INS.02 - KDOL Assessment Rate Change

- » Enhanced operating efficiency
- » Centralized insurance and risk contracting
- » Alignment of risk with controls
- » Strategic risk transfer
- » Enhanced risk management brought by the new ORM's industry expertise and oversight including claims reduction and insurance cost management

- Savings assume cooperation by the state agencies with the new ORM, Department of Procurement and KDHE initiatives.
- Capital outlay breakdown for ORM includes new salaries and wages of $200,000 for a staff of three, plus an estimated 21% ($42,000) staff overhead cost and $6,276 each employee benefits cost (based on the State's Budget Cost Indices for FY16 and FY17), plus an estimated annual operational overhead expense of $150,000.
  - » The first ORM staff hire, the Director of Risk Management, is completed by the fourth quarter of FY16, with the other two ORM members to be hired in FY17.
  - » Recruiting and hiring the ORM Director may take approximately three months to complete. The FY16 investment cost estimate is discounted accordingly to represent one Director at an estimated $100,000 salary plus 21% staff overhead and $6,276 benefits cost, discounted to 25% of that cost for the fourth quarter of FY16.
  - » ORM implementation and operational overhead costs (other than salaries and benefits—recruiting costs, office space and utilities allocations) are estimated at $150,000 annually, with 25% of that amount allocated to the final quarter of FY16 in conjunction with hiring the new Director of Risk Management.
- The resultant efficiencies and cost savings of centralized risk management will outweigh the initial capital outlay and new salaries and wages costs for ORM creation. The investment costs associated with coordination with the new TPA and elimination of existing WC SSIF claims staff are accounted for in recommendation #4.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #1 include:

- Prompt recruiting process to hire Director of Risk Management by fourth quarter FY16, and Claims and Safety specialists in early FY17.
- Director of ORM to coordinate with Procurement to develop and expedite an RFP for the new TPA services discussed in recommendation #4.

Recommendation #2 – Adjust the Kansas Department of Labor (KDOL) Administrative Fund Assessment Rate to 1% on a Written Premium Basis

Specifically, the KDOL should:

- Increase revenue by adjusting the KDOL Administrative Fund assessment levied to state Workers' Compensation (WC) carriers to a 1.00% rate using carriers' written premium as the rating base, from the current 2.79% rate that uses prior year losses as the rating base.

Background and Findings

- A review of National Council on Compensation Insurance (NCCI) statistical data found that—states that maintain an Administrative Fund (and finance such fund by levying an assessment surcharge or tax to their state WC insurance carriers), mostly use one of two rating bases—either written premiums or paid losses. A few states take a different approach, such as assessing a flat surcharge amount. Variations exist in each state's assessment methodology and application of the two identified general rating bases. For example, some states calculate assessments on net premiums (gross premiums less any returned premiums due to cancellations) while others use gross premiums including taxes, fees and other assessments; or some states use paid indemnity or total losses for each individual carrier while others use aggregated paid losses for all carriers in the state, with the total assessment amount levied to each carrier on a pro-rated basis. The most standardized methodology identified amongst all 50 states was to calculate assessments using prior year net written premiums as the rating base.

- As its rating base, Kansas currently uses the prior year paid losses for each individual WC carrier. Its current 2.79% Workers' Compensation Administrative Fund rate assessed to Kansas WC insurance carriers is set forth in Kansas Statute, Chapter 74, Article 7, Sections 74-712 through 74-719[1]. The statute specifies a maximum 2015 3% assessment rate levied against calendar year 2014 Paid Losses, to fund FY16. In 2015 the actual 2.79% assessment rate was levied against 466 companies with paid losses totaling $426,557,683, generating a total revenue amount of $11,900,930.

- Using written premium as the assessment base results in significantly greater revenue at a lower assessment rate percentage, because the written premium base is a significantly larger amount and more widely applied than the paid losses base. Specifically, written premium applies to all carriers on a leveled basis, while a paid-loss basis is a smaller funding pool that impacts some carriers more than others depending on their loss experience.

- Kansas' most recent written premium per National Council on Compensation Insurance (NCCI) statistics was $4,841,778,073. The NCCI 2016 rate filing received by the Kansas Insurance Department shows a decrease of 11.6% to the Kansas WC base rate for voluntary market carriers. This decrease is expected to reduce the 2016 written premium base by a commensurate 11.6%, to $4,280,131,817. Therefore, an assessment rate of 1.00% using written premium as the rating base would have generated a total revenue amount of $42,801,318 compared to the $11,900,930 revenue generated by a 2.79% rate based on paid losses. This represents an additional total annual revenue to Kansas of $30,900,388.

- Kansas' current prior-year-loss based rating methodology was initially compared against 15 "peer" states as well as the shared border state of Missouri using NCCI statistical data. Of the states evaluated, five levy a specific Administrative Fund assessment to state WC carriers (in addition to taxes and other surcharges) by utilizing a standardized assessment methodology with written premium as the rating basis. The other evaluated states either have no Administrative Fund, or use varying assessment methodologies (e.g., a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).

- The benchmarking evaluation was then expanded to all 50 states in order to obtain a broader comparison. This comparison found that 23 states have no specific Administrative Fund assessment. Of the remainder, 14 states use a standardized written premium-based assessment methodology, with all other states using varying assessment methodologies. The assessment rates for these 14 states range from 0.50% to 6.50%, with 10 having a rate of 2.00% or lower, and five having a rate of 1.01% or lower. The average rate for the 14 states is 1.90%, which reflects the inclusion of Rhode Island's outlying rate of 6.50%. The detailed findings for the above mentioned 14 states are presented in the benchmarking chart at the end of this section.

- Although Missouri is not considered a fiscal or operational comparative state to Kansas, Missouri is presented as one of the benchmarked states because of its shared border with Kansas.

- Missouri's Administrative Fund assessment rate is 1.00%, levied against insurance carriers' written premium.

- Using 1.00% as Kansas' recommended Administrative Fund assessment rate, levied against insurance carriers' written premiums, will be less than the 1.90% average of the 14 benchmarked states, in line with the most conservative one-third of the 14 states evaluated that use this standardized methodology, and commensurate with Missouri's 1.00% rate. This analysis considered the potential risk of employers relocating to Missouri from Kansas due to implementation of this recommendation.

