Division of Capital Assets Management (CAM or Division) is comprised of 10 departments. The core functions of the Division are summarized in the following table.

Table 21: CAM Core Functions

Department	Core Functions
Central Printing and Interagency Mail	Central Printing and Interagency Mail oversees printing, mailing and distribution for other State agencies. The department's mailing services include agency-to-agency mail as well as United States Postal Service mail.
Fleet Management	Fleet Management oversees the acquisition, leasing, rental, maintenance, repair and disposal of the light duty vehicles used to conduct the state's business. It is also responsible for managing the state motor pool.
Federal Surplus Property Reutilization	Federal Surplus Property Reutilization is the monitoring and requesting entity for equipment donated by the federal government to state agencies or to Local Enforcement Agencies (LEA) in Oklahoma. Federal Surplus programs include the LESO program, the 1122 Program, and other GSA programs.[74]
State Surplus Property Reutilization	State Surplus Property Reutilization facilitates the reutilization of all state-owned materials, the Recycling Program for agencies within the Oklahoma City area and public auctions of state-owned goods.
Risk Management	Risk Management provides and manages property and liability coverage for both state and non-state entities including state agencies, higher education, rural fire districts, motor license agents, foster care parents and conservation districts. Coverage is offered through both self-insurance and commercial policies. The department also facilitates trainings for risk minimization where possible.
State Facilities Strategy and Operations	State Facilities and Strategy Operations works at the statewide level to assist other agencies in their building operations, building assessments and long-term strategies. In coordination with other divisions and departments of OMES, this unit is also responsible for the oversight of tenant relocations.
Construction and Properties	Construction and Properties contracts and administers construction, maintenance and related consultant contracts; maintains the state-registered consultant list for state agencies including schools and higher education; executes contracts and manages approved capital improvement projects for state entities.
Real Estate and Leasing Services	Real Estate and Leasing Services (REALS) provides real estate services to state agencies: including property acquisition and disposal, requests for proposals and information, and preparing, negotiating, executing and managing contracts and easements, as well as . REALS also maintains a comprehensive inventory of all property owned or leased by the State of Oklahoma to identify underutilized assets. The department also maintains the state's demolition list.

[74] The 1122 and LESO Programs are US Department of Defense programs that allow state and local governments to purchase surplus equipment to augment their law-enforcement, homeland security, and emergency operations. The GSA is the federal government's central services agency – comparable to OMES's function in Oklahoma state government.

Department	Core Functions
Office of Facilities Management	The Office of Facilities Management (OFM) is responsible for an array of administrative, maintenance and upkeep services for several specific state-owned buildings including the Governor's Mansion and Capitol Park.
Planning	Planning manages the Maintenance of State Buildings Revolving Fund, creates an overall picture of the state's long-term capital needs, advises the Capitol-Medical Center Improvement and Zoning Commission and provides administrative services to other organizations.

Source: OMES Glossary of Core Functions and Services, April 2018

Division Staffing and Organizational Structure

The Division is currently comprised of 154 employees, with 11 senior managers or department directors reporting directly to the CAM Administrator. Five of these departments (Planning, Real Estate and Leasing Services, the Office of Facilities Management, Construction and Properties and State Facilities Strategy and Operations) are loosely organized into a sub-division known as Real Estate Services.

Real Estate Services has historically been unique in that it received a common budget that was allocated between the five comprising departments by its administrator, the State Facilities Director. This group is in the midst of some transition as the State Facilities Director position has been functionally eliminated - shifting the division to a completely flat organizational structure, with all departments reporting directly to the CAM Administrator. OMES has recommended changes to the statutory language found in Section 203 of the Public Facilities Act – which currently mandate the organizational structure in place prior to the change.

With a span of control of 3.7, CAM has the second lowest staff to management ratio of any OMES division.

Table 22: FY17-18 CAM Budget and Staffing (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$81.9	$15.7	19.2%	156.5
2018	$91.7	$2.8	3.1%	152.0
% Increase/(Decrease)	**11.9%**	**(82.0%)**	**16.1%**	**(2.87%)**

Source: OMES Finance, As of December 2018

Analysis of Mandates

Reflecting the wide range of service areas in which the Division operates, it derives its legal authority from a number of titles in the Oklahoma Statutes. The following is not an exhaustive list of all statutory citations concerning the division and the powers vested to it. Rather, this analysis aimed to highlight the major tasks the division is legally obligated to carry out, as well as any major authorizations the division has taken upon itself. While CAM is not explicitly referenced in statute, those mandates which the director of OMES would reasonably delegate to the division were included in our assessment. A full list of all OMES mandates is provided in Appendix C.

- Real Estate Mandates
  - In accordance with the Oklahoma State Government Asset Reduction and Cost Savings Program, report the five percent most underutilized State-owned properties, assess the potential gains from its sale, and the impact such a sale would have on local tax rolls. The report and data collected in its development should be published as a data feed on the "data.ok.gov" website.
  - Lease lands belonging to the State which are not needed for the proper maintenance of institutions or departments, under terms and conditions that are in the best interest of the State.
- Planning Mandates
  - Make recommendations to the Long-Range Capital Planning Commission for liquidation of underutilized properties.
  - Approve purchases of real property or construction projects (unless the purchase or construction falls within the authority of the Long-Range Capital Planning Commission). (broad authority)
- Surplus Property Mandates
  - Establish rules for the disposal of surplus property.
- Construction Mandates
  - Purchase all material and perform all other duties necessary in the construction, repair and maintenance of all buildings under OMES management or control; make all necessary contracts by or on behalf of the State for any buildings or rooms rented for the use of the State. (broad authority)
- Inter-Agency Mail Mandates
  - Authorized to operate a mailing service for the agencies and departments of the State located in Oklahoma City.
- Fleet Management Mandates
  - Create rules for efficient and economical fleet management. (broad authority)
  - Approve or deny agency requests for motor vehicles. (broad authority)
- General Mandates
  - OMES has the authority to designate quarters for every department of State government. (broad authority)

Although fulfilling its reporting obligation under the Oklahoma State Government Asset Reduction and Cost Savings Program (62 O.S. § 908), department leaders cited several obstacles to quickly moving underutilized properties closer to the Program's overarching goal of liquidation or reutilization. The most common issue is the existence of a statutory exemption; requiring that OMES obtain the owning entity's expressed approval for property sale or disposal. State entities with such exemptions include the public colleges and universities, the Oklahoma School for the Blind or Deaf, the Commissioners of the Land Office and the Department of Mental Health.

Where unimpeded, the Division has shown itself effective at advising and executing the will of the Long-Range Capital Planning Commission (LRCPC), the nine member body that advises and assists the legislature in overseeing the State's capital facilities. The Division has sold or transferred roughly 352,000 square feet of underutilized building space and 1,100 acres of land since the commencement of the Asset Reduction program.

The Division also has a significant reporting responsibility surrounding the Capital Improvement Plan (CIP). Although the statutory mandate for its production falls largely to the LRCPC, OMES is instructed to render any of its routine services that are integral to the development of the plan (62 O.S. § 901). The CIP is intended to asses and prioritize the long-term capital facilities needs of State agencies and provide a recommended schedule of projects and budget for the next fiscal year. It is important to note that the Maintenance of State

Buildings Revolving Fund, the main receptacle of Capital Budget funding from the Legislature, has not received an appropriation since 2014. Thus, the Division has been largely unable to adequately meet the State's maintenance needs. To begin to remedy this, the Fiscal Year 2019-2026 Capital Plan makes the following funding recommendations over the next five years:

Table 23: Capital Plan Funding Recommendation, FY2019-FY2026

	FY2019	FY2020	FY2021	FY2022	FY2023
Capital Projects	$31,816,329	$30,513,907	$31,087,164	$32,386,257	$34,289,534
Debt Service	$5,860,715	$6,776,707	$6,779,176	$6,780,832	$6,780,189
Recommended Appropriation	**$37,677,044**	**$37,290,614**	**$39,167,089**	**$39,167,089**	**$39,167,089**

The Division's non-reporting mandates broadly center around the establishment and general administration of each respective service area. CAM has, in all cases, developed rules and regulations to govern their operations and continues to carry them out. However, in some areas, the terms of service are dated and may no longer reflect either the current needs of the agency or the current condition of the market.

Analysis of Performance

Recent CAM accomplishments include the expansion of the State fleet management system (FleetFocus M5) and the sale of two State-owned properties that resulted in $1.1 million for the State Building Maintenance Revolving Fund.[75]

The Division's performance is primarily assessed using (1) its progress towards reaching the agency's Strategic Goals and (2) the results of the annual customer service surveys.

OMES Strategic Goals

While having a part to play in the effort to meet *each* of the five OMES Strategic Goals, the Division is critical to the agency's attainment of the third: Continuous Improvement in Expertise and Innovation. Two of the four KPMs related to this goal fall within the purview of CAM – namely the subdivision of Real Estate Services and the department of Fleet Management.

Table 24: OMES Strategic Goals – Continuous Improvement in Expertise and Innovation KPMs

KPM:		Total Energy Usage					
KPM Description		Decrease the total energy use index of state-owned facilities from 162.77 kBtu/square foot in 2012 to 109.04 kBtu/square foot by 2018.					
Actuals						Targets	
FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
127.6	123.89	126.1	123.88	110.45	77.95	109.04	109.04

[75] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

KPM:		CNG Fleet Vehicles					
KPM Description		Increase the percentage of Compressed Natural Gas (CNG) light-duty and passenger vehicles in the statewide fleet from 7.4% in 2014 to 18% by 2018.					
Actuals						**Targets**	
FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
0.1%	3.7%	7.4%	12.2%	13.1%	13.6%	18.0%	18.0%

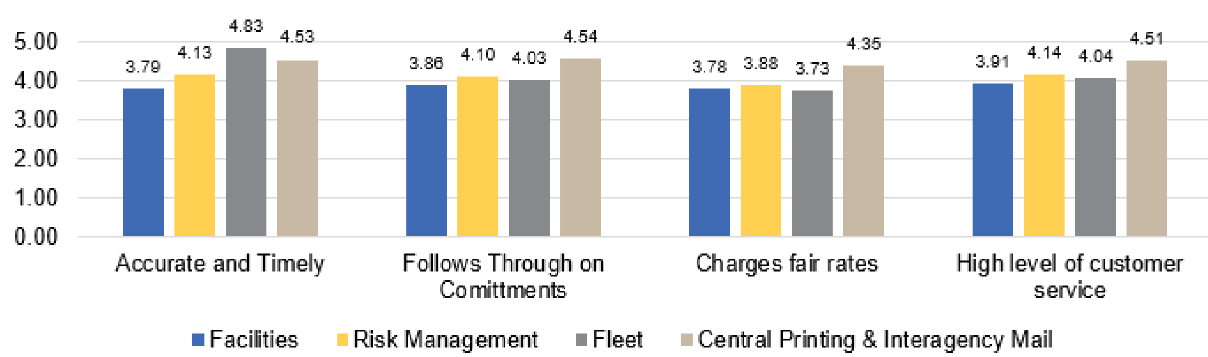
Though fall short of both targets in FY2017, CAM has driven steady and sustained improvement along both measures over the past 6 years. Despite concerns voiced by division heads regarding the lack of oversight authority with respect to non-OMES buildings, Oklahoma state facilities are poised to close the current fiscal year well below the 109 kBtu/sqft target for the first time.

The Fleet Management department faces a similar, though less daunting challenge, as it directly manages the majority of the light-duty passenger vehicles in the State fleet. The department is projected to fall approximately 4 percent short of the 18 percent target the agency had set for the end of fiscal year 2018. Fleet managers cite a number of logistical challenges in meeting the target; including the scarcity of CNG fueling sites in the less populated areas of the state, the narrowing of the cost differential between CNG and traditional fuel on the market, and Honda's decision to cease production of the Civic GX NGV – the only car available in the US that was factory-built to run on the fuel.

Customer Service Measures

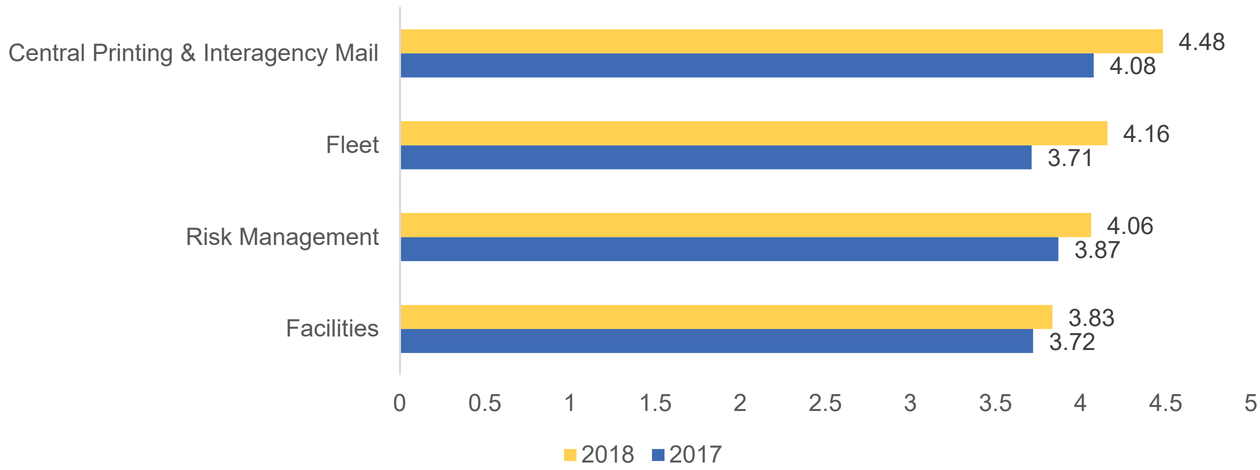
The Office of Management and Enterprise Service has historically solicited customer feedback for four of CAM's service areas: Facilities, Risk Management, and Central Printing & Interagency Mail.

Figure 15: 2018 CAM Customer Service Survey Results



With an average score of 4.48 out of 5, "Central Printing & Interagency Mail" received the highest customer service marks of all CAM service areas surveyed in 2018. "Facilities", which broadly captures perceptions of the Real Estate Services group, receives the lowest, with an average mark of 3.83 out of 5. Employees' perception of service delivery along these same measures are, on average, .04 points higher.

Figure 16: Comparison of Average Score (2017 to 2018)



The average customer service score across departments has increased by 7 percent between the 2017 and 2018 survey.

CAM Recommendations

7.1 Invest in strategic facility planning to reduce building costs and improve efficiency.

Strategic facility planning (SFP) is a process that can lead to better, more proactive delivery of services from a facility management entity to its stakeholders (in this case, agencies and ultimately, taxpayers). SFP facilitates an organization's strategy by optimizing facilities to satisfy the strategic relationships between the organization, products/services and facilities.

The SFP is a two-to-five year plan encompassing the entire portfolio of owned and/or leased space that sets strategic facility goals based on the organization's strategic objectives. SFP helps facility managers do a better job and ensures that all employees are working toward the same goals and objectives. A flexible and implementable SFP based on the specific and unique considerations of the organization needs to be developed through a four-step process:

- **Understanding.** Thoroughly understand the organization's mission, vision, values and goals. Many organizations follow a balanced scorecard of four key measurements: financial performance; customer knowledge; internal business processes; and learning and growth.
- **Analyzing.** Use analytical techniques, such as SWOT analysis, SCAN, SLP or scenario planning, to explore the range of possible futures and the triggers used to analyze an organization's facility needs.
- **Planning.** Develop plans that meet the long-range needs of the organization. At minimum, the SFP should be reviewed annually and further updated periodically as conditions require.
- **Acting.** Take actions as planning and implement the SFP. Feedback from actions taken can be incorporated into the next plan and/or project to provide continuous improvement to future SFPs. The cyclical nature of constant planning for the changing future must be managed to ensure they are achievable.

The SFP identifies the type, quantity and location of spaces needed by the organization and contains two main components—the first being an in-depth analysis of existing facilities, and the other an achievable and affordable plan to meet the organization's needs. Using the organizational business plan, the differences should be identified between the current situations and analyzed needs. Gap analysis—a business resource assessment tool enabling an organization to compare its actual performance with its potential performance—is an appropriate tool to be used. Financial analysis is also required to determine the yield on highest return at the lowest risk. A proactive approach to benchmark practices and services of leading organizations in the industry will be helpful for SFP and serves as a mechanism to understand, analyze and improve the current facilities operation. Since differences in organizational type, culture and processes strongly influence how SFP is accomplished, the recommended SFP will need to be adjusted in accordance with the different type, culture and processes of your specific organization.

Organizations often require specific or specialized analyses of facility issues. One specific initiative under this broad umbrella is a restacking analysis. A restacking analysis, or space reconfiguration is a re-thinking of work spaces to create a more efficient, collaborative setting in alignment with an entity's strategic goals.

Oklahoma Facilities

CAM is statutorily charged with assigning all space in State-owned and non-State owned facilities, authorizing the amount of space to be acquired by State agencies and executing all leasing contracts on behalf of State agencies.

As of November 2018, OMES owns or manages the leases of more than 450 office spaces comprising 2.8 million square feet at an annual rental cost of $29.5 million dollars, are shown in the following table.