- The revised assessment approach is favorable to the state for the following reasons:
  - Enhanced revenue stream to the state
  - Revenue may be recognized sooner using a written premium basis than on a paid loss basis
  - Simpler rating methodology for the state to calculate and administer

» Consistent comparison to other states that use a standard assessment methodology

» The 1.00% rate is consistent with neighboring state Missouri and comfortably falls within the conservative rate ranges of the 14 premium-based peer states

» A written premium rating basis reduces the incentive for insurance carriers to avoid paying claims in order to avoid paying assessments, as might be the case using a paid-loss rating base

- Use the increased assessment revenue to support the recommended new ORM and the Division of Industrial Safety and Health, and to subsidize risk control and safety improvements across agencies for overall reduction of state claims and total cost of risk.

Recommendation # 2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$30,900	**$30,900**	**$30,900**	**$30,900**	**$30,900**

Key Assumptions

- Increased revenue will be achieved by changing the KDOL Assessment Rate base to written premium from prior year paid losses, at the same time reducing the rate percentage charged to state WC carriers to 1.00% from 2.79% against paid losses. With this change, Kansas can remain competitive with contiguous state Missouri's 1.00% written premium-based rate and with benchmarked states using the same standardized methodology.
- It is assumed Kansas' Administrative Fund assessment rating base will remain constant over the projected period of FY17 to FY21.
- No savings are projected for FY16 to allow time to effectuate regulatory changes that may be required and to notify state WC insurers of the change.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #2 include:

- Effectuate any necessary statutory and/or regulatory changes to revise the rating base and percentage amount
- Notify state WC carriers of the changes

State Workers' Compensation Carrier Assessment Rate Benchmarks

Benchmarking was performed to evaluate the assessment rate levied by the Kansas Department of Labor (KDOL) to state Workers' Compensation (WC) carriers, to support its Administration Fund.

The states of Arkansas, Idaho, Illinois, Iowa, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Washington and Wisconsin were initially identified as benchmark "peer" states to Kansas on a fiscal, operational, educational and/or contiguous-state basis for the purpose of comparing Administrative Fund assessment rates. An evaluation of those states found that five (Arkansas, Idaho, Illinois, Missouri and Oklahoma) levy a specific Administrative Fund assessment to state WC carriers in addition to taxes and other surcharges.

They do so by using a standardized assessment methodology with written premium as the rating basis. The other remaining evaluated states either do not have Administrative Funds, or have Administrative Funds but use varying assessment methodologies (for example, a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).
The benchmarking comparison was then expanded to all 50 states for a broader data analysis, which found that 14 states support their Administrative Funds using the standardized methodology of levying an assessment rate against carriers' written premiums, 23 maintain no specific Administrative Fund, and the remaining states use varying assessment methodologies. The 14 comparative states are detailed in the chart below.[1]

Recommendation #3 – Re-bid Statewide Insurance Procurement through a Competitive Request for Proposal (RFP) Process

The state's recommended new Office of Risk Manage-

1 Source: National Council on Compensation Insurance (NCCI)Tax & Assessment History, Section 3-Detailed Tax and Assessment Information - https://www.ncci.com/onlinemanuals

LOT.01 - Implement ITVM

Lottery

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Lottery. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Sherriene L. Jones-Sontag, Deputy Executive Director

Implement ITVM

Recommendation #1 – Allow the Lottery to use Instant Ticket Vending Machines in Kansas

The state should allow the Lottery to invest in and use electronic product dispensers.

Background and Findings

- The Kansas Lottery sales exceeded $250 million and transferred more than $75 million to the state in FY15.
- The Kansas Lottery has approximately 1,800 vendors across the state.
- Forty four states have a lottery, and 38 of those states use self-service electronic ticket dispensers.
- The State of Washington has two vendors that provide 1,494 machines, which generate $2,642 to $2,645 in sales per machine per week.
- Higher traffic locations such as grocery stores generate $3,390 to $4,191 in sales per machine per week.
- The primary objection has been related to concerns about minors purchasing scratch off lottery tickets without supervision.
- The proposal is to use limited implementation in higher performing stores, using highly visible locations where store managers and clerks can monitor the machines.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$6,147	**$9,554**	**$9,554**	**$9,554**	**$9,554**

Key Assumptions

- There is an estimated increase of $30 million in annual lottery sales as a result of the ITVMs
- There is an estimated increase from $8 million to $9 million in annual funds that would transfer to the general fund.
- The retailer profits would increase from $1.3 to $1.5 million.
- Corporate Income tax rates of 0.3 percent were applied to net profit.
- Lottery retailers who have locations in other states, where electronic dispensers are available report their sales increased from 30% to 50% and

have cut their lottery labor costs in half.

- Kansas is assumed to be able to achieve 50 percent of Washington State's point of sale efficiency in 2017 and 75 percent of Washington State's point of sale efficiency in 2018.
- The lottery is assumed to be able to transfer 25 percent to 30 percent of the increased lottery ticket sales to the state.
- The administration of the program would be minimal.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Lottery recommendation include:

- Revise state statues to allow for the use of ITVMs.
- Install dispensers in 325 top performing higher traffic retailers .

INS.04 - Replace WC State Self Insurance Fund (SSIF) Claims Management with an Experienced Third Party Administrator Overseen by ORM

factors to consider when determining the advisability of a mid-term cancel/re-write of the statewide property policy. However, there still could be significant savings available to cancel and re-write the policy prior to its 07/01/2016 scheduled renewal, even if a 10% short-rate penalty does apply.

- In addition to premium cost savings, the improved sourcing and leveraged procurement process is expected to result in enhanced coverage terms, expanded market access and strategic insights.

- Communication and cooperation between state agencies, Department of Procurement, and the ORM (upon its establishment), to achieve coordination and leverage of insurance sourcing.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #3 include:

- If required, amend the State's Financial Services Negotiated Procurement statute (75-3799) to allow for the execution of these operational recommendations.

- Prompt commencement of a statewide property insurance re-bid RFP and carrier-marketing process, targeting implementation by fourth quarter FY16.

Recommendation #4 – Replace WC SSIF Claims Function with an Experienced Third Party Administrator (TPA) Overseen by the Office of Risk Management (ORM)

Specifically, the state should:

- Reduce WC SSIF claims costs by outsourcing the WC SSIF claims functions for new claims, at the beginning of FY17, to an experienced and knowledgeable TPA, that has expertise and best practices in place to efficiently and effectively manage claims, to drive down overall claims costs for the state.

- Eliminate the existing 16 FTE WC SSIF claims staff (adjusters, supervisors and managers) at FY16 end.

- Transfer open runoff claims to the new TPA at the beginning of FY17. Close out as many of the currently open claims as possible by FY16 year-end to minimize the TPA investment expense to transfer the open runoff claims.

- Assign oversight of the new TPA to the new ORM detailed in recommendation #1.

Background and Findings

- Staff interviews and WC SSIF department review found that the majority of the existing WC SSIF claims staff have limited professional claims handling background or experience.

- Training of current WC SSIF staff is on the job and insufficient for optimal claims outcomes.

- Training the current adjusters and supervisors to an adequate level to effectively manage WC claims and reduce costs would be challenging, expensive and time-consuming.

- Outsourcing WC claims management to a TPA is a substantive step toward maximizing efficiencies and reducing claims costs for the state.

- Best practices identified in WC SSIF's own policies and procedures are not followed on a consistent basis, such as the use of Physical Therapy and Return-to-Work (RTW) Programs.

- Significant WC claims reporting lag time and claim close-out deficiencies were identified. A review of the WC SSIF claims files found that—lag time from the Date of Accident, to date of First Report of Injury, to date of claim setup, can be measured in weeks or months rather than days. This lag is primarily attributed to agencies not being educated on the costs caused by delayed WC reporting, and a lack of WC SSIF claims team aggressiveness in managing these claims.

- The number of WC fraud reports currently identified (two in the last 12 months) is believed to under-represent the actual fraud cases. The 1-800 Fraud Hotline (1-800-332-0353) is currently available only during state business hours and should be made available 24/7.

- Injured employees eligible for Temporary Total Disability (TTD) and WC Lost Time (Indemnity) benefits are subject to a seven consecutive day waiting period. The effect of this waiting period, meant to encourage a quick return to work and discourage malingering, is diluted by:

- » After 21 days out of work, the first week (waiting period) becomes retroactively payable, providing a financial disincentive for an employee's quick return to work.
- » Employees continue to earn/accrue vacation/PTO time while receiving Workers' Compensation benefits.

Recommendation # 4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,116	**$4,956**	**$4,956**	**$4,956**	**$4,956**

Key Assumptions

- ORM Director is hired and operational by fourth quarter FY16.
- Capital outlay investment for outsourcing the WC claims function to a TPA, estimated at $2.24 million annual cost on a go-forward basis:
  - » 2,000 total annual new claims, estimated breakdown of 70% (1,400) Medical Only and 30% (600) Indemnity claims.
  - » TPA new-claim cost of 70% (1,400 claims) Medical Only at $400 fee per claim file, and 30% (600) Indemnity at $1,300 fee per claim file plus $900,000 additional cost for medical bill repricing, nurse case management, and other costs not included in the TPA's per-claim charge.
- Capital outlay investment for transfer of open runoff claims to the new TPA at the beginning of FY17, estimated at $1,460,500:
  - » Open runoff claims to be transferred to the new TPA at the beginning of FY17 estimated at 2,000 based on the 1,492 open claims as of December 2015 advised by KDHE (845 Medical Only and 647 Indemnity claims), new claims which will occur between December 2015 and July 2016, and an initiative to close out as many currently open and new claims as possible by FY16 year-end.
  - » TPA transfer cost at the start of FY17 for 2,000 open runoff claims at 70% (1,400), Medical Only claims at $400 fee per claim file, and 30% (600) Indemnity claims at $1,500 fee per claim file, plus $500,000 additional TPA fees not included in the per-claim file charge.
- Projected cost savings achieved by elimination of the current claims-related vendor contracts at FY16 year-end: $136,000/year Systema claims software contract and $1,700,000/year CompAlliance TPA contract, to coincide with the transfer of claims management to the new TPA. In this scenario, CompAlliance's services of medical bill repricing and payment, nurse case management and durable medical equipment (DME) management will be handled by the new full-service TPA going forward at an estimated annual expense of $900,000, and is included in the new TPA investment expense estimate above.
- Projected salary and benefit cost savings achieved by elimination of the existing 16 FTE WC SSIF claims personnel (i.e., adjusters, supervisors and managers) at FY16 year-end is approximately $814,009. This includes total base salaries of $589,746 plus 21% ($123,847) staffing overhead plus an estimated $6,276 ($523* 12 months each employee or $100,416 total) health benefits cost per the State's Budget Cost Indices for FY16 and FY17.
- Projected additional WC SSIF operational overhead cost savings (e.g., IT, subscriptions, equipment expense, etc.) of $586,000 (as per SMART FY15 budget period) can be achieved after elimination of WC SSIF claims staff and designating remaining WC SSIF functions to the new ORM.
- Annual cost savings of $3.96 million (18% on $22 million new annual claim costs for 2,000 claims) will be generated by reduced WC claims costs brought by the outsourced TPA's claims-handling expertise and technology to effectively manage new claims, in conjunction with new safety, loss control, and RTW strategies led by the ORM.
- The $3.96 million total estimated savings is expected to be derived primarily by implementation of WC best practices (via the TPA) and reduction in lag time, RTW, and fraud management (via ORM).
- Priority for the ORM Director (see recommendation #1) for the remainder of FY16 will be to:
  - » Work with the Department of Procurement

to develop and execute a detailed RFP for a TPA to handle SSIF WC claims on a go-forward basis. The TPA RFP should provide specific detail as to the TPA's process and responsibilities, as well as the expected performance criteria.

  - Oversee and assist two assigned adjusters from the existing WC SSIF claims staff with the strongest Medical Only and Indemnity claims experience, to aggressively close out as many open claims as possible by FY16 year-end, as further detailed below.

- The ORM Director and KDHE aggressively work to close as many open claim files as possible to minimize the number of open runoff claims that will be transferred to the new TPA in order to mitigate the claims transfer cost.
  - Re-assign the WC SSIF's two most experienced claims adjusters (one Medical Only claims specialist and one Indemnity claims specialist) to work with the new ORM Director to close out as many current open claims as possible by FY16 year-end.
  - Concurrently, retain and utilize under KDHE direction the remainder of the existing WC SSIF claims staff until FY16 year-end to aggressively manage and close as many new claims as possible by FY16 year-end.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #4 include:

- ORM Director is in place and operational as of fourth quarter FY16.
- ORM Director focuses the remainder of FY16 on (1) developing and executing an RFP process for a new TPA (2) working with two assigned SSIF adjusters to close out as many open runoff claims as possible, as detailed in the Key Assumptions section above.
- WC SSIF claims staff aggressively manages and closes new claims for the remainder of FY16.
- Eliminate WC SSIF claims staff at the end of FY16, assuming the new TPA is operational.
- Change state statute/policy to eliminate the ability for injured employees receiving Workers' Compensation benefits to concurrently accrue vacation/PTO time.

KPERS.03 - Compensation Changes

Recommendation #3 – Consider Modest Changes In Compensation Which Can Be Considered In Pension Calculations

Generally, KPERS benefits are below average compared to peers. However, certain individuals are able to increase their benefits based on sick leave, annual leave or deferred compensation.