Table 25: OMES Owned and Managed Lease Office Space

Lessor Type	Count	Square Footage	Annual Rent
Public	205	1,580,263	$14,476,137
Private	252	1,188,958	$15,070,107
Total	**457**	**2,769,221**	**$29,546,244**

Source: OMES Real Estate and Leasing Services OMES Owned and Managed Lease Report (November 2018)
Note: Does not include college or university space, DHS-owned or county leased space, OSU County Extension space or other exempt agency office space.

While space audits are performed regularly by private lessors in leased space, they are rarely done in state-owned buildings. OMES does not currently have the tools, time and funding to make strategic decisions regarding the composition of office space within its facilities. As a result, it is not possible to know whether the currently configuration of office space is efficient and/or effective.

In 2017, the Real Estate and Leasing Services (REALS) Office explored implementing a regional efficiency analysis plan (REAP) in an effort to reduce waste, the total cost per FTE, IT costs and space costs – all while improving efficiency in service delivery and maximizing resources. A preliminary analysis revealed that as of 2016, there were 1,480 State office locations with fewer than 10 full-time employees. Of the total, 413 locations (27.9 percent) were leased and 1,067 (72.1 percent) were owned.

The purpose of the REAP was to analyze the potential cost savings of co-locating agencies. Co-location of small offices can create IT savings for the State, in addition to potential space savings. Based on the preliminary analysis, REALS began working with agencies to identify offices that fit the criteria, find appropriate co-location partners and analyze the projected savings. REALS determined that opportunity for savings is most immediately realized when an agency is already preparing to relocate due to other factors. In these instances, the agency has funds identified to cover the cost of the relocation, and the moving cost is already an anticipated space cost. REALS is now analyzing all new space requests for co-location suitability and is working with agencies seeking space to find co-location options.

REALS met preliminarily with those agencies having multiple locations with 10 or fewer employees (including the Department of Human Services, Department of Rehabilitation Services, Oklahoma Employment Security Commission and Office of Juvenile Affairs). Each of the agencies was receptive to the plan and interested in exploring opportunities to reduce space costs.

Case Study: New York State Restacking Initiative

Between 2011 and 2014, the State of New York embarked in a "ReStacking Occupancy Initiative" prompted by the Governor's directive to streamline State government. The main focus was to consolidate the use of existing space throughout the current portfolio of State-owned and leased space. The State contracted with a private firm to establish a strategic approach focusing on managing, occupying and procuring agency office space and also commissioned the Office of General Services' NYS Real Estate Center to implement the initiative. At the outset, it was projected that decreasing the amount of leased property occupied by State agencies could save the State more than $21 million, with an estimated further savings of $5 million achievable as more leases expired on remaining excess office space. Over three years, the process yielded gross cost savings of $51.2 million; even after accounting for $18.1 million in estimated moving-related expenses (e.g. direct moving expenses, waste disposal, chair cleaning, carpet replacement), the effort generated more than $33.0 million in net savings, surpassing the State's goal.[76]

<u>Implementation</u>

Administrative

A methodical, well-planned strategy is a must for a restacking effort. Everyone involved must understand the overarching goals. The following describes the key steps entailed in a restacking analysis:

- Create large sections of vacant space that, in turn, can be used to house agencies and employees currently occupying leased space.
- Determine where employees will work while the workspace is being transformed.
- Determine how technological needs will be maintained.
- Inventory all assets.
- Plan for removal and possible sale of what is left. At the end of the effort, there will be surplus equipment.
- Develop a method for regularly monitoring and updating actual savings and expenses related to agency moves on a statewide basis.
- Moving forward, require that existing space be considered before any expiring lease is renewed or replaced.

[76] Office of the New York State Comptroller – Audit of Restacking Occupancy Initiative (September 9, 2014). Accessed electronically at https://osc.state.ny.us/audits/allaudits/093014/13s68.pdf

Statutory Changes Required
None known.

Financial and Personnel Resources Required
While it is difficult to estimate the cost to the State, other state efforts indicate that the investment in moving-related expenses may be significant – but that the initiative, if performed correctly, would pay for itself. For example, the State of New York spent $18.1 million in moving-related expenses but generated a gross cost savings of $51.2 million.

Additionally, the initiative would require the establishment of a consistent, cohesive team. Restacking requires a consistent design and construction team that can budget, plan and schedule effectively.

Because the process is generally undertaken one floor at a time, restacking requires ongoing operations – for example, mechanical and data infrastructure must remain operational at all times, as employees will reside in the building.

Timeframe Restacking requires continued attention and evaluation as increased worker mobility drives ongoing change in the office environment. New York's restacking initiative took three years to complete.

Performance Measure(s)
OMES should evaluate the success of a restacking analysis using net cost savings.

7.2 Conduct a comprehensive fleet life cycle, right-sizing and optimization study.

There are two primary concerns with the current fleet operation – and the root cause of those concerns is largely out of the control of the OMES fleet operation. First, the fleet management operation only impacts on a portion of the State's fleet – there are existing agency carve-outs for maintaining separate fleet operations. While it is not uncommon for centralized state fleets to not include all agencies (for example, state universities, because of their decentralized nature, and departments of transportation, because of their specialized heavy 'rolling stock' equipment, are often separate), there are Oklahoma agencies who do not fit into these categories that are not part of the fleet managed by OMES. The second concern is the standard model for vehicle replacement has been bypassed in recent years.

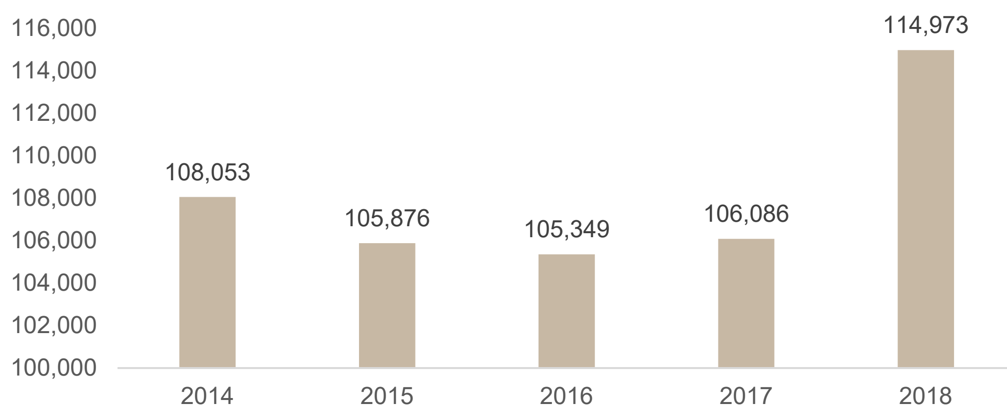
Current policy:

State statutes provide the following criteria for vehicle disposal. These are minimum qualifications for replacement:

- At least 2 years old;
- At least 60,000 miles; or
- Repairs exceed $2,500.

Fleet management has a target of not allowing vehicles to exceed 120,000 miles. In some cases, if expected utilization is low, fleet management may decide to retain a vehicle over 120,000 miles. According to data provided by Fleet Management, the mileage of vehicles sold from FY2014 through FY2018 was over 108,000. As shown in the following chart, the average mileage of vehicles sold has increased in recent years.

Figure 17: Average Mileage of Vehicles Sold, FY2014-FY2018



Funding

A Fleet Management Revolving Fund is maintained to finance the replacement of vehicles. The fund is supported by the monthly lease rates Fleet Management charges. Fleet management lease charges are determined using a formula that considers the depreciable value of the vehicle, administrative costs, maintenance and repairs, insurance, and other service costs. However, due to state budget challenges, the Fleet Management Revolving Fund has been used for other purposes in recent years, as seen in the following table and the amount available for purchasing replacements has decreased.

Table 26: Transfers Out of the Fleet Management Revolving Fund

Fiscal Year	Amount
2016	$500,000
2017	$1,500,000
2018	$60,000

Source: OMES

It should be noted that these transfers were authorized by the Legislature, and the fleet operation had to adjust its normal planning for vehicle replacement accordingly. As a result, the actual number of vehicles replaced in recent years has fallen off dramatically from prior years.

Table 27: Vehicle Replacement, FY2014-FY2018

Year	Number of Vehicles	Dollar Amount
2014	132	$2,876,781
2015	364	$6,911,589
2016	36	$793,541
2017	91	$1,936,962
2018	95	$2,158,486

Source: OMES Fleet Management

Another factor influencing Fleet Management's ability to efficiently replace vehicles is the monthly lease rates it charges. A significant portion of this monthly rate is intended to cover the cost of maintenance and repairs and administrative costs driven by the cost of labor. According to Fleet Management, these labor-related rates were last updated in FY2011.

Current Fleet Status

Table 28: Current Fleet Mileage

Mileage	Number of Vehicles	Percent of Fleet
0 to 60,000	509	49.9%
60,001 to 80,000	202	19.8%
80,001 to 100,000	151	14.8%
100,001 to 120,000	129	12.6%
120,000 or more	29	2.8%
Total	**1,020**	

Source: OMES Fleet Management

Using expected utilization and current mileage of fleet managed vehicles as of October 2018, the project team was able to estimate the number of vehicles meeting Fleet Management's target for replacement of 120,000 over the next five years. The following table shows the estimates, assuming expected annual utilization occurs each year.

Table 29: Projected Vehicle Replacement Needs, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Projected Number of Vehicles Requiring Replacement	96	133	156	186	132

It is unlikely that the current revolving fund balances will support this level of replacement. Replacement is important not only for safety reasons but because older vehicles (particularly once out of warranty) require greater average expenditures for maintenance and repair. This can also impact on agency productivity, as vehicle downtime can result in schedule and activities disruption for employees who rely on vehicles to do their job. This is also a customer service issue, as general satisfaction with fleet services will be higher with newer, more reliable vehicles.

While one solution for the current situation would be to replace the revolving funds that were approved by the Legislature for other agency uses, this would require that those resources not be available for other purposes and may not be the highest and best use of funds. There is an alternative, however, which would support the concept of 'highest and best use' of state resources.

A fleet vehicle life cycle, right-sizing and optimization analysis would provide an opportunity for the State to determine what is the optimal number and mix of vehicles in the state fleet. While this could include all state vehicles (such as state higher education institutions and the Department of Transportation), it may be more useful to limit it to standard passenger vehicles within the Executive Branch – but this would include Executive Branch agencies who maintain their own passenger fleets. These studies have been useful in reducing the number of vehicles in fleets – for example, a fleet study led by the project team for Washington DC resulted in an 8 percent reduction in their passenger vehicle fleet, which, if attained by the State would cover much of the likely shortfall in funding for vehicle replacement in the next few years.

It is notable that OMES had a fleet efficiency review conducted in 2013, by CST Fleet Services. Its primary short term recommendation was that the State conduct a full life-cycle, right sizing and right typing study to address aging fleets in multiple departments and the wrong vehicles being used.[77] We agree with that assessment; to date, that study has not been conducted.

Implementation

Administrative
As noted in the CST study recommendation and based on the project team's experience, this study can be conducted in the short term. The process of then removing vehicles identified in the study is generally done through a collaborative negotiating process with the impacted agencies, which can be part of the study or done as a separate activity upon completion. In the project team's experience, it is more effective as a part of the overall study process, although this can result in multiple iterations of vehicles to be right-sized and extend the length of time for the study – probably from around 6 months to around 8-9 months.

Statutory Changes Required
The right-sizing study can be conducted without legislative authority; however, the participation of agencies outside the current OMES maintained fleet would be more likely with legislative direction. In some cases, the right-sizing recommendations and the requirement that agencies comply with the recommendations, is also put into statute or legislative intent language, which also helps ensure effective implementation.

Financial and Personnel Resources Required
The study is generally conducted by a third party, and funding for the study would need to be provided. The study also requires active participation by the management and subject matter experts of the impacted fleet operations, but there is not a need for additional FTEs solely related to the study.

Timeframe
It is likely that the study can be commenced (and, depending on when that occurs) be substantially completed in 2019. The timeframe for realizing savings associated with the right sizing will likely begin to occur in 2020.

Performance Measures
The number and percentage of passenger vehicles that are eliminated are an obvious performance measure. Savings associated with the right-sizing will also be a logical measure.

7.3 Identify additional strategies to address deferred maintenance needs in the absence of appropriated resources to do so.

CAM has various responsibilities related to reporting on the condition and maintenance needs of State-owned buildings. The State is facing a significant backlog of deferred maintenance, but no appropriations have been made for this purpose, and the revolving fund for the capital budget is fully depleted. Currently, 17 state buildings are assessed as adequate ('moderately deteriorated or defective components, but has not exceeded useful life'), and 4 are assessed as marginal ('defective or deteriorated components in need of replacement; exceeded useful life'). Within State-owned space,

[77] "Fleet Efficiency Review," CST Fleet Services, April 29, 2013, p.31.

water penetration issues prevent the leasing of 16,060 square feet of real estate in the Jim Thorpe building.

According to the FY2019 Capital Plan, the estimated appropriation needed for building maintenance going forward ranges from $37.7 million to $39.2 million. Existing methods within statute have not been sufficient to provide sufficient funding. For example, the proceeds from sale of state property are to be dedicated to fund maintenance, but exemptions (for both the Department of Corrections and the Historical Society) have limited the actual resources transferred to the fund.

There are options for funding deferred maintenance that have been established in other states, but most of these involve dedicating specific resources to this purpose – which the Legislature has not shown a willingness to do. Among the examples in other states:

- The State of Missouri dedicates 1 percent of net general revenue collections for the immediately preceding fiscal year (which totaled $164.8 million in FY2018 in a constitutionally required transfer) to the Facilities Maintenance Fund (FY2018).
- The State of Nebraska provides continuous funding for deferred maintenance from a portion of its cigarette tax and a rent surcharge on buildings leased to agencies by their Department of Administrative Services. Deferred maintenance needs are prioritized for funding by a Task Force that reviews, classifies and recommends funding to the Governor for various deferred repair projects as requested by state agencies. The Task Force considers deferred repair, fire life safety, ADA, and energy conservation projects. Only facilities paying the rent surcharge are eligible to receive allocations from the Task Force.[78]
- The State of Montana uses 2.6 percent of cigarette tax revenue and up to 12.0 percent of coal severance tax revenue for infrastructure projects through the Long-Range Building Program to provide Capital construction and maintenance of state-owned facilities.[79]

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The Legislature should identify a dedicated funding mechanism for deferred and necessary major maintenance projects, as these facilities will continue to deteriorate absent some corrective action. However, given other funding priorities and needs – and the fact that this is outside the control of OMES, it makes sense to develop additional strategies that can address and/or ameliorate this need for funding.

<u>Implementation</u>

Administrative
OMES cannot create a dedicated funding stream for deferred maintenance, and its current efforts identify the needs related to this problem for state facilities. In this case, other OMES activities and initiatives can work to reduce the overall need for state building space, but the rememdy is a legislative one.

Statutory Changes Required
The Governor and Legislature should identify a dedicated funding stream to be used for CAM-identified deferred maintenance needs at state facilities.

[78] Nebraska Revised Statutes, Sections 77-2602 and 81-179, 2007, See also the discussion of the Task Force at https://nebraskalegislature.gov/FloorDocs/104/PDF/Agencies/Government__Military_and_Veterans_Affairs_Committee/95_20161201-162511.pdf, p. 448

[79] Montana Code Annotated, Title 17, Chapter 7, Sections 201 through 213 (2015). Coal severance taxes may be used for debt service payments on building projects if bonds have been issued for projects in the Program.

Financial and Personnel Resources Required
CAM has already dedicated personnel resources to identifying the deferred maintenance needs and would have existing staff to follow through on the actual project planning and execution. To make an appreciable difference, the Legislature should dedicate $25 to $50 million a year for this effort.

Timeframe
The required CAM infrastructure is in place, and if the dedicated funding stream is identified, this effort can begin in the short term.

Performance Measures
Change in the dollar value of deferred maintenance needs for state buildings. Change in usable space in state buildings. Number of state buildings classified as adequate.

8. Employees Group Insurance Department Background and Recommendations

EGID Overview

The Employees Group Insurance Division (EGID), is a special-purpose government entity engaged primarily in business-type activities. EGID is a legal trust that administers, manages and provides group health, dental, life and disability insurance for current and former employees of state agencies, school districts and other governmental units of the State of Oklahoma. EGID provides insurance solely to eligible current and former employees and their dependents. The Oklahoma Employees Insurance and Benefits Board (OEIBB) has oversight responsibility and decision-making authority to adopt policies regarding EGID financial matters. It is EGID's mission 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 participants. EGID is comprised of nine departments. The core functions of each department are included in the following table.

Table 30: EGID Core Functions

Department	Core Functions
Program/TPA Management	Provides oversight of the third-party administrator for HealthChoice plans, the Department of Corrections inmate plans and the Department of Rehabilitation Services client plans. This department also coordinates and implements benefit changes, manages contracts and works with vendors to administer programs on behalf of members.
Pharmacy Benefits Management	Provides oversight and management of the contracted pharmacy benefit manager (PBM). The department handles member calls related to pharmacy benefits, prepares pharmacy appeals for review by the clinical sub-committee and manages issues with the PBM).
Provider Network Management	Responsible for recruitment, contracting, enrollment and education for providers. Its goal is to establish and maintain a robust network of professional, facility and ancillary providers ensuring broad access to members of HealthChoice, Department of Corrections and Department of Rehabilitation services health and dental networks.
Internal Audit and Fiscal Analysis	Works with the plan's consultants, actuaries and outside auditors to ensure that claims are paid correctly and reimbursement methodologies are appropriate and in line with industry standards. The department also monitors health care cost and utilization, verifies vendor financial reports, monitors provider fee schedule updates and collaborates and implements provider reimbursement strategies.
Health Care Management	Provides medical and durable medical equipment case management. The department also assists members with out-of-network issues, performs life insurance evidence of insurability reviews and pre-authorizes certain medical equipment and services.
Member Accounts	Maintains eligibility for participants and transmits data to the appropriate TPA, PBM and commercial carriers. The department also receives and posts premium dollars from employer groups, individuals and retirement systems and properly remits them to the appropriate carrier.
Member Services	Answers calls from members and provides timely resolution of all issues. The department interfaces with insurance coordinators and administrators of over 900 employer groups by providing training and hosting group meetings.

Department	Core Functions
Compliance and Industry Practice	Directs and oversees compliance for OMES HIPAA privacy and the EGID Compliance Program. Coordinates, investigates and reports on fraud or privacy violations. The department develops OMES training for HIPAA and EGID training for fraud, waste and abuse. It also provides subject matter expertise in the Affordable Care Act, Section 125 cafeteria plans, other federal mandates, HIPAA and other privacy mandates and oversees the procurement of health, dental and vision commercial carriers.
Finance	Provides financial accounting and reporting. The department is also responsible for asset management, which includes oversight of engaging investment consultants to ensure that assets are invested in accordance with OEIBB board policy and governing statute.

Source: OMES Glossary of Core Functions and Services, April 2018

The Division receives no general fund appropriations and is mostly dependent on premium revenues for health care plans provided to Oklahoma employees.

Table 31: EGID Budget and Staffing, FY 2017 – FY 2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$53.5	$0.00	0.00%	114.0
2018	$50.5	$0.00	0.00%	108.5
% Increase/(Decrease)	**(5.61%)**	**0.00%**	**0.00%**	**(4.82%)**

Source: OMES Transition Documents, FY2017-FY2018

EGID provides a self-insured health, dental, life and disability program (HealthChoice), which is actuarially rated to provide premiums adequate to meet the payment of all claims, administrative expenses and any change in reserve estimates. EGID maintains reserves to provide for current claim liabilities as required.

HealthChoice is a health plan serving education, state and other local government employees in Oklahoma. It is responsible for insurance services to these members including enrollment, claims processing, customer services, and medical management. It is also responsible for provider services to support health services to members and the information systems necessary to support each of those functions. To maintain its operational integrity, the Company also has corporate services functions such as Finance, Human Resources, Legal, and Corporate Executive/Governance.

Using the standard insurance company efficiency measure of CY2017 administrative expenses as a percentage of total revenues, at 4.14 percent, EGID is a considered a very efficient organization. The Sherlock Company, a nationally-recognized source of information on health insurance companies and plans follows and benchmarks 14 Blue Cross Blue Shield (BCBS) Licensees serving over 37 million members. In 2014, a report by The Sherlock Company compared EGID administrative expenses to be 38.9 percent lower than its peer group of BCBS plans that operated in one state. While a portion of this difference is due to the fact that EGID/HealthChoice does not have a sales and marketing effort, the difference is still significant.

For 2017, Sherlock reported the median total costs for the universe of surveyed BCBS Licensees as a whole were $34.99 per member per month. The median administrative expense ratio was 8.9 percent. Accordingly, EGID continues to compare well in terms of overall administrative efficiency and no material weaknesses in overall efficiencies were noted in this review. Moreover, Administrative expenses decreased by approximately

$2.9 million in 2017 from 2016. It is apparent to the study team that EGID is a relatively efficient operation based on these comparative standards.

Analysis of Mandates

EGID's mandates and responsibilities generally fall under the Oklahoma Employees Insurance and Benefits Act (O.S. 74 § 1301 et. seq.). Its key mandates include:

- The Division must discharge its duties for the purpose of providing benefits to the participants and their dependents and defraying reasonable expenses in the administration of benefits.
- Diversify investments to minimize the risk of large losses.
- Determine all rates for life, dental and health benefits offered to employees.
- Provide uniformity in insurance benefits for all employees of the State.

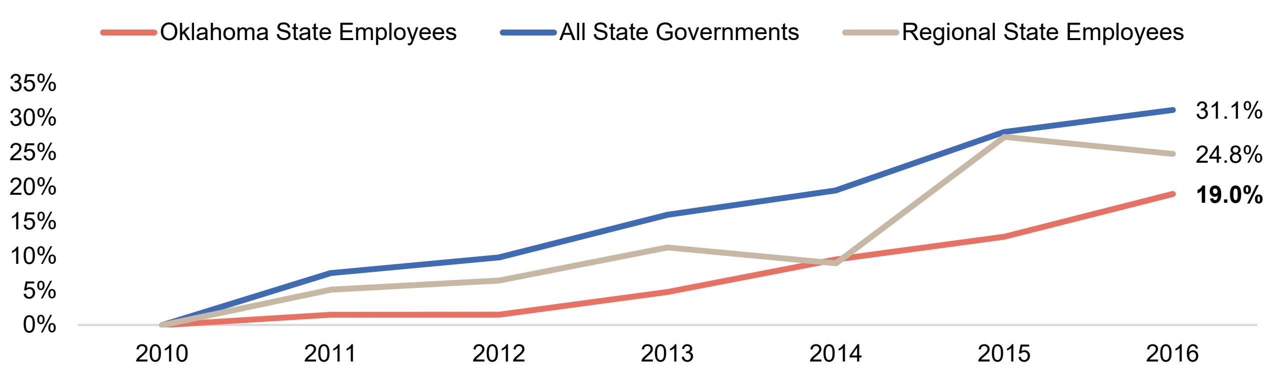
EGID has generally complied with all statutory mandates. A full list of all OMES mandates is provided in Appendix C.

Analysis of Performance

Recent EGID accomplishments include the consolidation of commercial benefit contracting duties previously split between two divisions and one department and the development of electronic eligibility import for education and local government entities to eliminate redundant processes. Major savings, efficiency and shared services initiatives include a second phase of hospital outpatient reimbursement changes (which EGID estimated saved $25.5 million in HealthChoice plan costs for 2017).[80]

EGID has performed particularly well in terms of providing benefits at low cost to employees while keeping administrative costs low. EGID's single employee premium growth from 2010 to 2016 (19.0 percent) has been significantly less than the national average for state governments (31.1 percent) as well as other regional state governments (24.8 percent).[81] The following figure shows cumulative growth in single premiums over that timeframe.

Figure 18: Cumulative Growth in Total Single State Employee Premiums, 2010 to 2016



Source: US Department Health and Human Services and EGID

[80] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf
[81] Oklahoma's region, determined by the U.S. Department of Health & Human Services, is "West South Central" and includes Arkansas, Louisiana, Oklahoma, and Texas.

EGID has also successfully controlled administrative expenses. As shown in the following table, the division has operated with administrative and claim processing expenses accounting for just 4.5 percent of total expenses, on average from 2013 through 2017.

Table 32: EGID Administrative Expenses, FY2013-FY2017 (in Millions)

	2013	2014	2015	2016	2017
Administrative Expenses	$40.7	$50.0	$47.0	$47.8	$44.9
Total Expenses	$952.3	$1,022.8	$1,052.0	$1,031.8	$1,051.3
Administrative Expenses % of Total	**4.3%**	**4.9%**	**4.5%**	**4.6%**	**4.3%**

Source: EGID CAFRs

EGID is also meeting its mandate of diversifying its investments. As shown in the following table, EGID invests its reserves in assets eligible for the investment of funds of legal reserve life insurance companies in the State under Title 36 of the Oklahoma Statutes. This creates a portfolio distributed among many asset classes designed to reduce risk. However, in order to comply with the restrictions of Title 36, no foreign investments are made.

Table 33: Reserve Portfolio Asset Allocation as of November 27, 2018

Strategy	
Fixed Income	
Int. Core	22.50%
Core Bonds	22.50%
Core Plus	22.50%
Multi-Sector	0.00%
Global Bonds	0.00%
Total Fixed Income	**67.50%**
Equity	
U.S. Large Cap Equity	25.00%
U.S. Mid Cap Equity	7.50%
International Developed Equity	0.00%
Emerging Market Equity	0.00%
Total Equity	**32.50%**

Source: Asset Consulting Group

EGID Recommendations

8.1 Improve EGID vendor reporting.

EGID operates its insurance enterprise using a combination of State employees and external administrative resources. In 2017, the Division's administrative expenses totaled $44.9 million. Of that amount, $27.1 million was paid to Third Party Administrators (TPAs) and another $2.5 million was paid to consultants such as actuaries and other vendors. Taken together, the $29.5 million in administrative costs represents about two thirds of the total. The remaining third represents EGID's operating expense.

Division senior managers explained that the one third/two thirds split in administration is based on a determination of State interest. It is their belief that, while in many cases, contracting with TPAs and others for administrative services is efficient, certain critical functions of plan management and oversight should be performed and supervised by State employees to assure that the interests of the State and its public employees are adequately protected and properly managed. Program administration in other states varies widely, with many employing TPAs under Administrative Services Only (ASO) contracts to handle most administrative task of plan management. Conversely, states like Utah handle most of the administrative duties in-house, including resource-consuming activities such as claims payment.

EGID outsources, to varying degrees, the following functions to TPAs:

- Customer Services: Claims matters only;
- Provider Services: Claims matters only. *(As discussed later, the PFM project team believes some Provider Services activities are reflected in HealthChoice's Customer Services costs.)*
- Medical Management: Via TPA subsidiary, APS. At present, TPA activities are limited to Precertification.
- Claim and Encounter Capture and Adjudication.
- Information Systems, relating to Claim and Encounter Capture and Adjudication.

In the conduct of this review, the PFM project team sought to determine whether this approach reflects the most efficient and effective management and delivery of services to Oklahoma's public employees. EGID management has stated that the use of State employees, rather than third-party vendors, to carry out critical functions of the healthcare delivery system is predicated *both* on comparative efficiency *and* on assuring that activities concerning the quality, integrity and effectiveness of healthcare are presided over by direct State employees who have the State's best interests, and those of its insured employees, at heart. As part of this approach, for example, Division managers seek to minimize situations where vendors are overseeing other TPAs (with the exception of certain audit and compliance functions).

This engagement is an efficiency analysis, not a programmatic one. Accordingly, while it was not a focus of our study, in the course of this review the project team did not identify any deficiencies in the nature, completeness, timeliness or integrity of the reporting EGID requires of its vendors. Rather, the project team has evaluated the more nuanced concept relative of efficiency by State employees in overseeing the healthcare delivery system and, more specifically, how the reports and work products of TPAs can make the State's role more efficient. In doing so, interviews suggested areas where EGID employees receive reporting data from TPAs, which requires additional analysis and manipulation before it can be effectively used for other types of decision-support analysis. Opportunities, to varying degrees, may exist in the agency's fraud detection activities as well as compliance, quality assurance and rate setting.

Moreover, given that many contractors and TPAs have broad capacity for data manipulation and analysis, EGID should look first to these entities for expanded or enhanced data mining or analytical capability.

<u>Implementation</u>

Administrative

In the short term, this recommendation involves analysis of post-receipt manipulation of vendor-reported data to determine specific targets for reporting format revisions. In the longer term, as part of the Division's ongoing strategic planning, especially in concert with procurement cycles, EGID should continually review vendors for outsourcing opportunities.

Statutory Changes Required
None known.

Financial and Personnel Resources Required
Not significant. While there may be some workload impact from these changes over time, staff time and activity data are not available to construct a fiscal estimate. However, resulting small changes in capacity are most appropriately used the enhance activities such as compliance, fraud and other critical management activities.

Timeframe
The short-term analysis of staff activity and vendor capacity can be accomplished by existing EGID staff in the current fiscal year. In the longer term, EGID should develop an analytical capacity plan highlighting issues, actions and State interest benefits of increasing analytical capacity and the potential to outsource that need. This deliverable can be developed in approximately nine months. The iterative decisions on the outsourcing of workload should be ongoing, although some such decisions may be punctuated by vendor contract cycles.

Performance Measure(s)
EGID should develop a scorecard comparing the objectives in the analytical capacity plan to actuals on a quarterly basis.

8.2 Enact legislation to allow EGID to select, where appropriate, a group of highly qualified alternative insurers without materially constraining consumer choice.

As described above, EGID's medical insurance offerings include HealthChoice and a number of HMOs. Current Oklahoma statute allows for "any willing insurer." While originally thought of as a way to promote broader selection and maximize competition, the "any willing insurer" concept has been largely abandoned by private employers and state government insurance plans. Most groups now limit choices to 1-2 plans per type (i.e., a PPOs, etc.). In many instances, a single product for each type of plan is offered. In such cases, multiple choices for the same plan type typically occur when no single plan is available for the entire area which must be covered. Nationally, enrollment typically concentrates itself into only 1-2 of the plans being offered, with the remainder having very small fractions of the total enrollment.

There are also no limits on the number of dental insurers which may offered. Similar points to those above apply to dental insurers. For example, EGID currently offers 11 dental plans.

According to Division executives, managing a program open to any willing insurer creates a significant amount of inefficiency. These workload items include a high volume of member inquiries about the confusing array of plan offerings, which contain a great deal of redundancy. Additionally, they note a significant compliance effort in overseeing all these plans, with inordinate effort often being required for insurers that enroll less than one percent of the total membership. These inefficiencies extend to the

1,076 employers who use EGID plans.[82] These efforts drive administrative costs but provide little benefit to members.

In terms of competition benefit, EGID executives point out that, with an unlimited number of insurers with a variety of plan designs, each insurer must build in greater margins to protect itself against losses that it will be unable to forecast accurately. However, a vendor that knows there will only be a single, or at most two successful bidders and that they will have a multiple year contract, has far greater incentives to actually be competitive in its pricing, since it will either be the best value or it will not win anything at all.

Removal of automatic approval of an insurer can also reduce volatility in premiums. In the Division's experience some insurers deliberately underbid at first so as to attract members, then within two years become among the highest cost plans. The insurers count on member inaction or lack of attention to retain membership. However, even when that occurs, the high premiums impact employer costs.
From a cost perspective, a 2017 study was directed specifically to a segment of the State of Oklahoma program's population. Consultant Aon Hewitt concluded that moving to one best offer with HMOs can lower premiums by as much as 30 percent. This would materially affect the budgets of participating employer groups as well as the costs to program retirees, who are more directly responsible for the cost of their insurance coverage.

Any willing insurer also provides minimal incentives for efficiency. Insurers can be less efficient and charge a higher premium, and so long as they are not a high cost outlier, they will retain some membership due to individuals being reluctant to change plans, even when it makes financial and medical sense to do so.

Current Oklahoma statute provides to other issues that should be addressed. Current law limits alternative medical insurers to HMOs only. However, HMOs are currently a fraction of the many types of plans contemplated since these organizations created 1980s. HMOs now constitute less than 15% of the national market. Moreover, current statute does not permit an insurer to be disqualified on the basis of quality. Division executives point out that an insurer may have high claim costs because of lack of quality standards and failure to implement appropriate utilization processes. Thus, so long as the insurer charges premiums that are reasonably consistent with its claims experience, it cannot be disqualified even if its higher premiums are a direct result of its own ineffective policies.

Taken together the administrative burden of managing so many insurers, the lack of diversity in plan types allowed, and the need for regulatory improvements presents an opportunity to marginally increase efficiency and improve the selection and pricing for members. Accordingly, we recommend that legislation be enacted to:

1. Eliminate the any willing insurer provision;
2. Expand alternative insurer participation to other types of plans widely available in Oklahoma;
3. Empower EGID to competitively select one or more of each type of plans as an alternative to HealthChoice; and
4. Authorize EGID to adopt reasonable regulations to assure the quality of participating plans.

[82] As of December 31, 2017. Includes 133 state agency divisions, 590 educational entities, 317 local government entities, and 36 other groups

<u>Implementation</u>

Administrative
In the short term, the Division will need to develop a project plan for the roll-out of a competitive selection process, including selection criteria development, bidding process design and staffing realignments. At the point of implementation, typical roll-out activities will be required, including member and employer education and briefings for the universe of potential bidders.

Statutory Changes Required
1. Changes need to be made to 74 O.S. § 1304.1(M)(9) to:
   - eliminate the medical plan alternatives to HMOs only;
   - add specifications for commercial dental plan alternatives; and
   - eliminate the "any willing insurer" requirement, thereby allowing only 1-2 vendors to be chosen and making this a truly competitive process among insurers
2. Eliminate 74 OS § 1371. This brings all commercial insurer contracting under the requirements of 74 OS § 1304.1(M)(9) with its broader scope.