The A&M team encourages a more thorough analysis of the sick and annual leave provisions, including an estimate of administrative costs. This might include a phase-out of the inclusion of leave after a certain date. Although the anticipated cost savings are modest, such an effort may be worthwhile.

KPERS estimated maximum annual cost savings of $3.2 million for the State/School group once statutory contributions catch up to the actuarially required contribution.

A reasonable estimate for the net cost savings after consideration of administrative costs, phase-ins of the change, and delay until the statutory contribution exceeds the actuarial contribution, is $2 million per year.

The A&M team also encourages at least a closing of the door on future 457(f) deferrals being included in pensionable compensation. Although the cost savings would be small—$100,000 per year, the "headline risk" of high paid individuals being able to "spike" their salary as well as the inequity compared between rank and file public employees, may be enough reason to close this loophole.

If executives understand this before making the compensation deferral decision, they will be properly informed and can make the best, most tax-efficient, compensation decision for their individual circumstances.

The state is not currently funding the full ARC and is not scheduled to do so until FY21. Consequently, these changes would not result in any short-term cost savings until FY21.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$0	**$0**	**$0**	**$0**	**$2,300**

Actuarial Statement

This analysis was performed for Alvarez and Marsal (A&M) by William Fornia, FSA of Pension Trustee Advisors, Inc. as part of the A&M team. The analysis was based on publicly available data, including that provided by KPERS. Mr. Fornia is a Member of the American Academy of Actuaries and meets their qualification standards to render this actuarial opinion.

INS.03 - Statewide Insurance Procurement Re-Bid

   » Consistent comparison to other states that use a standard assessment methodology

   » The 1.00% rate is consistent with neighboring state Missouri and comfortably falls within the conservative rate ranges of the 14 premium-based peer states

   » A written premium rating basis reduces the incentive for insurance carriers to avoid paying claims in order to avoid paying assessments, as might be the case using a paid-loss rating base

- Use the increased assessment revenue to support the recommended new ORM and the Division of Industrial Safety and Health, and to subsidize risk control and safety improvements across agencies for overall reduction of state claims and total cost of risk.

Recommendation # 2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$30,900	**$30,900**	**$30,900**	**$30,900**	**$30,900**

Key Assumptions

- Increased revenue will be achieved by changing the KDOL Assessment Rate base to written premium from prior year paid losses, at the same time reducing the rate percentage charged to state WC carriers to 1.00% from 2.79% against paid losses. With this change, Kansas can remain competitive with contiguous state Missouri's 1.00% written premium-based rate and with benchmarked states using the same standardized methodology.

- It is assumed Kansas' Administrative Fund assessment rating base will remain constant over the projected period of FY17 to FY21.

- No savings are projected for FY16 to allow time to effectuate regulatory changes that may be required and to notify state WC insurers of the change.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #2 include:

- Effectuate any necessary statutory and/or regulatory changes to revise the rating base and percentage amount

- Notify state WC carriers of the changes

State Workers' Compensation Carrier Assessment Rate Benchmarks

Benchmarking was performed to evaluate the assessment rate levied by the Kansas Department of Labor (KDOL) to state Workers' Compensation (WC) carriers, to support its Administration Fund.

The states of Arkansas, Idaho, Illinois, Iowa, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Washington and Wisconsin were initially identified as benchmark "peer" states to Kansas on a fiscal, operational, educational and/or contiguous-state basis for the purpose of comparing Administrative Fund assessment rates. An evaluation of those states found that five (Arkansas, Idaho, Illinois, Missouri and Oklahoma) levy a specific Administrative Fund assessment to state WC carriers in addition to taxes and other surcharges.

They do so by using a standardized assessment methodology with written premium as the rating basis. The other remaining evaluated states either do not have Administrative Funds, or have Administrative Funds but use varying assessment methodologies (for example, a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).
The benchmarking comparison was then expanded to all 50 states for a broader data analysis, which found that 14 states support their Administrative Funds using the standardized methodology of levying an assessment rate against carriers' written premiums, 23 maintain no specific Administrative Fund, and the remaining states use varying assessment methodologies. The 14 comparative states are detailed in the chart below.[1]

Recommendation #3 – Re-bid Statewide Insurance Procurement through a Competitive Request for Proposal (RFP) Process

The state's recommended new Office of Risk Manage-

1 Source: National Council on Compensation Insurance (NCCI)Tax & Assessment History, Section 3-Detailed Tax and Assessment Information - https://www.ncci.com/onlinemanuals

ment (ORM) should work with the Department of Procurement to pursue more competitive insurance procurement practices:

- Assign oversight of all insurance procurement to the new ORM, to work with the Department of Procurement and all state departments, agencies, boards, and commissions to provide a coordinated and cost-effective insurance and risk management program for the state.
- Enhance statewide insurance procurement by utilizing a competitive RFP insurance procurement process and strategic sourcing of policies.
- Explore a mid-term competitive bidding process for the statewide property policy, including options for a multi-year coverage term, and cancel/rewrite the current policy mid-term FY16 if a better program is quoted.
- Competitively bid and leverage insurance policies across all agencies upon their renewals. Administer the RFP process to ensure that no single insurance broker can "block" insurance markets, such that it prevents other brokers from effectively competing on the state's insurance program. If more than one broker wishes to access the same carrier(s), the ORM should fairly assign markets to each interested broker. This truly competitive process will result in more insurers competing for the state's business, enhanced insurance coverage and reduced costs on brokerage commissions and policy premiums.

Background and Findings

- Statewide insurance policies are sourced through the Department of Procurement with the exception that state agencies are permitted to self-procure insurance up to $25,000 in premium.
- The majority of the state's insurance policies are sourced through the Department of Procurement. Exceptions to this include:
  - » Each Kansas Department of Education (KSDE) K-12 Unified School District (USD) procures and manages its own insurance
  - » Each Board of Regents higher education institution (i.e., colleges and universities) procures and manages its own insurance
- The state's FY16 annual P&C insurance premium expenditure, excluding the Department of Education and Board of Regents separate programs, is $2,840,000, based on insurance contract data received.
- Kansas' liability to third parties is capped at $500,000 under the Kansas Tort Claims Act (K.S.A. Chapter 75, State Departments; Public Officers and Employees, Article 61. Kansas Tort Claims Act[2]). The state finances this liability risk by self-insuring its General Liability exposures and insuring its Automobile Liability exposures (i.e., 4,998 state-owned vehicles plus hired [rented] vehicles and Department of Transportation [DOT] ve-

State	Current Administrative Assessment Rate/Tax *(Written Premium Basis)*	Fund Type / Comments
Arizona	2%	Administrative Fund including Occupational Disease
Arkansas	3%	Combined Fund - Administrative, Second Injury, Death & Permanent Total Disability
California	1%	Administrative Revolving Fund
Colorado	1%	Administrative Fund (Cash Fund Surcharge)
Connecticut	1%	Administrative Fund (Cash Fund Surcharge)
Florida	1%	Administrative Trust Fund
Idaho	2%	Industrial Administrative Fund
Illinois	1%	Industrial Commission Operations Fund (Admin)
Maine	2%	Administrative Fund
Missouri	1%	Administrative Tax

hicles) under a statewide Automobile Liability insurance policy and a separate DOT Automobile liability insurance policy, both with $500,000 liability limits.