Financial and Personnel Resources Required
No direct Financial Plan impact. We believe this recommendation is largely fiscally neutral to EGID. These actions will reduce Division workload from dealing with the issues raised by the existence of multiple alternative plans, offset by the additional work of selecting competitive participants in the program and of enhanced quality monitoring of program participants. From a broader perspective, providing the Division with greater ability to reduce nominal premiums or premium growth could operate to minimize the premium increases for Oklahoma State, school and local government employees and may result in lower pressure to adjust the State's Employee Benefit Allowance.

Timeframe
Depending on the time required for decision-making, the bill drafting required should be able to be accomplished so that legislation can be introduced in the 2019 legislative session.
Implementation of the statutory changes will require several months of planning and then must be conformed to current insurer contract and member election period cycles.

Performance Measure(s)
- Measurement of alternative insurer premium performance
- Changes in alternative plan enrollee satisfaction surveys

8.3 Provide EGID with greater flexibility to conduct its business.

EGID's primary operations and objectives differ from those of most other State agencies. The Division functions as more of a corporate organization with quasi-governmental operations centered on the management of a series of insurance plans, which are commercial in nature. Standard governmental rules and procedures for purchasing, hiring and personnel activities and a variety of other management functions do not always mesh well with the most efficient operation of the highly unique activities of the Division.

The State of Oklahoma has a unique model for providing health insurance to its employees that is at the forefront of a growing trend among large employers across the country. The self-funded HealthChoice plans are the product of efficient partnerships with the private sector that leverage economies of scale and direct provider contracting for health care services. This strategy has proven successful for the State in controlling public employee health care costs relative to the industry in general. The HealthChoice platform is a delivery model supported by an organizational and technical infrastructure that has been developed over many years and is difficult to replicate on a large scale.

The following are the key considerations that pertain to the structure and organizational placement of EGID:

- With over $1 billion in annual premiums, the functions and responsibilities of EGID mirror those of a commercial insurance enterprise in nearly all respects. As a result, the agency's title structure, classification and compensation of employees, procurement requirements as well as fiscal and accounting structures do not mesh well with the State rules and regulations governing typical State agencies.

- EGID's mission is not limited to State government interest. State agencies and employees constitute a minority (0.1 percent of employers and 20 percent of members) of the clientele served by the program. The majority of the clientele consists of schools (44 percent of the covered population) and retirees from seven retirement systems (28 percent). The rest consists of various independent local government entities and non-profits.

- Certain aspects of EGID's program are already segregated from the rest of OMES. The monies received for premiums are trust funds, not directly appropriated dollars, and these can only be used for purposes of the benefits program. This creates a non-appropriated entity within an agency that otherwise operates on the basis of funds appropriated by the legislature. Federal privacy laws require significant segregation of EGID's data and many of its operations from the rest of OMES. This will always result in barriers to integration within the larger organization.

- EGID's overall benefits program gains significant purchasing power and economies of scale by its ability to coordinate and focus the benefits activity of so many separate employers in a single program. On the other hand, this requires EGID to have the ability to adapt to a wide range of individual employer variations, including employer benefit contribution levels, differing eligibility rules, hundreds of separate Section 125 plans, and other statutory requirements that fall outside of those that govern state agencies.

- Through the operation of HealthChoice and the oversight of alternative insurers, EGID has amassed a significant amount of operation and health policy capacity which, under a more agile structure, provide significant potential for it to contribute to other policy initiatives and programs.

Accordingly, the project team believes the State should consider the future mission of EGID and in that context, identify the specific impediments to the organization's agility, efficiency and effectiveness. These changes could be as small as an administrative waiver from certain governmental requirements all the way to making EGID a free-standing authority/corporation. While the project team does not see simply returning EGID to a free-standing State agency as a productive change, but we do believe additional flexibility, perhaps under the oversight of a board of appointed private sector professionals with requisite experience in the legal and financial areas of risk management and health care many be beneficial to the changing landscape of employee healthcare.

<u>Implementation</u>

Administrative
An OMES staff working group should be convened should be created to develop an options white paper on this issue for OMES, EGID and other State executives to consider. Based on the outcome of those discussions, a more detailed implementation plan, including administrative, and if indicated, statutory actions can be devised.

Statutory Changes Required
To be determined.

Financial and Personnel Resources Required
No direct Financial Plan impact. Any fiscal benefit from increased flexibility would accrue to the internal funding of the Division. More broadly, EGID operates fairly independently from the rest of OMES. Accordingly, no significant savings in other OMES operations is anticipated.

Timeframe
The formation of the working group and development of the whitepaper can be accomplished in the current fiscal year. Longer term actions will be dictated by the working group recommendations.
Depending on the time required for decision-making, administrative changes can be implemented in real time. If statutory action is required, the bill drafting required should be able to be accomplished so that legislation can be introduced in the 2019 legislative session.

Performance Measure(s)
- Timely completion of the white paper
- Measured savings achieved through increased flexibility on an annual basis

9. Budget and Gaming Compliance Background

Budget and Gaming Compliance Overview

The Budget and Gaming Compliance Division is comprised of three departments: State Budget, Statewide Performance Management and the Gaming Compliance Unit. The core functions of these departments are described in the following table.

Table 34: Budget and Gaming Compliance Division Core Functions

Department	Core Functions
State Budget	Assists bill authors. provides a thorough fiscal impact and policy analysis, which is utilized by the governor's office to inform decisions; assists agencies with budget entry and review of budget information in the Hyperion [*state budget*] system, provides research and composes the governor's proposed state budget; performs budget and fiscal analysis and projections; creates the Executive Budget Book; provides staff for the Equalization Board; and serves as the official record of the state for budget information.
Statewide Performance Management	Manages OKStateStat and the performance framework for the state's Performance Informed Budgeting Initiative; conducts internal reviews for OMES; organizes strategic retreats, consultation and facilitation; and leads implementation of OMES's priorities, goals and strategic initiatives.
Gaming Compliance Unit	Responsible for ensuring gaming entities operate in accordance with the Tribal Gaming Compact and federal regulations; also participates in specific task forces with other state and federal agencies and represents the state in federal litigation. In 2004, the State Tribal Gaming Act created a tribal gaming compact allowing federal recognized American Indian tribes to operate electronic bonanza-style bingo games, electronic amusement games, electronic instant bingo games and non house-banked card games. The current compact expires January 1, 2020.

Source: OMES Glossary of Core Functions and Services, April 2018

Division Budget and Staffing

The Division is funded by State appropriation and by exclusivity fees deposited into the Tribal-State Gaming Compact Revolving Fund.[83] The Division's FY2018 budget was $1.9 million. Of that total, nearly two-thirds ($1.2 million or 62.2 percent) was appropriated. The Division is comprised of 16.6 FTEs.

Table 35: Budget and Gaming Compliance Division Budget and Staffing, FY2017-FY2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$2.0	$0.9	47.1%	16.0
2018	$1.9	$1.2	62.2%	16.6

[83] The Indian Gaming Regulatory Act of 1988 mandates that compacted tribes must pay monthly exclusivity fees to the State for both electronic and table games. Fees for electronic games are imposed on a sliding scale: 4.0 percent for the first $10 million of annual adjusted gross revenues (AGR; equal to total revenue minus prize payouts); 5.0 percent of the next $10 million of AGR; and 6.0 percent of AGR over $20 million. Fees for table games are equal to 10.0 percent of the monthly net win of the common pool(s) or pot(s) from which prizes are paid for non-house banked card games.

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
% Increase/(Decrease)	**-6.5%**	**23.5%**	**32.0%**	**3.8%**

Source: OMES Transition Documents, FY2017-FY2018

Analysis of Mandates

The Division's duties and responsibilities primarily fall under the Oklahoma State Finance Act (O.S. 62 § 34.3 et. seq.). The Gaming Compliance Unit's authority to carry out the State's oversight responsibilities under the Tribal Gaming Compact is provided in the State-Tribal Gaming Act (3A O.S. § 3A-280). Many of the Division's statutory mandates provide very broad authority, including aiding the Governor in the economic management of State affairs, assisting the Governor in making appropriation allotments to control expenditures, determining the elements required to be included in each agency's strategic plan and providing forms for the completion of strategic plans. Other mandates are more specific, including:

- Estimating General Fund revenue for all agencies;
- Preparing the Governor's budget;
- Advising and consulting with members of the Legislature and legislative committees concerning revenue and expenditures of State agencies;
- Approving appropriation allotments for each agency as well as the higher education system; and
- Sending by October 5th of each year a complete list of all agencies which have failed to submit budgets to the Governor and the Legislative Oversight Committee on State Budget Performance.[84]

Generally, the Division successfully carries out each of these mandates. It is notable that OMES leadership indicated that the budget process itself lacks "teeth": while agencies are mandated to submit an itemized budget request to the Director of OMES by October 1st of each year, many agencies fail to meet this deadline with no consequences. A full list of all OMES mandates is provided in Appendix C.

Analysis of Performance

Recent Performance and Efficiency Division accomplishments include assisting the Department of Health in developing the Oklahoma Health 360 Project (a health improvement initiative put forth by the Governor) and implementing a new Strategic Services shared service to assist State agencies with obtaining stakeholder input and facilitating large strategic planning events.[85]

The Division's performance is primarily measured via key performance measures (KPMs) designed to help OMES achieve its strategic goal of fiscal responsibility. The goal of fiscal responsibility is to increase the understanding of the fiscal impact of divisions within OMES and to increase fiscal responsibility throughout the State through clear, concise and enforceable policy and guidance.

One KPM is the Division's maintenance of accurate general revenue estimates to ensure collections between 97 and 103 percent of the final annual estimate. In FY2017, the Division fell short of this goal, as the State

[84] On October 1st preceding each regular session of the Legislature, each State agency must submit to the Director of OMES an itemized request showing the amount needed for the next fiscal year.
[85] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

collected 91 percent of the final annual estimate; in FY2018 it reached the goal, when the State collected 97 percent for the final annual estimate.

Revenue estimating is a critical function for any organization, and there has been a fair amount of criticism leveled at state governments in general for their performance, particularly during the years surrounding the Great Recession. A critical review of all states' revenue estimating performance found a 'trend of growing inaccuracy' where states tend to underestimate revenue in periods of growth and overestimate them during economic contractions.[86] Some of this is due to the increased reliance by states on more volatile revenue sources (particularly income tax), but the overall performance of states is a concern.

State revenue volatility can also be impacted by specific sectors of the economy, and states with a significant reliance on natural resources have often had to deal with significant swings in commodity prices that impact revenue collection. In fact, one study of revenue volatility by state identified Alaska, North Dakota and Wyoming as the three states with the greatest revenue volatility.[87] That same study found the State of Oklahoma to have above average volatility, tied with Florida for the 15th most volatile state revenue structure. This will have an impact on the ability of the State to accurately forecast sudden changes in revenue collection n.

The State uses a revenue estimating process that relies on established state best practices. These include:

- There is a consensus revenue forecast (meaning one that is agreed to by both the Executive and Legislative branches and is used throughout the budget development process) prepared by the State Board of Equalization, which is made up of 6 statewide elected officials and the Finance Secretary;
- The revenue estimate is developed using multiple inputs and perspectives (in the case of Oklahoma, a State economist, an economist from a state university and a private sector economist);
- There is some buffer built into the revenue estimate for budgeting purposes (the State constitution limits appropriations to no more than 95 percent of the official revenue estimate).[88]

It is notable that the role of OMES is one of staff support (to the Board of Equalization) in this process. Ultimately, the Board is responsible for the revenue estimate. Further, the in-house economist assistance is provided by the Tax Commission, and much of the data necessary to develop the revenue estimate is located at the Tax Commission. In this respect, this is something of a shared responsibility, which can make it difficult to assign responsibility for this performance measure to OMES (and, in this respect, calls into question its relevance as a performance measure for OMES).

When assessing the overall performance of the revenue estimating process in its 50-state benchmarking, the Volcker Alliance assigns Oklahoma a grade of B in each of the last three years; in creating this grade (which is scored on a curve with all 50 states) it concludes that Oklahoma follows best practice on consensus revenue estimates, multi-year expenditure forecasts, and multi-year revenue forecasts but does not follow best practice on revenue growth projections, which the Alliance claims relates to the lack of detailed rationale provided for the revenue projections.[89]

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[86] "State's Revenue Estimating: Cracks in the Crystal Ball," Pew Center on the States and Nelson A. Rockefeller Institute of Government, March 2011, p. 8-9. Accessed electronically at https://www.pewtrusts.org/~/media/assets/2011/03/01/003_11_ri-states-revenue-estimates-report_v1040711.pdf

[87] Mary Murphy, Akshay Iyengar and Alexandria Zhang, "Tax Revenue Volatility Varies Across States, Revenue Streams," Pew Charitable Trust, August 29 2018, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/articles/2018/08/29/tax-revenue-volatility-varies-across-states-revenue-streams

[88] Erica MacKellar, "Revenue Estimating in the States," NCSL Legisbriefs, March 2016, p.1. Accessed electronically at http://www.ncsl.org/research/fiscal-policy/revenue-estimating-in-the-states.aspx

[89] Oklahoma Budget Report Card, The Volcker Alliance, 2018, accessed electronically at https://www.volckeralliance.org/oklahoma

Another KPM is increasing the portion of tax collections that are distributed into the General Revenue Fund to 48 percent by 2018. The Division fell short of this goal in fiscal years 2017 and 2018 – distributing 45 percent and 44 percent of tax collections into the Fund in the respective fiscal year.

Table 36: OMES Strategic Goals - Fiscal Responsibility KPMs

KPM:	General Revenue Estimate Accuracy							
KPM Description	Maintain accurate general revenue estimates to ensure collections between 97% and 103% of the final annual estimate every year.							
Actuals		Budget	Targets					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
91%	97%	97-103%	97-103%	97-103%	97-103%	97-103%	97-103%	97-103%

KPM:	Tax Collections to General Revenue Fund							
KPM Description	Increase the portion of tax collections that are distributed into the General Revenue Fund from 46.7% in 2014 to 48% by 2018.							
Actuals		Budget	Targets					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
45%	44%	48%	48%	48%	48%	48%	48%	48%

Source: FY2020 Agency Program Information – OMES Strategic Plan

It is interesting that the KPMs for the Division do not touch on the overall budgeting process and support provided by OMES in development of the Governor’s budget and execution of the enacted budget. One concern that surfaced during review of budget documents is that agencies conduct much of their budget development and reporting via standalone Microsoft Excel spreadsheets, which has been an outcropping of dissatisfaction with the current technology in use as the state budget system. This decentralized process makes it difficult to collect and analyze data from multiple state agencies.

10. Central Accounting and Reporting Background

Central Accounting and Reporting Overview

The Division of Central Accounting and Reporting (CAR or Division) is comprised of four departments: Statewide Accounting and Reporting, Agency Business Services, Transaction Processing and Vendor Registration. Under the direction of the State Comptroller, the Division is broadly responsible for establishing and administering policies for the State's financial processes, as well as ensuring the State's compliance with all relevant statutes and governmental accounting standards.

Table 37: Division of Central Accounting and Reporting Core Functions

Department	Core Functions
Statewide Accounting and Reporting Department	Statewide Accounting and Reporting maintains the state's general ledger and accounting, financial reporting and PeopleSoft system implementation/rollout and support. It also provides payroll shared services to approximately 60 state agencies, administers payroll tax payments, statewide payroll reporting, appropriation payments to state agencies, PeopleSoft training and numerous other functions.
Agency Business Services (ABS)	Agency Business Services performs financial transaction processing as a shared service to state agencies. Currently it services approximately 60 state entities, providing support in the areas of budget, procure-to-pay, account reconciliation, financial reporting and billing and accounts receivable.
Transaction Processing	Transaction Processing monitors and processes all expenditure transactions that go through the PeopleSoft system, including the payment of employee payroll, travel vouchers and supplier/vendor vouchers. It also certifies vouchers for payment issued by the State Treasurer's office. It is also responsible for managing the purchasing card (P-card) program for state agencies, and acting as a liaison between agencies and suppliers on the travel and P-card statewide contracts.
Vendor Registration	Vendor Registration is responsible for managing vendor files, online vendor registration, customer service, support of IRS compliance and state agency direct deposit payment information for all state agencies including Higher Education.

Source: OMES Glossary of Core Functions and Services, April 2018

Division Staffing and Organizational Structure

The Division of Central Accounting and Reporting, as of December 2018, is comprised of 59 employees, with 5 senior managers and department directors reporting directly to the State Comptroller. With a span of control of 3.5 employees to one manager, CAR has the lowest staff to management ratio of any OMES division.

Table 38: CAR Budget and Staffing, FY2017-FY2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$6.9	$4.7	68.4%	65
2018	$7.2	$3.6	50.4%	59
% Increase/(Decrease)	**4.5%**	**(-29.8%)**	**(18.0%)**	**(-10.2%)**

Analysis of Mandates

As the State's main accounting and reporting authority, CAR's mandates are largely drawn from Title 62 and 74 of the Oklahoma Statutes. These two titles outline the state's legal approach to issues of public finance and general government operations, respectively. A full list of all OMES mandates is provided in Appendix C.

- Statewide Accounting and Reporting Mandates
    - Create a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles and auditing standards.
    - Establish procedures and guidelines consistent with the Government Accounting Standards Board (GASB) to be followed by State agencies and higher education entities for consistent application of accounting principles. (broad authority)
- Agency Business Services Mandates
    - Assist agencies in establishing standards, policies and procedures that ensure strong and effective internal controls. (broad authority)
- Vendor Registration Mandates
    - Prescribe a uniform document used by all agencies for the payment of vendor invoices and contract estimates.
- Transaction Processing Mandates
    - Issue a consolidated payroll for each agency with the State Treasurer.
    - Establish a procedure for the payment of claims or payroll.
    - Approve or deny travel reimbursement claims.
    - Provide a centralized web-based system for employees to access their personal employment and compensation related information.
    - Receive each invoice from agencies authorized to make purchases of airline tickets for out-of-state travel and prescribe forms to make these claims.
    - Authorize the use of a state purchase cards. (broad authority)

Analysis of Performance

Recent CAR accomplishments include launching an initiative to maximize discounts for early payments and implementing process improvements to streamline vendor registration. Additionally, Agency Business Services has increased its reach in recent years with fewer resources; as of 2017, its 15 employees serve 62 agencies – as compared to 26 employees serving 46 clients in 2014.[90]

The Division of Accounting and Reporting's performance, including the satisfaction of the mandates above, was determined to be adequate. The division's most significant reporting responsibility: the State of Oklahoma's Comprehensive Annual Financial Report, has consistently been delivered between December 21st and January 14th each fiscal year, over the last eight years. The Division has also carried out additional audits, in line with governmental accounting standards, as well as unique state needs. The Division has been found to maintain all internal systems called for by statute, as well as a regular schedule for the training of agency employees in the standards and procedures necessary to ensure accountability.

However, our team found that there was some space for increased efficiency on the transaction processing side of the Division. Government in the State of Oklahoma remains highly centered around the use of traditional purchase orders for the procurement of State agencies' day to day needs. Industry benchmarks find that the traditional purchase order costs organizations nearly four times as much to move through the internal controls

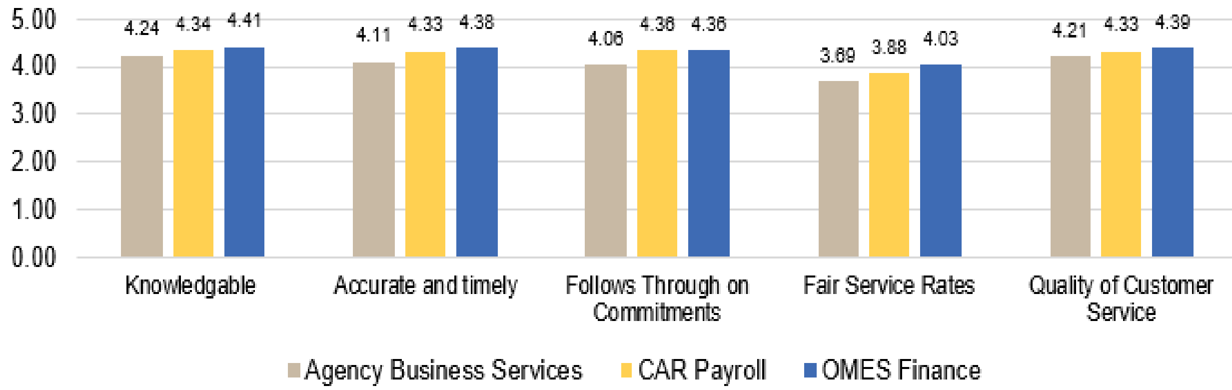
[90] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

cycle, as making the same purchase through a government contracted purchasing card. Thus, greater P-Card utilization was identified as an area of opportunity for the Division and is further outlined in our Implementation discussion.

Customer Survey Metrics

The Office of Management and Enterprise Service has historically solicited customer feedback for three of CAR's service areas: ABS, Payroll, and OMES Finance.

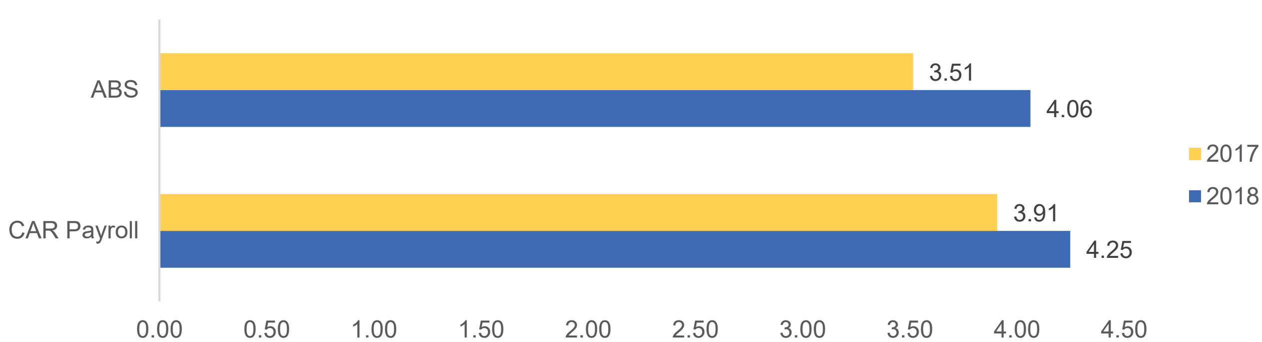
Figure 19: 2018 CAR Customer Service Survey Results



Though all three garner relatively positive feedback, OMES Finance received the highest marks on average of the service areas surveyed, followed closely by CAR Payroll and then Agency Business Services. Worth noting, however, is the considerably wider customer base that ABS and CAR Payroll serve, relative to OMES Finance. For example, ABS handles transactions for 63 state agencies whereas OMES Finance generally services other OMES departments.

Also visible from the survey is customers' lower degree of satisfaction with the rates charged, relative to their satisfaction with all others aspects of service. This trend is present largely irrespective of which CAR service area was surveyed. This sentiment was strongly echoed in our interviews with ABS and Payroll customers, suggesting that this is one area where OMES would benefit from a more transparent rate methodology.

Figure 20: 2018 vs. 2017 CAR Customer Satisfaction Survey



Nonetheless, the 2018 survey represents a strong improvement over the previous year's customer satisfaction measures. Agency Business Services posted a 16 percent improvement in its average score across all items, while Payroll managed to move the marker forward by 9 percent. 2018 was the first year in which OMES Finance customers were surveyed, thus no historical data is available.

11. Human Capital Management Background

Human Capital Management Overview

The Human Capital Management (HCM) Division supports agency efforts in Human Resources, Employee Benefits Administration, Talent Management and Employee and Organizational Development. The Division's core functions are described in the following table.

Table 39: Human Capital Management Division Core Functions

Department	Core Functions
Human Resources	Primarily responsible for supporting leadership in achieving organizational goals, handling human resources issues within OMES and advising on human resources issues outside OMES, including employee relations, training, benefits administration, interpretation of federal and state laws and statutes, recruitment, hiring, onboarding, orientation, employee data management, occupational health and legal compliance. The department serves as the HR department for the governor and lieutenant governor's offices.
Talent Management and Employee Benefits	**Talent Management:** The Applicant Services workgroup processes and reviews applications of both classified (merit) and unclassified (non-merit) positions within the state. The Assessment and Testing workgroup develops and administers tests, both written and performance-based, for merit system applicants and employees. The Classification and Compensation workgroup audits the processing of all human resource transactions for the State of Oklahoma involving hires, promotions, pay increases and demotions, as well as conducts a salary survey of private- and public-sector employers in Oklahoma comparing it to the surrounding states. The results of this survey are compiled into an Annual Compensation Report presented to the governor and Legislature. **Employee Benefits Department (EBD):** The EBD workgroup works with insurance companies to obtain benefits for state employees. They are the plan administrator for the insurance plans, train benefit coordinators at agencies, and keep the Benefits Administration System current. The Premium and Flexible Spending workgroup manages the Flexible Spending Account by issuing Benefits credit cards, processing paper claims, reviewing requested documentation for approval or denial of expenditures and providing customer service.
Strategic Workforce Services (SWS)	Its mission is to help customers prepare their workforce and organizations to better meet their mission through a combination of long-term strategic planning and practical workforce solutions. SWS provides services programs to agencies in the areas of acquisition, development, training, alignment and retention of talent to help customers meet their future talent needs. They also offer a host of consultation services to customize solutions for our customers. The Department is comprised of five primary programs: Workforce Planning, Leadership Development, Professional and Technical education, Thrive (employee wellness and well-being) and Statewide Recruitment Services.

Source: OMES Glossary of Core Functions and Services (April 2018)

Division Budget and Staffing

The Division is primarily funded by general fund appropriation but also through fees collected for services provided to other State agencies. In FY2018, those fees were budgeted at $2.1 million.

The Division's total filled FTE positions declined from 2017 to 2018, decreasing from 62.0 FTEs to 59.5 FTEs.

Table 40: HCM Division Budget and Staffing, FY2017-FY2018 (in Millions)

Fiscal Year	Total Budget	Appropriated Amount	% of Budget Appropriated	Total Number of FTE Filled Positions
2017	$8.5	$4.9	58.4%	62.0
2018	$7.8	$5.7	73.0%	59.5
% Increase/(Decrease)	**-7.6%**	**15.6%**	**25.1%**	**-4.0%**

Source: OMES Transition Documents, FY2017-FY2018

Analysis of Mandates

The Division's duties and responsibilities primarily fall under the Oklahoma Personnel Act (74 O.S. §§ 840-101 - 840-6.9) and Merit Rules of Personnel Administration (rules adopted by the Director of OMES or the Oklahoma Merit Protection Commission pursuant to the Oklahoma Personnel Act). Overall, the Division is responsible for maintaining an efficient and effective system of personnel administration and is granted broad authority to do so, including providing both service and regulatory functions for meeting the management needs of State agencies and developing and maintaining a classification and compensation system for all classified positions in the executive branch. Other key mandates include:

- Establishing procedures for State agencies to make payroll deductions;
- Establishing and administering child care centers for State employees;
- As a member of the Contingency Review Board, participating in the activities of the Oklahoma Compensation and Unclassified Positions Review Board, and approving requests for increases in State agency personnel;
- Developing employee training programs;
- Advising State agencies on personnel policy and administration;
- Ensuring State agencies comply with the provisions of the Oklahoma Personnel Act and Merit Rules of Personnel Administration;
- Providing workforce planning services to assist State agencies in analyzing the current workforce, future needs and solutions to meet agency needs; and
- Providing quality management services to assist State agencies in integrating quality management concepts and models into business practices.

In addition to these general mandates, the Oklahoma Statutes provide specific responsibilities related to talent management and employee benefits, including providing a report analyzing the compensation levels of State employees each year and reviewing salary ranges and report on and make recommendations on proposed salary ranges in its annual compensation reports every three years. A full list of all OMES mandates is provided in Appendix C.

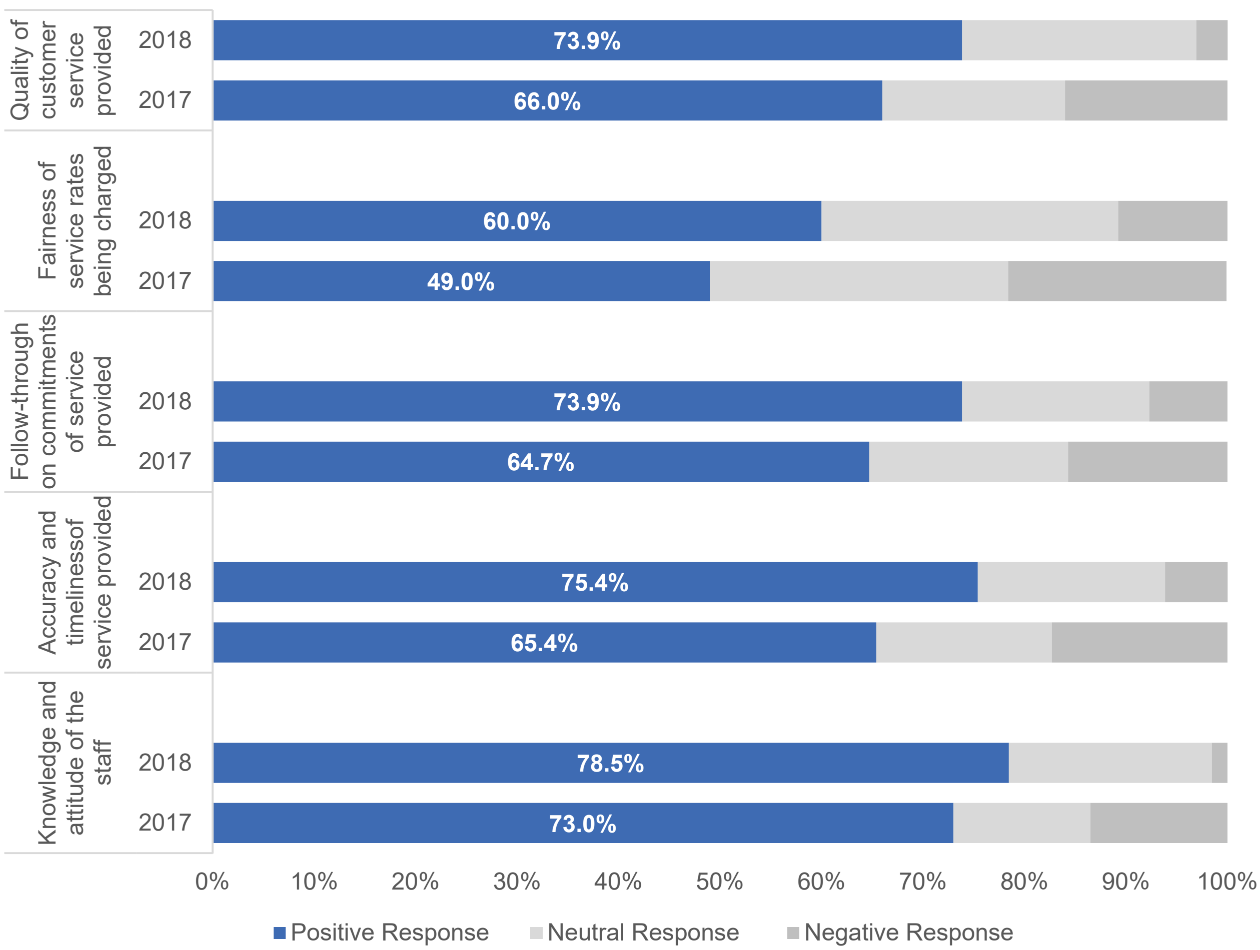
Based on the project team's review, the Division is generally carrying out each of these mandates.

Analysis of Performance

Recent HCM accomplishments include the development of a 'Knowledge Center' for agencies contracting with HCM shared services and the creation of a Lifelong Education and Development (LEAD) development program, a competency-based leadership development program.[91]

The Division's performance is primarily measured via two methods: HCM shared services customer surveys and OMES' accomplishment of certain KPM related to OMES' strategic goals. Customer responses related to use of HCM shared services improved between 2017 and 2018, as shown in the following figure.

Figure 21: Customer Satisfaction with OMES Human Resources Shared Services



Source: OMES Customer Surveys, 2017 and 2017

As mentioned previously, one of OMES' KPMs is to achieve a unified and productive culture. The purpose of the goal is to educate, develop and communicate in a way that employees and customers recognize and acknowledge the value of the OMES team. To that end, the Division assists in meeting this overarching goal by providing onboarding training as well as striving to maintain relatively low turnover rates.

[91] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

One KPM is increasing the percentage of new employees participating in onboarding training from 0 percent in 2016 to 100 percent in 2020. In FY2018, 78 percent of all new employees participated in onboarding training.

Another KPM is to increase the retention rate of first-year OMES hires by 1 percent each fiscal year through 2023. OMES satisfied this metric in FY2017 with a 4 percent increase but fell short of the goal in FY2018, experiencing a year over year decline of 7 percent.

A third KPM is maintaining OMES' voluntary resignation turnover at 10 percent or less. OMES nearly met this goal in FY2017 with a voluntary resignation rate of 10.19 percent and achieved the goal in FY2018 at 8.83 percent. It is notable that this is a meaningful accomplishment, given much budget uncertainty in State government and a stronger overall State and national economy.

Table 41: OMES Strategic Goals – Unified and Productive Culture KPMs

KPM:	New Employee Onboarding Training							
KPM Description	Increase the percentage of new employees participating in onboarding training from 0% in 2016 to 100% in 2020.							
Actuals		Budget	Targets					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
0%	78%	*	100%	100%	100%	100%	100%	100%

KPM:	Year Over Year OMES New Hire Retention							
KPM Description	Retention of first-year OMES hires increased over 6% between 2014 and 2017. Increase retention rate of first-year OMES hires by 1% each fiscal year through FY 2023.							
Actuals		Budget	Targets					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
4%	-7%	1%	1%	1%	1%	1%	N/A	N/A

KPM:	OMES Total Turnover - Voluntary Resignation Turnover							
KPM Description	Maintain OMES's voluntary resignation turnover at 10% or less (14.83% in 2015; 17.05% in 2016).							
Actuals		Budget	Targets					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
10.19%	8.83%	< 10%	< 10%	< 10%	< 10%	< 10%	< 20%	< 20%

Source: FY2020 Agency Program Information – OMES Strategic Plan

** The estimate used for the FY2019 budget was not provided.*

12. OMES Administration Background

OMES Administration Overview

The role of the Director of OMES is to serve as the Chief Operating Officer for State government as an enterprise. The Director guides the Division Directors of OMES with a vision for the agency that is customer-centric and aimed at unifying the operations and policies of OMES to optimize the state's resources. In addition, the Director guides, directs and negotiates policy for OMES with the legislature. Other functions and duties of the Director of OMES are varied and include: continuing to consolidate the agency to maximize efficacy and efficiency; exercising statutory authority to ensure that the state functions within a balanced budget; establishing processes and systems to serve the state enterprise-wide; continuing the ongoing process of statewide information technology unification; serving on various boards and commissions as appointed or required by statute; and addressing internal OMES human resource and personnel issues.