» Kansas' statutes permit the purchase of property insurance in limited situations. The state maintains a statewide property policy with a $200 million Loss Limit except $100 million limit for buildings at the State Capital Complex, subject to retentions of $2 million for state capital buildings, and $5 million for all other locations, for perils other than windstorm. The policy has a $5 million windstorm retention for all locations.

- Kansas maintains a self-insured program to provide Workers' Compensation (WC) benefits to its 35,000 state employees (the State Self Insurance Fund, or "WC SSIF"). The WC SSIF is administered by the Kansas Department of Health and Environment (KDHE). Approximately 2,000 new claims are incurred annually, with 1,492 prior open claims on record as of December 2015.

- The current WC SSIF claims group is comprised of 16 staff members including managers, supervisors, and 10 claims adjusters of varying specialties.

- Major WC SSIF service contracts currently in force are with Systema (for claims management software) and CompAlliance for limited Third Party Administration (TPA) services including nurse case management, medical bill re-pricing & payment, and durable medical equipment management. The FY16 contract costs are $136,000 and $1.7 million respectively.

» Miscellaneous other surety bonds and insurance policies are in force for crime, van pool liability, separate other building and business personal property, equipment breakdown, medical professional liability, watercraft and aviation coverage.

Recommendation # 3 - (dollars in 000's)

FY16	FY17	FY18	FY19	FY20	FY21
$71	**$284**	**$284**	**$284**	**$284**	**$284**

Key Assumptions

- Significant premium cost savings can be achieved by consolidation and leverage of insurance sourcing with implementation of a competitive insurance marketing process and centralized insurance procurement, overseen by the ORM.

- $284,000 annual cost savings can be achieved through a competitive marketing process among qualified brokers and carriers, projected at 10% of current annual policy premiums totaling $2,840,000.

- Implementation is expected to take at least three months beginning in January 2016, so the FY16 projected savings have been discounted by 75%.

- Premium savings will be derived primarily on the statewide property policy ($762,000 annual premium for the current term 07/01/2015 – 07/01/2016) by competitively re-bidding the existing policy in the current soft insurance market. The objective is to obtain lower premium rates and a multi-year coverage term.

» Current soft market conditions may provide an opportunity to purchase a two or three year coverage term on the statewide property policy, which is typically a more cost effective solution than an annual policy. Furthermore, a multi-year term would enable the state to lock in the current premium rates for that period.

» This approach would likely be subject to maximum loss experience criteria stipulated by the insurance carrier.

» Policy terms should permit the state to remove, by endorsement, any property that is divested during the policy term and receive return premium.

» No statewide property losses were reported on the loss run received by A&M; however, it was unclear whether claims might exist below the $5 million Self-Insured Retention (SIR) for state capital buildings and catastrophe losses, and $2 million SIR for all other locations. If the state's account is truly loss-free, a greater opportunity for savings exists.

» If the statewide property policy is cancelled prior to its scheduled expiration date, the insurance carrier might assess a 10% short-rate penalty against the unearned portion of the premium that would otherwise be returned to the state as a premium refund. A short-rate penalty results in a reduction in the insurance premium refund and is intended by carriers to discourage early cancellation of insurance policies by insured's. The applicability of a short-rate penalty is one of the factors to consider when determining the advisability of a mid-term cancel/re-write of the statewide property policy. However, there still could be significant savings available to cancel and re-write the policy prior to its 07/01/2016 scheduled renewal, even if a 10% short-rate penalty does apply.

- In addition to premium cost savings, the improved sourcing and leveraged procurement process is expected to result in enhanced coverage terms, expanded market access and strategic insights.
- Communication and cooperation between state agencies, Department of Procurement, and the ORM (upon its establishment), to achieve coordination and leverage of insurance sourcing.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #3 include:

- If required, amend the State's Financial Services Negotiated Procurement statute (75-3799) to allow for the execution of these operational recommendations.
- Prompt commencement of a statewide property insurance re-bid RFP and carrier-marketing process, targeting implementation by fourth quarter FY16.

Recommendation #4 – Replace WC SSIF Claims Function with an Experienced Third Party Administrator (TPA) Overseen by the Office of Risk Management (ORM)

Specifically, the state should:

- Reduce WC SSIF claims costs by outsourcing the WC SSIF claims functions for new claims, at the beginning of FY17, to an experienced and knowledgeable TPA, that has expertise and best practices in place to efficiently and effectively manage claims, to drive down overall claims costs for the state.
- Eliminate the existing 16 FTE WC SSIF claims staff (adjusters, supervisors and managers) at FY16 end.
- Transfer open runoff claims to the new TPA at the beginning of FY17. Close out as many of the currently open claims as possible by FY16 year-end to minimize the TPA investment expense to transfer the open runoff claims.
- Assign oversight of the new TPA to the new ORM detailed in recommendation #1.

Background and Findings

- Staff interviews and WC SSIF department review found that the majority of the existing WC SSIF claims staff have limited professional claims handling background or experience.
- Training of current WC SSIF staff is on the job and insufficient for optimal claims outcomes.
- Training the current adjusters and supervisors to an adequate level to effectively manage WC claims and reduce costs would be challenging, expensive and time-consuming.
- Outsourcing WC claims management to a TPA is a substantive step toward maximizing efficiencies and reducing claims costs for the state.
- Best practices identified in WC SSIF's own policies and procedures are not followed on a consistent basis, such as the use of Physical Therapy and Return-to-Work (RTW) Programs.
- Significant WC claims reporting lag time and claim close-out deficiencies were identified. A review of the WC SSIF claims files found that—lag time from the Date of Accident, to date of First Report of Injury, to date of claim setup, can be measured in weeks or months rather than days. This lag is primarily attributed to agencies not being educated on the costs caused by delayed WC reporting, and a lack of WC SSIF claims team aggressiveness in managing these claims.
- The number of WC fraud reports currently identified (two in the last 12 months) is believed to under-represent the actual fraud cases. The 1-800 Fraud Hotline (1-800-332-0353) is currently available only during state business hours and should be made available 24/7.
- Injured employees eligible for Temporary Total Disability (TTD) and WC Lost Time (Indemnity)

HC.03 - Host an annual ideas festival

centive or bonus program.