Additionally, the Director of OMES has been appointed by the Governor to serve as the Secretary of Finance, Administration and Information Technology. The functions and duties of this role often overlap with the duties of the Directorship, but in addition, include: serving as a top advisor to the Governor, consulting with and advising her on various state issues; speaking on behalf of the Governor and/or her positions; guiding policy and serving as the chief budget negotiator for the Governor. The Secretary attends and participates in cabinet secretary meetings and oversees the agencies in his cabinet area. This Secretary role is unique in that the functions under its jurisdiction directly impact all other cabinet areas.

The Director and Secretary duties and functions overlap in that both meet with stakeholders, such as the Governor and her representatives, elected officials, citizens, vendors, lobbyists, legislative members, and agency leadership to monitor ongoing work, heed new ideas and concerns, and learn information. Both also have the ongoing responsibility to collaborate with agency leaders, the Office of the Governor and legislators regarding OMES, statewide policy and the Governor's policies, and to appear before legislators to provide information and to participate in various hearings, meetings and conversations, as requested.

OMES Administration is comprised of Administrative Services, State Capitol Projects, the Oklahoma Capitol Improvement Authority, Planning and Emergency Management and Audit and Administrative Investigations. The core functions of these entities are described in the following table.

Table 42: OMES Administration Core Functions

Department	Core Functions
Administrative Services	Supports the director of OMES, coordinates and liaises with Capital Assets Management (CAM) to maintain the OMES offices within the Capitol; manages the OMES administrative offices for the director of OMES; and serves as the recording secretary for the Legislative Compensation Board and Contingency Review Board.
State Capitol Projects	Provides a wide range of representation, oversight and support services to the Capitol Restoration Project, including managing tenants within the Capitol, supporting the State Capitol Oversight Committee, acting as an internal OMES liaison, handling media relations for the Capitol Restoration Project and administrative support.
Oklahoma Capitol Improvement Authority	Administers bonds and other obligations authorized by the Legislature to finance construction of buildings, facilities and other infrastructure such as highways for continued economic development in the state.
Planning and Emergency Management	Primarily responsible for organizing, planning, revising and updating agency integrated emergency operation plans (EOPs) for all disaster scenarios; is also responsible for planning, organizing, coordinating and administering programs related to disaster recovery operations and mitigation. Additionally responsible for providing leadership and management to key strategic initiatives in support of agency objectives at the direction of the OMES director and/or chief operating officer.

Department	Core Functions
Audit and Administrative Investigations	Ensures that programs and contracts administered by OMES are conducted in accordance with laws and are used in an ethical manner. To reduce exposure to fraud, waste, mismanagement and abuse, the Department provides OMES with continuous monitoring, administrative investigations, risk-based audits, compliance audits, an anonymous fraud reporting system and preventive training courses and guides.
Legal Services	Provides legal guidance and advice for IS, HCM, EGID, Central Purchasing, CAR and CAM.
Public Affairs	Media/Public Relations works with various news outlets and the public to provide information, promotes OMES, produces news releases, provides on-camera interviews and answers media questions and public records requests in a timely fashion. The director of Public Affairs leads Public Affairs and serves as the spokesperson for OMES and the agency's director. Communications collaborates with OMES divisions for all internal and external communications as well as benefits material and communications for the state's self-funded health plan. The department works with OMES and other state agencies to produce attractive, high-quality digital and printed publications and benefits materials while providing expertise in graphic design, layout, editing, writing, video production, branding, marketing and social media. eGov is responsible for providing content management and digital communications services to state agencies and OMES. These services include email and text mass distribution, social media policy and guidance approvals, training and account set up and maintenance for OMES and other state agencies. The eGov team is the responsible lead department on development and creation of the OMES website. The department also manages website content and provides IT accessibility services for OMES divisions. The eGov team works with IS to provide other state agencies with website development and creation.

Source: OMES Glossary of Core Functions and Services, April 2018

Budget and Staffing

OMES Administration had a budget of $8.7 million in FY2018, $1.1 million of which was appropriated. The Department is comprised of 11.3 FTEs.[92]

Analysis of Mandates

The Director's key duties are generally found in Title 62 – Public Finance (primarily within the Oklahoma State Finance Act) and Title 74 – State Government and include:

- Approve each certified requisition coming from CAR which has been duly accredited by a disbursing officer for an advance of funds from the State Treasury.
- If the State CIO disputes the identification of IT assets or positions provided by a State agency as being integral to agency-specific applications or functions, the Director shall make the final determination. The Director will also make the final determination as to whether the exemption or extension will be granted if the State agency disputes the decision of the State CIO.
- Along with the Legislative Actuary, legislative staff, retirement system administrators and employers, the Director shall provide information and assistance as necessary for the State Board of Equalization.

[92] Data was not available in this level of detail for FY 2017

Many of the Director's mandates involve service on various organizations, including serving as:

- An ex officio and non-voting member of the Incentive Evaluation Commission and the Agency Performance and Accountability Commission.[93]
- Secretary to the Board on Legislative Compensation.
- A member of the Oklahoma Commission on Interstate Cooperation.
- A member of the Oklahoma State Pension Commission.
- An ex officio and non-voting member of the Contingency Review Board.

One key mandate relates to OMES' provision of shared services. Per O.S. 62 § 62.34.36 (J), not later than January 1, the Director of OMES is to publish a shared services cost-performance assessment report documenting the amount of each state agency's cost for providing shared services.[94] The lowest ranking state agencies shall enter into a contract with OMES for the provision of shared financial services, provided that the Director of OMES determines that implementation of such a contract would be feasible and documents that the contractual agreement will result in cost savings or efficiencies to the state. Contracts required by this subsection shall be entered into at the start of the next fiscal year. When a state agency is contracted with OMES for the provision of shared financial services, the agency may discontinue using shared services when documentation showing that the agency can provide the services at a lower cost to the state is provided to and approved by the Director of OMES. On a yearly basis the Director of OMES shall compile and publish a report documenting the cost savings resulting from shared services contracts.

In many instances, the Director of OMES is provided with the authority to appoint a designee to carry out mandates pertaining to the Director. As a result, the list of Director mandates is not as long as it would otherwise be. A full list of all OMES mandates is provided in Appendix C.

Analysis of Performance

Recent accomplishments pertain primarily to the State's Capitol Restoration Project, including fully completing restoration on 3 of 12 exterior elevations of the Capitol and commencing major infrastructure work in the west wing of the Capitol basement.[95]

As mentioned previously, one of OMES' strategic goals is internal and external communication. The purpose of this goal is to educate and empower stakeholders to build relationships and inform customers and employees to ensure clear expectations. To aid in achieving this goal, OMES holds skip level meetings with managers and supervisors. In a skip level meeting, upper-level management bypasses mid-level management to talk directly to non-managerial employees. These meetings aim to determine an organization's effectiveness by getting an honest assessment from employees, especially those at the rank-and-file level.

OMES has successfully met its KPM of increasing the number of managers and supervisors meeting regularly in-person with the OMES Director to 200.

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[93] The Director is authorized to appoint a designee to serve in these positions.
[94] "Shared services" means process, resource utilization or action as defined by administrative rule. The provisions of this subsection are not applicable to the Oklahoma State Regents for Higher Education or to any institutions within the Oklahoma State System of Higher Education.
[95] State of Oklahoma FY2019 Budget. Accessed electronically at https://www.ok.gov/OSF/documents/bud19.pdf

Table 43: OMES Strategic Goal - Internal and External Communication KPMs

KPM:	**Skip Level Meetings with Managers and Supervisors**							
KPM Description	Increase the number of managers and supervisors meeting regularly in-person with the OMES director from 10 in 2017 to 200 in 2018.							
Actuals		**Budget**	**Targets**					
FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
10	200	200	maintain 200+	maintain 200+	maintain 200+	maintain 200+	maintain 200+	maintain 200+

Source: FY2020 Agency Program Information – OMES Strategic Plan

13. Implementation and Next Steps

Introduction

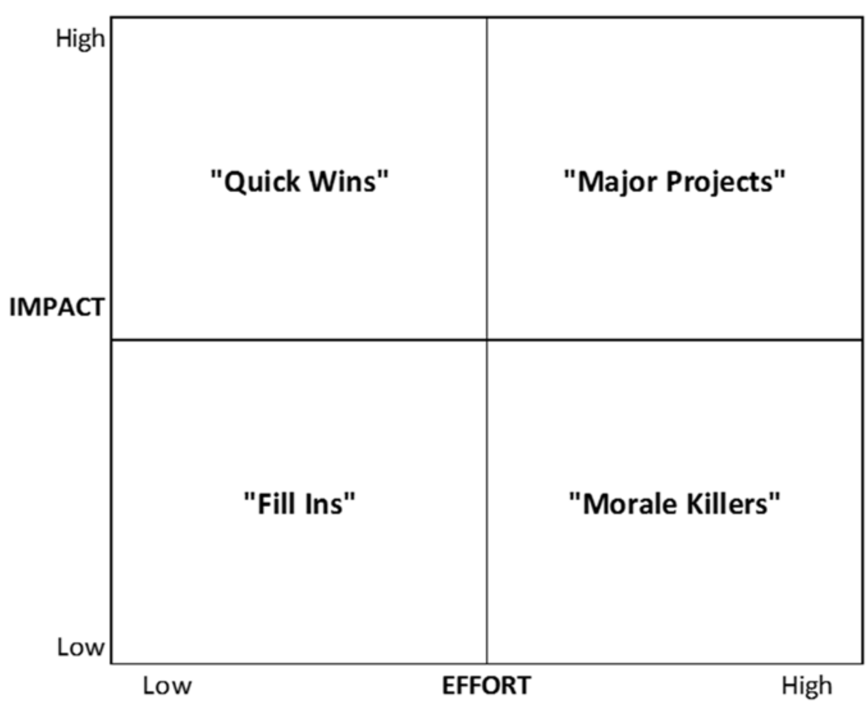
The project team believes that the identified recommendations can improve the overall efficiency and/or effectiveness of OMES, and in many cases will improve its overall bottom line. The individual recommendations provide explanation on key steps for implementation, timeframe and necessary changes to statute or needed resources.

In projecting these implementation steps, each is considered as a separate and discreet initiative; while this is understandable – and probably necessary to isolate specifics related to each recommendation, it also makes it difficult to make effective judgements on time and resource demands for multiple projects that may be in various stages of implementation at the same time. Indeed, resource constraints have been an issue on past initiatives, and that condition will probably not change in the foreseeable future. As a result, there is going to have to be a way to weigh alternative recommendations.

It is also notable that some recommendations touch on multiple Divisions (and departments) within OMES. These 'cross-cutting' efforts may require additional time and effort to coordinate activities amongst Divisions and departments.

In all of these instances, it is useful to analyze and understand the trade-off that often exists between the level of effort necessary to undertake and successfully implement an effort (often in terms of human capital) and the ultimate impact from a successful outcome. The following matrix is often used in assessing this interaction between results and the work necessary to achieve the desired outcomes:

Figure 22: Action Priority Matrix



It is generally a useful exercise for an agency to undertake this analysis for competing initiatives. This should be undertaken by the respective managers (with input from subject matter experts) who will be responsible for implementation.

As the agency contemplates undertaking initiatives that have broader application, there is generally a greater need to develop a broader project implementation infrastructure. The following are key components of a project implementation plan for cross-cutting and more transformational initiatives:

Planning
- Identify the project 'definition of success'
- Articulate the scope, goals, objectives and endgame
- Identify steps and milestones

Governance
- Develop the project team hierarchy and responsibilities
- Determine the project sponsor(s), guidance team, project manager
- Identify the number/size of teams and participants
- Create the process for escalating issues for decision making

Engaging Stakeholders
- Identify relevant stakeholders
- Develop a plan to manage possible stakeholder competing interests
- Determine how stakeholders will be involved in the implementation planning process

Risk
- Do a thorough risk assessment
- Identify risk mitigation strategies
- Identify responsible parties for mitigating risks
- Ensure that risk assessment, review and mitigation are part of the project reporting process

Monitoring, Review and Evaluation
- Create tools for project monitoring (Gant chart(s), reporting templates, calendars)
- Determine responsible parties and frequency/methods for project review
- Determine how to assess/remediate project delays/bottlenecks

Resource Management
- How will funding be allocated across the project?
- Determine/allocate necessary non-financial resources (staff, facilities, other infrastructure)
- Determine how changes to allocation will be identified/approved

Project Management
- Identify necessary project management expertise to be assigned to the project
- Identify other needed internal/external support

For successful transformation projects, there are four factors that often define success:[96]

- **Frequency of project reviews.** While long projects are sometimes viewed with concern, the length of time between formal reviews is a better indicator of project outcomes. In general, projects should be reviewed at least bi-monthly.

[96] Adapted from Harold L. Sirkin, Perry Keenan and Alan Jackson, "The Hard Side of Change Management, Harvard Business Review, October 2005.

- **Internal project management capacity.** High risk/high reward projects require high quality teams led by experienced project managers. The teams should also be inclusive – drawing upon members from the various stakeholders, including what might be considered 'project skeptics' agencies or departments.

- **Commitment.** It is critical to obtain visible project backing from the most influential executives who can be project sponsors as well as the buy-in of those who ultimately will deal with the new systems, processes or ways of doing the work.

- **Level of Effort.** Employees are already busy with their existing projects and responsibilities. While there is a natural tendency to rely on 'the same 12 people' for new project efforts, this is a warning sign for transformative efforts. Ideally, no one's workload should increase more than 10 percent, or there is danger of 'over-stretching' and/or compromises that may derail the most critical parts of the change effort. Either other duties must be taken away/reassigned or other projects may have to be put on hold.

Appendices

Appendix A: Summary of Services Provided by Each State's OMES-Like Agency

	PROC	GENERAL				INFRASTRUCTURE				FINANCE MANAGEMENT					PERSONNEL			
STATE	PROCUREMENT	FLEET	MAIL	PRINTING	SURPLUS	FACILITIES	CONSTRUCTION	IT	TELECOM.	RISK MANAGEMENT	ACCOUNTING	STATE BUDGET	STATE INSURANCE	AUDIT	HR	TRAINING	BENEFITS	**TOTAL**
ALABAMA	★	★	★			★	★	★	★	★		★			★	★		11
ALASKA	★		★			★		★	★	★	★				★	★		9
ARIZONA	★	★			★	★	★	★	★	★	★		★		★	★		12
ARKANSAS		★			★	★	★	★	★	★	★				★	★		10
CALIFORNIA	★	★		★	★	★	★			★			★	★				9
COLORADO	★	★	★	★		★	★			★	★		★		★	★	★	12
CONNECTICUT	★	★	★	★	★	★	★	★	★	★	★		★		★	★		14
DELAWARE	★	★	★	★	★	★	★			★		★	★		★	★		12
FLORIDA	★	★			★	★	★		★						★	★	★	9
GEORGIA	★	★			★					★			★		★	★	★	8
HAWAI'I		★	★		★	★	★	★	★	★	★		★	★				11
IDAHO	★		★	★	★	★	★	★		★			★					9
ILLINOIS	★	★	★	★		★				★			★	★	★	★		10
INDIANA	★	★	★	★	★	★	★											7
IOWA	★	★	★		★	★	★			★	★		★		★	★	★	12
KANSAS	★		★	★	★	★	★				★			★	★			9
KENTUCKY	★	★	★	★	★	★	★	★	★	★	★	★	★	★				14
LOUISIANA	★	★	★	★	★	★	★	★	★	★	★	★	★		★	★	★	16
MAINE	★	★	★	★	★	★	★	★	★	★	★	★	★	★	★	★		16
MARYLAND	★				★	★	★											4
MASSACHUSETTS	★	★	★	★	★	★	★	★				★			★			10
MICHIGAN	★	★	★	★	★	★	★	★	★	★	★			★			★	13
MINNESOTA	★	★	★		★	★	★			★			★					8
MISSISSIPPI	★	★	★	★	★	★	★	★		★	★	★	★	★	★		★	15
MISSOURI	★	★	★	★	★	★	★	★	★	★	★	★	★		★	★		15
MONTANA	★		★	★	★	★	★	★	★	★	★		★		★	★		13
NEBRASKA	★	★	★	★	★	★	★			★	★	★	★		★	★	★	14
NEVADA	★	★	★		★	★	★	★	★	★	★		★		★	★		13
NEW HAMPSHIRE	★	★	★	★	★	★	★			★	★	★	★		★	★	★	14
NEW JERSEY	★	★	★	★	★	★	★	★	★	★	★	★		★	★	★		15
NEW MEXICO	★	★		★	★	★	★			★			★					8
NEW YORK	★	★	★	★	★	★	★			★			★					9
NORTH CAROLINA	★	★	★		★	★	★								★			7
NORTH DAKOTA	★			★	★	★	★			★	★	★	★		★			10
OHIO	★	★	★	★	★	★		★	★	★			★		★	★		12
OKLAHOMA	★	★	★	★	★	★	★	★	★	★	★	★	★		★		★	15
OREGON	★	★	★	★	★	★	★			★	★	★	★	★	★	★		14
PENNSYLVANIA	★	★		★	★	★	★	★	★	★			★		★	★	★	13
RHODE ISLAND	★	★	★	★	★	★	★	★	★	★	★	★	★	★	★	★		16
SOUTH CAROLINA	★	★	★	★	★	★	★	★	★		★	★	★		★	★		14
SOUTH DAKOTA	★	★	★	★	★	★	★			★			★					9
TENNESSEE	★	★	★	★	★	★	★											7
TEXAS					★	★	★											3
UTAH	★	★	★	★	★	★	★			★	★		★					10
VERMONT	★	★	★	★	★	★	★			★	★	★	★	★	★	★		14
VIRGINIA	★	★	★		★	★	★											6
WASHINGTON	★	★	★	★	★	★	★	★		★					★	★		11
WEST VIRGINIA	★	★	★	★	★	★	★	★	★	★	★		★	★	★	★	★	16
WISCONSIN	★	★	★	★	★	★	★	★	★	★	★	★		★	★	★		15
WYOMING	★	★	★		★	★				★	★	★	★		★	★	★	12
TOTAL	47	43	40	35	46	49	45	25	22	40	29	19	34	14	35	29	13	

Appendix B: Summary of OMES Employee and Customer Survey Responses, 2017 and 2018

B1. Summary of OMES Customer Survey Responses

Customer Survey Question	2017						2018					
	Total Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
OMES Overall - I am satisfied with:												
Overall level of customer service provided by OMES	147	12.9%	42.9%	25.2%	11.6%	7.5%	187	17.1%	48.7%	20.3%	11.2%	2.7%
OMES Consolidation - Consolidation has:												
Resulted in cost savings.	147	2.7%	17.7%	40.1%	19.0%	20.4%	187	5.9%	16.6%	43.3%	19.8%	14.4%
Created better efficiency.	147	4.1%	18.4%	33.3%	22.4%	21.8%	187	3.7%	21.4%	31.6%	26.7%	16.6%
Provided higher quality products and services.	147	4.1%	17.0%	44.2%	16.3%	18.4%	187	5.4%	20.3%	41.7%	18.7%	13.9%
Reduced redundancy.	147	4.8%	20.4%	36.1%	20.4%	18.4%	187	3.2%	24.1%	46.5%	14.4%	11.8%
Provided standardization.	147	4.8%	28.6%	39.5%	17.7%	9.5%	187	9.1%	31.0%	46.5%	7.0%	6.4%
Provided economies of scale.	147	4.1%	24.5%	38.1%	20.4%	12.9%	187	5.4%	19.8%	51.9%	11.8%	11.2%
Agency Business Services - I am satisfied with:												
Knowledge and attitude of the staff.	63	23.8%	39.7%	22.2%	11.1%	3.2%	84	44.1%	36.9%	17.9%	1.2%	0.0%
Accuracy and timeliness of service provided.	63	25.4%	33.3%	25.4%	6.3%	9.5%	84	38.1%	41.7%	14.3%	4.8%	1.2%
Follow-through on commitments when providing this service.	63	23.8%	34.9%	23.8%	11.1%	6.3%	84	38.1%	38.1%	16.7%	6.0%	1.2%
Fairness of service rates being charged.	63	11.1%	30.2%	36.5%	12.7%	9.5%	84	23.8%	34.5%	31.0%	8.3%	2.4%
Quality of customer service provided.	63	20.6%	36.5%	23.8%	9.5%	9.5%	84	42.9%	38.1%	16.7%	2.4%	0.0%
Central Purchasing												
Knowledge and attitude of the staff.	101	22.8%	42.6%	20.8%	6.9%	6.9%	127	25.2%	45.7%	23.6%	3.9%	1.6%
Accuracy and timeliness of service provided.	101	20.8%	39.6%	17.8%	15.8%	5.9%	126	22.2%	44.4%	21.4%	7.9%	4.0%
Follow-through on commitments when providing this service.	99	19.2%	40.4%	22.2%	13.1%	5.1%	123	24.4%	41.5%	23.6%	6.5%	4.1%
Fairness of service rates being charged.	100	19.0%	24.0%	38.0%	12.0%	7.0%	124	16.1%	32.3%	37.1%	8.1%	6.5%
Quality of customer service provided.	99	19.2%	42.4%	20.2%	12.1%	6.1%	124	24.2%	44.4%	17.7%	9.7%	4.0%
Fleet Services												
Knowledge and attitude of the staff.	58	17.2%	53.4%	22.4%	5.2%	1.7%	78	30.8%	46.2%	20.5%	1.3%	1.3%
Accuracy and timeliness of service provided.	59	22.0%	50.8%	20.3%	3.4%	3.4%	78	30.8%	43.6%	18.0%	6.4%	1.3%
Follow-through on commitments when providing this service.	58	20.7%	48.3%	29.3%	0.0%	1.7%	78	33.3%	42.3%	19.2%	3.9%	1.3%
Fairness of service rates being charged.	59	15.3%	37.3%	28.8%	8.5%	10.2%	78	28.2%	30.8%	32.1%	3.9%	5.1%
Quality of customer service provided.	59	20.3%	45.8%	27.1%	1.7%	5.1%	78	32.1%	43.6%	21.8%	1.3%	1.3%
Human Resources												
Knowledge and attitude of the staff.	52	28.8%	44.2%	13.5%	5.8%	7.7%	65	46.2%	32.3%	20.0%	1.5%	0.0%
Accuracy and timeliness of service provided.	52	26.9%	38.5%	17.3%	7.7%	9.6%	65	44.6%	30.8%	18.5%	3.1%	3.1%
Follow-through on commitments when providing this service.	51	31.4%	33.3%	19.6%	5.9%	9.8%	65	44.6%	29.2%	18.5%	6.2%	1.5%
Fairness of service rates being charged.	51	17.6%	31.4%	29.4%	7.8%	13.7%	65	33.9%	26.2%	29.2%	7.7%	3.1%
Quality of customer service provided.	50	28.0%	38.0%	18.0%	6.0%	10.0%	65	49.2%	24.6%	23.1%	3.1%	0.0%

Customer Survey Question	2017 Total Responses	2017 Strongly Agree	2017 Agree	2017 Neutral	2017 Disagree	2017 Strongly Disagree	2018 Total Responses	2018 Strongly Agree	2018 Agree	2018 Neutral	2018 Disagree	2018 Strongly Disagree
Information Services												
Knowledge and attitude of the staff.	76	11.8%	51.3%	15.8%	15.8%	5.3%	112	24.1%	35.7%	25.9%	11.6%	2.7%
Accuracy and timeliness of service provided.	76	9.2%	30.3%	19.7%	21.1%	19.7%	112	17.9%	24.1%	25.9%	22.3%	9.8%
Follow-through on commitments when providing this service.	76	10.5%	28.9%	21.1%	25.0%	14.5%	112	17.0%	21.4%	30.4%	23.2%	8.0%
Fairness of service rates being charged.	76	7.9%	15.8%	31.6%	26.3%	18.4%	112	8.9%	13.4%	45.5%	21.4%	10.7%
Quality of customer service provided.	76	9.2%	28.9%	30.3%	18.4%	13.2%	112	22.3%	24.1%	26.8%	20.5%	6.3%
Payroll Shared Services												
Knowledge and attitude of the staff.	49	28.6%	51.0%	14.3%	4.1%	2.0%	58	51.7%	31.0%	17.2%	0.0%	0.0%
Accuracy and timeliness of service provided.	49	28.6%	49.0%	14.3%	8.2%	0.0%	58	55.2%	25.9%	15.5%	3.5%	0.0%
Follow-through on commitments when providing this service.	48	35.4%	43.8%	14.6%	4.2%	2.1%	58	55.2%	25.9%	19.0%	0.0%	0.0%
Fairness of service rates being charged.	49	16.3%	40.8%	28.6%	8.2%	6.1%	57	33.3%	28.1%	33.3%	3.5%	1.8%
Quality of customer service provided.	49	30.6%	44.9%	16.3%	6.1%	2.0%	58	55.2%	25.9%	15.5%	3.5%	0.0%
Central Printing Services												
Knowledge and attitude of the staff.	61	49.2%	45.9%	4.9%	0.0%	0.0%	68	58.8%	36.8%	4.4%	0.0%	0.0%
Accuracy and timeliness of service provided.	62	48.4%	41.9%	8.1%	1.6%	0.0%	68	58.8%	35.3%	5.9%	0.0%	0.0%
Follow-through on commitments when providing this service.	61	50.8%	42.6%	6.6%	0.0%	0.0%	68	60.3%	33.8%	5.9%	0.0%	0.0%
Fairness of service rates being charged.	62	38.7%	43.5%	12.9%	1.6%	3.2%	68	48.5%	39.7%	10.3%	1.5%	0.0%
Quality of customer service provided.	62	50.0%	43.5%	6.5%	0.0%	0.0%	69	58.0%	34.8%	7.3%	0.0%	0.0%
Facilities Management, Construction and Properties, or Real Estate and Leasing Services												
Knowledge and attitude of the staff.	53	24.5%	49.1%	22.6%	1.9%	1.9%	87	36.8%	39.1%	20.7%	3.5%	0.0%
Accuracy and timeliness of service provided.	53	15.1%	49.1%	24.5%	7.5%	3.8%	85	29.4%	31.8%	29.4%	7.1%	2.4%
Follow-through on commitments when providing this service.	52	15.4%	50.0%	26.9%	3.8%	3.8%	86	30.2%	34.9%	26.7%	7.0%	1.2%
Fairness of service rates being charged.	53	15.1%	35.8%	34.0%	11.3%	3.8%	86	26.7%	31.4%	34.9%	7.0%	0.0%
Quality of customer service provided.	53	18.9%	49.1%	18.9%	11.3%	1.9%	86	33.7%	31.4%	26.7%	8.1%	0.0%
Risk Management												
Knowledge and attitude of the staff.	71	35.2%	46.5%	12.7%	4.2%	1.4%	101	38.6%	42.6%	15.8%	2.0%	1.0%
Accuracy and timeliness of service provided.	71	28.2%	47.9%	18.3%	2.8%	2.8%	101	35.6%	45.5%	15.8%	2.0%	1.0%
Follow-through on commitments when providing this service.	71	26.8%	49.3%	16.9%	2.8%	4.2%	101	35.6%	43.6%	16.8%	3.0%	1.0%
Fairness of service rates being charged.	70	24.3%	37.1%	28.6%	1.4%	8.6%	100	26.0%	41.0%	28.0%	5.0%	0.0%
Quality of customer service provided.	71	32.4%	38.0%	22.5%	4.2%	2.8%	101	36.6%	45.5%	13.9%	3.0%	1.0%

B2. Summary of OMES Employee Survey Responses

Employee Survey Question	Year	Total Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
OMES provides accurate and timely service to customers.	2017	322	14.3%	45.3%	26.1%	10.9%	3.4%
	2018	634	17.7%	49.4%	24.3%	7.1%	1.6%
	Change	312	3.4%	4.1%	-1.8%	-3.8%	-1.8%
OMES follows through on its commitments to customers.	2017	322	17.1%	47.8%	22.7%	9.6%	2.8%
	2018	634	19.1%	50.3%	23.8%	5.4%	1.4%
	Change	312	2.0%	2.5%	1.1%	-4.2%	-1.4%
OMES is concerned for customer business needs.	2017	322	25.2%	47.8%	18.6%	4.3%	4.0%
	2018	634	27.8%	45.3%	20.0%	5.2%	1.7%
	Change	312	2.6%	-2.5%	1.4%	0.9%	-2.3%
I make my customers feel it is easy to work with OMES.	2017	N/A	N/A	N/A	N/A	N/A	N/A
	2018	634	44.2%	44.5%	9.3%	1.4%	0.6%
	Change	N/A	N/A	N/A	N/A	N/A	N/A
OMES charges fair rates to customers for shared services.	2017	186	11.3%	37.1%	38.7%	10.2%	2.7%
	2018	363	13.8%	38.3%	36.9%	6.6%	4.4%
	Change	177	2.5%	1.2%	-1.8%	-3.6%	1.7%
OMES provides a high level of customer service to customers.	2017	301	15.0%	38.9%	29.2%	12.6%	4.3%
	2018	594	18.2%	50.7%	23.2%	6.2%	1.7%
	Change	293	3.2%	11.8%	-6.0%	-6.4%	-2.6%
OMES provides the necessary resources and environment for my team and me to be successful in executing our responsibilities to our customers.	2017	297	11.4%	31.0%	24.2%	25.3%	8.1%
	2018	594	14.0%	38.1%	24.4%	17.2%	6.4%
	Change	297	2.6%	7.1%	0.2%	-8.1%	-1.7%
My supervisor has introduced the agency's goals to me and discussed the goals with me.	2017	N/A	N/A	N/A	N/A	N/A	N/A
	2018	582	27.5%	37.6%	20.6%	9.5%	4.8%
	Change	N/A	N/A	N/A	N/A	N/A	N/A
I have incorporated the agency's goals into my daily work.	2017	N/A	N/A	N/A	N/A	N/A	N/A
	2018	582	26.1%	52.4%	17.0%	3.3%	1.2%
	Change	N/A	N/A	N/A	N/A	N/A	N/A
I regularly reflect on and discuss my role in achieving the goals listed above with my team/coworkers/supervisor.	2017	N/A	N/A	N/A	N/A	N/A	N/A
	2018	582	16.2%	38.8%	29.9%	10.8%	4.3%
	Change	N/A	N/A	N/A	N/A	N/A	N/A
The consolidation of shared services into one agency has resulted in cost savings for our customers.	2017	310	13.2%	29.4%	36.1%	14.5%	6.8%
	2018	606	16.0%	29.3%	37.2%	11.9%	5.6%
	Change	296	2.8%	-0.1%	1.1%	-2.6%	-1.2%

Employee Survey Question	Year	Total Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The consolidation of shared services into one agency has created better efficiency for customers.	2017	310	10.3%	27.4%	33.9%	20.6%	7.7%
	2018	606	12.7%	29.6%	33.4%	17.9%	6.5%
	Change	296	2.4%	2.2%	-0.5%	-2.8%	-1.3%
The consolidation of shared services into one agency has provided higher quality products and services for customers.	2017	309	11.0%	32.4%	33.3%	16.5%	6.8%
	2018	606	17.3%	29.0%	34.7%	14.1%	5.0%
	Change	297	6.3%	-3.4%	1.4%	-2.4%	-1.8%
The consolidation of shared services into one agency has reduced redundancy.	2017	310	16.5%	33.5%	30.3%	13.2%	6.5%
	2018	606	20.4%	32.7%	29.4%	12.1%	5.5%
	Change	296	3.9%	-0.8%	-1.0%	-1.1%	-1.0%
The consolidation of shared services into one agency has provided standardization.	2017	308	15.3%	36.0%	28.9%	15.3%	4.5%
	2018	606	19.3%	39.5%	26.9%	10.1%	4.1%
	Change	298	4.0%	3.5%	-2.0%	-5.2%	-0.4%
The consolidation of shared services into one agency has provided economies of scale.	2017	310	13.9%	27.1%	44.8%	8.7%	5.5%
	2018	606	16.1%	33.6%	40.4%	6.3%	3.6%
	Change	296	2.2%	6.5%	-4.4%	-2.4%	-1.9%

Employee Survey Question	Year	Total Responses	Expert	Very Knowledgeable	About Average	Little to No Knowledge
Please rate your understanding of service rates being charged to customers by OMES.	2017	308	2.6%	18.2%	39.3%	39.9%
	2018	605	3.8%	19.8%	36.7%	39.7%
	Change	297	1.2%	1.6%	-2.6%	-0.2%

Employee Survey Question	2017	2018
What can OMES do to improve services for our customers?		
Total Responses	285	594
Communicate more information to customers.	43.3%	43.3%
Increase quality of services.	29.8%	29.8%
Offer additional services.	9.9%	9.9%
Provide OMES employees with more or better training.	55.2%	55.2%
Improve internal IT systems.	37.5%	37.5%
Improve internal processes.	52.4%	52.4%
Have designated shared services representatives.	13.8%	13.8%
Hire additional staff.	38.6%	38.6%
Satisfied with services, no improvement needed.	7.1%	7.1%