- Other states bonus programs include employee retention, longevity, performance and innovation.

Key Assumptions

- Programs can be developed and instituted with minimal administrative burden.

- The Fair Labor Standards Act (FLSA) requires that overtime pay be determined using the employee's "regular rate" of pay, which includes all earnings paid to the employee during the workweek, therefore, additional costs are assumed for the program to include overtime costs.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Bonus recommendation include:

- Add a component to the statute that allows for additional non-discretionary bonuses that are tied to performance.

- Make adjustments to the payroll system to ensure that non-discretionary bonuses are accounted for in the personnel's rate calculation inclusive of overtime pay.

- Implement Performance Based Budgeting for each agency.

- Develop general guidance for the program with the involvement of state Human Resources.

- Leverage available information from other state programs to determine the appropriate bonus programs. Then provide state program information to agencies, in order to inform the design of a non-discretionary employee incentive, performance, and retention bonus program including program ROI.

- Establish the approval committee.

- Develop standard process for submission and approval of the program design.

- Monitor program effectiveness.

The expected time to implement this recommendation is nine months—three months to develop the program guidelines and process, three months to implement, and three months to evaluate and distribute first round. This recommendation requires statutory changes in order to make way for non-discretionary bonuses.

Recommendation #3 – Host an annual ideas festival for submission of efficiency ideas

The state should develop an annual Ideas Festival for efficiency savings in state government. The program should leverage the existing employee suggestion program with the addition of a Governor's annual award for excellence in government.

The state should add a one-time award of up to $25,000 and set aside funding for a runner-up award that exceeds the $5,000 limit for the employee suggestion program awarded by the governor as a result of the annual Ideas Festival event.

Background and Findings

- State of Kansas has a statewide Employee Suggestion Program in which an employee can receive 10 percent of the savings for a suggestion up to $5,000.

- Eleven states have employee suggestion incentive programs where the employee gets a bonus as a percentage of the savings achieved by the suggestion.

- Other states have reported department savings of up to $4 million for employee suggestion incentive programs.

- The State of Wisconsin had an employee suggestion program since 1954 that identified 12 million in savings over the life of the program. "In fiscal years 1954 through 1988, the cumulative sum of annual savings for suggestions during that time frame was $8.9 million. For fiscal years 1996 through 2010, cumulative annual savings totaled nearly $3.1 million, as of July 2010." No savings were tracked between 1988 and 1996.

- The average annual savings in Wisconsin was between $221,000 and $261,000 per year.

- California has an employee suggestion program with a $5,000 limit and up to $50,000 per adopted suggestion.

- Tennessee and North Dakota have employee suggestion programs with limits of up to $10,000 and up to $4,000, respectively.
- Kansas' employee suggestion program awarded $1,025 in 2013, $3,250 in 2014, and $6,650 in 2015.

Key Assumptions

- The cost of administering the Ideas Festival and annual program can be developed and instituted with minimal administrative burden.
- The Governor's annual award for excellence in government would award up to $40,000 annually for the Ideas Festival.
- The Ideas Festival will enable Kansas to improve the employee suggestion program to help generate an additional $240,000 per year in new savings opportunities.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Ideas Festival recommendation include:

- Add a component to the statute that allows for additional Governor's excellence award for discretionary bonuses tied to the annual Ideas Festival program.
- Identify and assign administrative management for the program.
- Design and rollout of the annual Ideas Festival program.
- Host the program and awards ceremony.

Recommendation #1 - Explore Leading Practices for Centralized Administration of Family and Medical Leave

Currently, Kansas has a dedicated state manager for Family Medical Leave Act (FMLA) administration which is a recommended practice. Yet given the complexity of managing absences given compliance considerations and associated administrative burden, it is recommended that Kansas explore opportunities to outsource absence management.

Excessive use of the Family Medical Leave can generate challenges for personnel management and shift scheduling.

Findings

The Family and Medical Leave Act (FMLA) is a federal policy intended to balance the demands of the workplace with the needs of families. The Act allows eligible employees to take up to 12 work weeks of unpaid leave during any 12-month period to attend to the serious health condition of the employee or the employee's family, for pregnancy or care of a newborn child, or for the adoption of foster care of a child.

While FMLA does not require that employers compensate employees, Kansas, in alignment with many other states, allows employees to use annual or sick leave, where appropriate, while they are on leave. As a result, Kansas may thousands of hours of work on an annual basis.

Information requests to fail to identify specific FMLA leave versus other absence types (sick, vacation, and shared) are tracked at the employee level by the Office of Personnel Services. In FY 14, there were over 43,000 individual sick and vacation leave events tracked. Therefore, determining the specific impact of FMLA and the potential for savings is not possible.

Rationale

Best practices for reducing unnecessary FMLA absences implemented in other state governments include closer scrutiny of FMLA requests, stricter enforcement of paperwork requirements under the Health Insurance Portability and Accountability Act (HIPAA) , and more consistency in the application of the FMLA policies. While these actions are effective, they are often time intensive for human resources personnel administering FMLA leave. For this reason, many government agencies choose to outsource all or part of their FMLA administration.

Third party administrators can manage the administrative tasks associated with FMLA requests, provide guidance on requirements and eligibility, coordinate

HC.02 - Non-Discretionary Performance Bonus System

Performance Review

Allow for and Design Non-Discretionary Performance Bonus System

Recommendation #2 – Institute performance based bonuses

The state should allow agencies to institute a discretionary performance bonus system based on predetermined criteria that contribute to the overall performance of agencies.

Specifically, the state should:

- Implement Performance Based Budgeting (PBB) for the agencies in conjunction with the state's budget process.
- In conjunction with the PBB system, each agency should design a non-discretionary employee incentive, performance, and retention bonus program that ties employee performance to state agency performance and demonstrates a positive Return on Investment (ROI) for the agency and program.
- The agency should submit its proposed program design to a five-member approval committee including the Governor's office, agency head, Division of Budget, Director of Human Resources, and the Chair of the Civil Service Board.
- Once the system is established, periodic monitoring of the program should occur to ensure that the proposed program goals are being met.
- Implement a program that provides opportunity to support one time fellowship for innovation efforts.