Appendix C: OMES Statutory Mandates

Budget
Title 62 Public Finance

- Section 34.2 Estimate of funds expected to accrue to General Revenue Fund and Special Revenue Funds
- Section 34.34 Preparation of budget by Director of Office of Management and Enterprise Services
- Section 34.36 Estimate of funds needed
- Section 34.36.1 Receipt of federal funds – report to be submitted to Director of Office of Management and Enterprise Services
- Section 42.42 Agency budgets
- Section 34.43 Itemization of data processing expenses – Budgeting and disbursement
- Section 34.49 Allotment of appropriations – Exemption of Legislature
- Section 34.50 Revenues not derived from legislative appropriations
- Section 34.52 Requests for budget category transfer
- Section 34.53 State system of higher education and institutions of higher education
- Section 34.6 General powers and duties of the Director

Title 64 Public Lands

- Section 1078 apportionment of income among institutions

Title 69 Roads, Bridges and Ferries

- Section 1507 Budget estimates – road programs

Title 70 Schools

- Section 3210 Appropriations – Allocations – Allotments – Reports
- Section 3903 State System of Higher Education – Allocations – Allotments – Accounting classification

Information Services
Title 62 Public Finance

- Section 34.11.1 through Section 34.11.10 Chief Information Officer
- Section 34.11.1.1 Performance Metrics - Data to be Placed Online
- Section 34.12 Duties of Information Services Division
- Section 34.15 Authority of the Information Services Division of the Office of Management and Enterprise Services
- Section 34.31 State Agency Acquisition of Customized Computer Software
- Section 34.31.1 Preference for Open Source Software

Central Purchasing
Title 74 State Government

- Section 1563 Purchase of motor vehicles necessary for performance of official duty
- Section 34.62 Encumbrance requirements for payment of state funds
- Sections 85 through 85.45l Oklahoma Central Purchasing Act and Related Acts
- Section 85.45r Online Bidding Process Provisions
- Section 85.45s Rules of Implementation
- Section 90.1 Postal services
- Section 121 Contract for auditing of books of state commissions or departments
- Section 500.2 Reimbursable expenses of state officials employees and certain others
- Section 5152.1 Oklahoma Local Public and Private Facilities and Infrastructure Act – Definitions – Exemptions

- Section 5154 The Partnership Committee – Office of Public-Private Partnerships – Authority of Director
- Section 5155 Selection of Projects-Public-Sector Comparators-Notice of Intent-Authority of Director to Negotiate, Terminate and Change Contract Terms
- Section 5158 Hiring or Retaining Third Parties to Carry Out the Director's Powers and Duties Under This Act

Title 61 Public Buildings & Public Works
- Section 323 Leases Exemptions
- Section 327 Procedures for disposal or lease of certain state-owned real property

Central Assets Management
Title 61 Public Buildings & Public Works
- Section 202.1 Design-Build and At-Risk Construction Management Project Delivery Methods - Approval - Exemptions – Rules
- Section 203 Creation of Department of Real Estate Services in Office of Management and Enterprise Services - State Facilities Director
- Section 204 Duties of Department of Real Estate Services
- Section 208 Awarding of All Consultant and Professional Services Contracts Related to Construction Projects
- Section 208.1 Fees for Providing Architectural, Engineering, and Land Surveying Services
- Section 209 Adoption of Rules
- Section 210 Model Contract
- Section 211 Replacement or Supplementing Major Items of Energy-Consuming Equipment
- Section 212 Performance-Based Efficiency Contracts - Qualified Providers
- Sections 306 through 331 State Property

Title 74 State Government
- Section 61.8 Reduction of property owned and leased by the State
- Section 62.3 Rules for Disposal of Surplus Property
- Section 62.4 Transfer of Material and Supplies to Other Agencies
- Section 62.6 List of Surplus Property
- Section 62.7 Surplus Property of Department of Transportation - Notice of Availability - Offer for Sale to Public Entities
- Section 63 General powers and authority of Office of Management and Enterprise Services
- Section 76 Mailing Service - Interagency Communications and Deposit of State Mail
- Section 78 Division of Fleet Management – Purpose – Administration - Duties
- Section 78a Requisition of motor vehicles
- Section 78b Notification of Vehicle Disposal by State Board, Commission, Department or Institution
- Section 78d Reports to Governor
- Section 78e Alternative Fuel Vehicles and Alternative Fueling Infrastructure
- Section 78f Compressed Natural Gas Fueling Infrastructure
- Section 85.58A through 85.58P Comprehensive Professional Risk Management Program
- Section 130.9 Adoption of Necessary Rules and Regulations

Central Accounting and Reporting
Title 10 Children
- Section 175.12 Children's Hospital of Oklahoma

Title 19 Counties & County Offices
- Section 215.30 Salaries and expenses

Title 56 Poor Persons
- Section 202 Payment of Premiums

Title 62 Public Finance
- Section 34.10 Annual financial report-Accounting procedures and guidelines
- Section 34.11 Duties and functions of Division of Central Accounting and Reporting
- Section 34.64 Payment of claims or payrolls
- Section 34.65 Payment of vendor invoices
- Section 34.67 Claims and payrolls
- Section 34.68 Approval of claims and payrolls
- Section 34.69 Payroll fund – web-based access to employment and compensation information
- Section 34.71 Procedure to issue payment for goods and services
- Section 34.72 Procedure for payment of interest
- Section 34.87 Transfer of funds to higher learnings access trust fund
- Section 275.8 State Treasurer – Redeemed bonds etc

Title 74 State Government
- Section 212A Audits of government entities
- Section 292.12 Implementation and administration of direct deposit system
- Section 500.9 Overnight lodging – Rate – Per diem allowance – Limitations and exceptions
- Section 500.14 Rejection of travel claims or vouchers
- Section 500.16 Standard blank forms
- Section 500.16A Payment of claims pursuant to State Travel Reimbursement Act – Procedure
- Section 840-2.28 Authorization – Benefit package options – Plan for reduction-in-force
- Section 5154 Partnership Committee – Office of Public-Private Partnerships – Authority of Director
- Section 5155 Selection of Projects-Public-Sector Comparators
- Section 5156 Signatures for Partnership Contract – Authority for Director to Receive Money – Report to House and Senate
- Section 5158 Hiring or Retaining Third Parties to Carry Out the Director’s Powers

Employee Group Insurance Division
Title 74 State Government
- Section 1305.1 Discharge of Duties under Acts by Office and Board
- Section 1306.2 Utilization Review Plan – Annual Fee
- Section 1307 Specifications – Limitations on Benefits – Exceptions
- Section 1308.1 Insurance Benefits to Education Employees
- Section 1308 Enrollment in Plan
- Section 1312.2 Creation of Life Insurance Reserve Fund - Investment of Funds - Payments to Reserve Fund
- Section 1312 Health and Dental Insurance Reserve Fund
- Section 1312.3 Creation of State Employees Group Insurance Clearing Fund
- Section 1314.5 Supplemental Health Insurance - Competitive Procurement
- Section 1315 Participation by Political Subdivisions, Local Service Agencies and Public Trusts
- Section 1316.2 Continuance of Health and Dental Insurance Benefits - Retired Employees - Dependents of Deceased Employee
- Section 1320 Employment of Administrator, Director of Internal Audit, Attorneys, Actuaries, Consultants and Other Personnel
- Section 1321 Determination of Rates and Benefits
- Section 1324 Coverage for Common Side Affects of Retropubic Prostatectomy Surgery
- Section 1325 Changes in Reimbursement Rates or Methodology – Hearing

- Section 1326 Fee Schedules
- Section 1327 Optometrist's Services
- Section 1328 Timely Payment of Claims - Interest on Overdue Payments
- Section 1329 Health Savings Account
- Section 1332.1 Collections from State Agencies - Deposits - Monthly Statements - Reports - Deduction of Premiums
- Section 1332 Establishment of Disability Insurance Program for State Employees
- Section 1333 Creation of State Employees Disability Insurance Reserve Fund – Investments

Human Capital Management
Title 47 Motor Vehicles

- Section 2-105 Personnel of Highway Patrol Division--Qualifications—Probationary
- Section 2-310.1 Injury in the line of duty--Injury Review Board--Paid leave—Accrual of leave and service credit, deductions.

Title 62 Public Finance

- Section 34.40 Segregation of lump sum appropriations
- Section 34.70 Voluntary payroll deductions

Title 74 State Government

- Section 840-1.6A Office of management and enterprise services-- Personnel Administration
- Section 840-1.15 Delegation of personnel authority--Model human resource projects
- Section 840-2.10a Debriefing and Counseling for State Employees Affected by Violent or Traumatic Events
- Section 840-2.13 Personnel Management Information System
- Section 840-2.14 Management of Overall Costs of Human Resources
- Section 840-2.15 A State Employee Compensation Program
- Section 840-2.17 Salary Raise
- Section 840-2.18 Longevity Pay Plan
- Section 840-2.20 Promulgation of Rules Regarding Leave
- Section 840-2.20A Closing of Agency Because of Imminent Peril – Paid Administrative Leave
- Section 840-2.20C Written Notice of Employee Furlough
- Section 840-2.22 Promulgation of Emergency and Permanent Leave Rules
- Section 840-2.26 Flextime attendance policies and alternative work schedules
- Section 840-2.27C Reduction-In-Force, Layoffs, and Furloughs
- Section 840-3.1 Supervisory Personnel – Training Programs
- Section 840-3.4 Carl Albert Public Internship Program
- Section 840-3.11 Interchange of Employees among Governmental Entities
- Section 840-3.15 Creation of Certified Public Manager Program – Adoption of Rules
- Section 840-3.16 Executive Development Program for State Officials
- Section 840-4.3 Audit of Classified Service Positions
- Section 840-4.6 Pay structure
- Section 840-4.10 Enforcement of Teachers' Rights, Privileges and Benefits
- Section 840-4.11 Noncompetitive Appointments
- Section 840-4.12 Promotional and Entrance Examinations
- Section 840-4.17 Employee Service Rating System
- Section 841.30 Oklahoma Compensation and Unclassified Positions Review Board
- Section 1306.2 Information regarding utilization review--Submission to Commissioner
- Section 1306.6 Administration of Medical Expense Liability Revolving Fund
- Section 1372 Claims for flexible spending account benefits--Notice of denial—Hearing

- Section 1707 Oklahoma state employees deferred savings incentive plan
- Section 4121 On-the-job employee performance recognition program

Appendix D: Fee/Rebate Structure of State Purchasing Card Programs

State	Structure
AK	% of overall volume
AR	Three components drive rebate: Volume, Tran size, how quickly payment (File Turn).
CA	Volume Sales Incentive: Quarterly volume sales - Quarterly large ticket volume * (130bps) Prompt Payment: (45-Client Held Days)/45 * (45 bps) * Quarterly Volume Sales Large ticket volume incentive: Quarterly Large Ticket Volume * 75bps Annual volume sales: State Annual Volume Sales*Applicable tier rate (45bps for all)
CO	Aggregated agency volume percent rebates are part of the contract.
CT	Volume rebate on a tier scale varying from 1.05% to 1.65% on $150,000,000+ Large ticket rebate of 0.70 %
DC	Productivity plus prompt payment
DE	Delaware leverages an aggregated volume rebate in conjunction with a speed to pay rebate structure for this award.
FL	The State of Florida receives 100 basis points which equates to 1% of the transaction.
GA	Based on their annual volume, local entities will receive a rebate • Minimum annual spend of $20,000 required for rebate; State retains local rebates less than $100 • Tiers based on annual spend on the cards • Less than $20,000 = no rebate • $20,000 – $1 million = 50 basis points (.0050) • $1 – $2.99 million = 100 bps (.0100) • $3 – $7.99 million = 110 bps (.0110) • $8 million or greater = 140 bps (.0140) • Distributed annually (following the end of the State’s fiscal year – FY ends June 30) • Began July 1, 2009
HI	1.4% of total net transactions
IA	Based on basis points and volume of annual purchases
ID	Rebate % based on volume of net purchases ranging from .25% to .85%
IN	Tier structure based on spend 4% currently
KS	Payment within 30 days, 143-147 basis points Speed of Pay - Accelerated pay increased by .131% for 20 days and .245% for 10 days.
LA	$0-$50MM - 75 basis points, $50-$100MM - 85 basis points, $100MM+ - 95 basis points.
MD	P-Card is handled by the State Treasurer.
ME	The rebate structure is based upon total dollar volume usage of the program, and the promptness with which the State’s monthly Procurement Card invoice is paid.
MI	Rebate is a tiered percentage based on usage.
MN	Rebate based on transaction volume, sales volume and prompt payment.
MO	1.44% rebate.
NC	Sliding scale for rebate percentage, depending on total annual spend from P-Card usage. Paid annually, about 5 months after end of fiscal year.
ND	Tiered based upon purchase volume.
NJ	Rebate based on dollar volume.
NV	Based on total spend, less big ticket items, times a prescribed number of basis points in accordance with the average number of file turn days.
NY	Rebates are based on total value, speedy payment and number of returns. As usage increases and number of days for payment decreases rebate increases.

State	Structure
OH	Any agent or credit card fee that is not disclosed to the agency shall be disputed immediately regardless of the dollar limit of the fee. Merchants should not be permitted to charge a service fee on the account unless the service fee is disclosed
OK	Based on total spend and average transaction size of all participants and additional incentives for speed of payment. Target rebate is 1.5%.
OR	Percentage based on value and speed of payment
PA	1.47% rebate
SC	0.015
SD	80 basis points for $5 million annual volume. 90 basis points for $10 million annual volume. 95 basis points for $20 million annual volume. Plus one additional basis point for each day for early payment under 25 days.
TN	One rebate structure is Volume base and the second rebate structure payment base.
VA	Percentage of spend using card
VT	The rebate structure is based on a number of factors. Although not all factors are listed here, some include annual spend volume, payment terms, average spend on cards, etc.
WA	volume % rebate plus a prompt payment % and the rebates are paid quarterly.
WI	The State's rebate is calculated using three factors: total spend, file turn and average transaction size. At the end of the contract year, both the average transaction size and total spend are aligned on a matrix to determine a percentage. The file turn day calculation is assigned a separate percentage. The two percentages are added together and that final percentage is applied against the State's total volume.

Source: 2011-12 NASPO Survey of State Procurement Practices

Appendix E: Oklahoma P-Card Program Incentive Tables

E1. Incentive Schedule for Dollar Purchase Volume and Average Transaction Size

Entity Avg. Trans. Size	Net Annual USD Purchase Volume (in Millions)													
	$0-4	$5-49	$50-99	$100-149	$150-199	$200-249	$250-299	$300-349	$350-399	$400-449	$450-499	$500-549	$550-599	>$600
$100-200	0.000%	1.190%	1.270%	1.270%	1.270%	1.270%	1.270%	1.280%	1.280%	1.290%	1.290%	1.300%	1.300%	1.310%
$200-300	0.000%	1.300%	1.380%	1.380%	1.380%	1.380%	1.380%	1.390%	1.390%	1.400%	1.400%	1.410%	1.410%	1.420%
$300-400	0.050%	1.350%	1.430%	1.430%	1.430%	1.430%	1.430%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
$400-500	0.051%	1.351%	1.431%	1.431%	1.431%	1.431%	1.431%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
$500-600	0.052%	1.352%	1.432%	1.432%	1.432%	1.432%	1.432%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
$600-700	0.053%	1.353%	1.433%	1.433%	1.433%	1.433%	1.433%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
$700-800	0.054%	1.354%	1.434%	1.434%	1.434%	1.434%	1.434%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
$800-900	0.055%	1.355%	1.435%	1.435%	1.435%	1.435%	1.435%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%
>$900	0.055%	1.355%	1.435%	1.435%	1.435%	1.435%	1.435%	1.440%	1.440%	1.450%	1.450%	1.460%	1.460%	1.470%

Source: P-card contract
Supplier is to provide rebate percentages to this matrix. Rebate percentages are based on the combined annual spend volume of all current participating entities' accounts. Incentives exclude large ticket transactions, cash advances, convenience check amounts and fraudulent charges.

E2. Incentive Schedule for Prompt Payment

$ Purchase Volume	Days After Billing Statement that Payment is Due													
	1-3	4-5	6-7	8-9	10-11	12-13	14-15	16-17	18-19	20-21	22-23	24-25	26-27	28-29	30
$100-200	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$200-300	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$300-400	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$400-500	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$500-600	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6

$ Purchase Volume	Days After Billing Statement that Payment is Due														
	1-3	4-5	6-7	8-9	10-11	12-13	14-15	16-17	18-19	20-21	22-23	24-25	26-27	28-29	30
$600-700	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$700-800	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
$800-900	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6
>$900	23	20	18	16	14	12	10	8	6	4	2	0	-2	-5	-6

Source: P-card Contract
Supplier is to provide basis points to this matrix. Basis points are based on the number of days after billing statement date that payment is made. State agencies' accounts are central bill, central pay. Local governments' accounts are separate bill, separate pay.
Escalators to this schedule:

- *If payment made within 7 days after a 30-day billing cycle: 18 additional basis points added*
- *If payment made within 7 days after a two-week billing period: 26 additional basis points added*
- *If payment made within 7 days after a weekly billing period: 30 additional basis points added*
- *If payment made daily: 37 additional basis points added*

E3. Incentive for Large Ticket Transaction Volume

Large ticket interchange transaction volume will earn a rebate of 50 basis points (0.50 percent, or 0.005), subject to adjustment based on incentive schedule for prompt payment.