Background and Findings

- State of Kansas has an Employee Award and Recognition Program where an employee may be nominated to receive up to $3,500 annually.
- The current Employee Award and Recognition Program allows for discretionary bonuses that meet the conditions set out in 29 C.F.R 778.211, which requires the following conditions:
  - » Agency head retains total discretion as to the fact, amount, and nature of the award
  - » The amount is determined by the agency head without prior promise or agreement
  - » The award is not paid pursuant to any prior contract, agreement, or promise
- Currently, as a condition for the award, agencies are precluded from establishing a performance bonus system that is predicated on the employee achieving predetermined performance milestones. This is structured to avoid IRS rules that require predetermined performance bonuses be included in the rate calculation for overtime.
- Twenty-five states operate at least one type of in-

centive or bonus program.

- Other states bonus programs include employee retention, longevity, performance and innovation.

Key Assumptions

- Programs can be developed and instituted with minimal administrative burden.
- The Fair Labor Standards Act (FLSA) requires that overtime pay be determined using the employee's "regular rate" of pay, which includes all earnings paid to the employee during the workweek, therefore, additional costs are assumed for the program to include overtime costs.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Bonus recommendation include:

- Add a component to the statute that allows for additional non-discretionary bonuses that are tied to performance.
- Make adjustments to the payroll system to ensure that non-discretionary bonuses are accounted for in the personnel's rate calculation inclusive of overtime pay.
- Implement Performance Based Budgeting for each agency.
- Develop general guidance for the program with the involvement of state Human Resources.
- Leverage available information from other state programs to determine the appropriate bonus programs. Then provide state program information to agencies, in order to inform the design of a non-discretionary employee incentive, performance, and retention bonus program including program ROI.
- Establish the approval committee.
- Develop standard process for submission and approval of the program design.
- Monitor program effectiveness.

The expected time to implement this recommendation is nine months—three months to develop the program guidelines and process, three months to implement, and three months to evaluate and distribute first round. This recommendation requires statutory changes in order to make way for non-discretionary bonuses.

Recommendation #3 – Host an annual ideas festival for submission of efficiency ideas

The state should develop an annual Ideas Festival for efficiency savings in state government. The program should leverage the existing employee suggestion program with the addition of a Governor's annual award for excellence in government.

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Background and Findings

- State of Kansas has a statewide Employee Suggestion Program in which an employee can receive 10 percent of the savings for a suggestion up to $5,000.
- Eleven states have employee suggestion incentive programs where the employee gets a bonus as a percentage of the savings achieved by the suggestion.
- Other states have reported department savings of up to $4 million for employee suggestion incentive programs.
- The State of Wisconsin had an employee suggestion program since 1954 that identified 12 million in savings over the life of the program. "In fiscal years 1954 through 1988, the cumulative sum of annual savings for suggestions during that time frame was $8.9 million. For fiscal years 1996 through 2010, cumulative annual savings totaled nearly $3.1 million, as of July 2010." No savings were tracked between 1988 and 1996.
- The average annual savings in Wisconsin was between $221,000 and $261,000 per year.
- California has an employee suggestion program

MEMO.01 - Centralized budgeting and management

Memo Billing

INTRODUCTION

Services and supports are currently not managed on a statewide basis—including shared services from the Department of Administration (DOA) and Office of Information Technology Services (OITS). This results in a lack of ability to effectively allocate costs, conduct strategic planning and long term budgeting, or invest in determining future requirements. To drive improved fiscal management and service delivery, an improved governance structure is required compelling agencies to exclusively utilize these services.

RECOMMENDATIONS

Recommendation #1 – Enact centralized budgeting and management for services

Governance with oversight for the utilization and purchase of services and supports has been disparate and fragmented. For example, OITS recently gained responsibility for oversight of technology investments across the state. Yet, oversight is limited as the individual projects are funded at the agency level.

Key Considerations for Centralized Budgeting and Management

- Review with agency stakeholders the need to support flexibility at the agency level for activities under a pre-determined cost threshold may be appropriate to meet unique requirements and/or address locality preferences.
- Technology investments and services required to advance the state infrastructure cannot be sustained on a piecemeal, agency by agency basis. For example, if transitioning from the existing mainframe environment leaves a single agency user, that agency will bear the total cost responsibility for a previously allocated service. The technology strategy is long term and requires greater investment as well as a planning fund that should be centrally managed under the guidance of the state's Chief Information Officer.

Critical Steps to Implement

- Analyze total statewide spending for services including central services—such as accounting, payroll, purchasing, personnel, budget, and technology, in order to determine historical requirements and project future needs.
- Appropriate funding to establish dedicated services and create a statewide technology budget.
- Review staffing impacts at the agency level within DOA and OITS to determine the requirement

for adjustments in personnel to align with centralized management.

Recommendation #2 – Conduct a statewide assessment on alternative billing model for state central services

Conduct a statewide assessment to evaluate the use of memo billing as an alternative model for billings from shared services agencies such as the DOA and OITS.

Background

The State of Kansas Department of Administration's Office of Financial Management is responsible for the development and submission of the Statewide Cost Allocation Plan (SWCAP), in accordance by OMB Circular A-87. The circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments. Some federal agreements have provisions that allow for the inclusion of overhead or indirect costs. The federal government will reimburse the agency for a share of these indirect costs, such as central service costs.

In accordance with the federal requirements, the Kansas central service costs are categorized into two components :

- Allocation of non-billed allowable indirect costs:
  - » These indirect costs are expenditures incurred for central services such as accounting, payroll, purchasing, personnel, budget, etc.
- Documentation of direct billed services costs:

These are central service costs billed directly to user agencies based on demand usage. A rate is established to recover the full cost of the operations. Examples include inter fund vouchers for telephone and computer services, building rent, and payroll assessments. The OMB A-87 circular disallows certain costs from federal reimbursement. For this reason, Kansas uses a "dual-rate" structure for certain central service cost centers—a "federal rate" calculated under the OMB A-87 guidelines and paid by federal dollars, and a "state rate," which provides for full cost recovery and is paid from other state funding sources, such as the general fund or a fee fund.

Findings

- Kansas utilizes a significant amount of direct billing to agencies for central service costs. Direct billing leads to administrative burden across both the issuing and receiving agencies.
- Kansas uses an open market model in which the agencies receiving services have the option not to direct service requests to the state central services (i.e. print services, information technology, fleet services, etc.). This approach creates disincentives for the agencies to consolidate requirements and negatively impacts opportunities for volume driven management of services. Additionally, this approach may impact federal cost recovery for services that have been maintained in-house and are not receiving federal fund allocations.
- The state central services handle the highest cost services, such as case bound books and legislative overnight printing. When high cost services are added to the overall base, it creates the appearance of higher overall cost for standard services and therefore a disincentive to use centralized services.
- The current lack of centralized budgeting for services is an impediment toward long term planning and investment.

Key Considerations for Memo Billing

- Memo billing treats the handling of cash differently than direct billing. In direct billing, a state central service agency submits a bill for payment to a customer agency and collects the cash payment. In memo billing, the state central service agency works from existing cash budget and provides the customer agency a memo bill with the billed costs to use for their federal claims and budgeting processes. Memo billing eliminates cash from the billing model.
- Memo billing operates interchangeably with direct billing.

DOA.01 - Strategically source top categories

analysis focused on FY15 expenditure data obtained from a sample comprising of the top seven school districts. Data from the sample suggests that an estimated $1.6 billion of the school district spend is addressable (excluding $1.5 billion employee benefits and interest payments).

The information gleaned from interviews, contracts and data, show that the state:

- Is not leveraging the spend to its fullest potential
- Has a vendor base that is extensive and fragmented
- Does not conduct spend analyses to understand its annual volumes
- Has inefficiencies in processes and technologies that limit the state's ability to achieve the greatest cost savings

These considerable factors constitute a need for significant change to Kansas' procurement policies and procedures. Below is a summary of A&M's findings of potential cost savings and process efficiency recommendations identified in the procurement assessment.

RECOMMENDATION #1 - Strategically Source Top Categories Statewide (across Agencies and Universities)

The State of Kansas should conduct a statewide strategic sourcing exercise on a select group of high-value categories. This sourcing event would involve taking each category through a complete strategic sourcing exercise, which would include the followings steps: spend analysis, category assessment, category strategy, sourcing event, negotiation and selection, contracting and supplier transition.

Findings and Rationale

In order to drive significant savings, organizations employ a strategic sourcing approach to maximize the greatest value from procurement activities. The state's Procurement and Contracts group, which is responsible for the majority of procurement activities over $5K, does not follow a strategic sourcing methodology. Below are the key observations identified during this assessment:

- When conducting large, statewide sourcing events, the Procurement and Contracts groups does not use available state spend data to give prospective suppliers an estimate of total potential business volume.
- The state does not leverage its combined spend with suppliers. In most cases, the state obtains a provider primarily to service one agency and includes contract clauses to allow other agencies to use the contract as needed. With this approach, the state loses the benefit of negotiating the full annual volumes with the suppliers to get the lowest unit price(s).
- An internal price benchmark analysis of a sample of contracts across similar categories revealed unit price differences ranging from 7% to as much as 27% for certain categories.
- The state does not utilize optimal sourcing and contracting approaches.
    - There are instances where using a market-basket approach would offer better pricing but instead the state uses broader product category discounts.
    - There are a few contracts with index-based pricing. The state would benefit if this practice extended to other contracts where pricing changes are not well defined.
    - There are some categories (such as IT hardware) in which a total cost of ownership analysis should be conducted to accurately gauge overall costs and ensure that suppliers are not decreasing costs in one area, while increasing costs in another.
- The state's supplier base is large and fragmented. There are over 12,000 unique suppliers providing services across the state's top 20 categories. Based on our experience, a measured approach towards reducing the supplier base will generate supplier management efficiencies and drive lower prices through greater consolidation of spend.
- The state does not utilize spend analyses to understand its overall spend.
- Cooperative purchasing agreements play a significant role in the state's procurement process. These types of agreements can be helpful for categories where the state does not have the annual volume to drive the lowest prices. However, since

the state does not use detailed spend analyses to enable a better understanding of historical spend, it is likely that some contracts may not be delivering the greatest cost savings.

- There is little to no use of early pay discounting in contracts.
- The state primarily utilizes administrative fees (0.5% – 1% of total supplier spend) as a form of rebate on most contracts. Tiered pricing strategies are seldom used since historical spend data has not been used to guide the sourcing process. Without employing strategic sourcing principles, it is likely that the vendors have priced-in the administrative fee into the unit prices.

Analysis of the state's agency and university expenditure data highlighted 20 categories that represent $864 million in addressable spend. Executing the strategic sourcing event in three waves for these categories can yield between $15 million – $38 million in estimated annual savings.

Reccomendation #1 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$10,875	**$15,000**	**$15,000**	**$15,000**	**$15,000**

Key Assumptions

- The procurement categories A&M recommends for sourcing in the first three waves are as follows:
  - » Wave 1
    - – Maintenance, Repair & Operations
    - – Pro Scientific Supply
    - – IT Equipment
    - – IT Services
    - – Telecommunication Services
    - – Food
    - – Electricity (see recommendation #9)
  - » Wave 2
    - – Professional Services
    - – Building Repair and Services
    - – Office Supply
    - – Natural Gas
    - – Building Materials
    - – Travel and Entertainment
    - – IT Software
    - – Lawyers & Attorneys
  - » Wave 3
    - – IT Consulting Services
    - – Pro Scientific Equipment
    - – Fuel
    - – IT Software Fees
    - – IT Repair Services
- The Procurement and Contracts group will require assistance to complete the strategic sourcing event.
- Key stakeholders from agencies and universities will be available to provide information and input as required.
- The state can terminate existing contracts for the target categories without penalty to the state.
- The strategic sourcing events will include university spend.
- The savings associated with some categories are dependent on the state implementing procurement efficiency recommendations.

Critical Steps to Implement

- Finalize the target categories for the strategic sourcing event.
- Identify and assign key stakeholders (agency and university) to assist with the sourcing event.
- Execute strategic sourcing process steps with category management teams.

DOA.02 - Implement a category management structure

RECOMMENDATION #2 - Implement a Category Management Capability and Strategically

Source Remaining Categories

Concurrent with recommendation #1—establish a standardized, unified, center-led strategic sourcing and category management capability within the Department of Administration (DOA). The purpose of this function should be to:

- Develop deep expertise in the highest spend categories that state agencies consume
- Track and report spend across the state
- Maintain a list of key local/agency requirements for each category
- Cultivate deep marketplace knowledge
- Be responsible for offering creative, viable solutions for satisfying the state's needs for goods and services

Findings/Rationale

Due to the way state statutes and practices are structured, the state's procurement process is required to primarily focus on the front-end contracting process. This is a common practice in public sector procurement and followed by numerous states. Therefore, it has a strong focus on ensuring a level playing field for suppliers in securing state contracts. However, this limited model of procurement does not take advantage of the state's full buying power. Below are the key insights of the procurement and contracting process that resulted from our interviews.

Process Observations

- The Department of Administration Procurement and Contracts group does a good job of facilitating the Request for Proposal (RFP), Request for Quotation (RFQ) and Invitation for Bid (IFB) processes for state agencies. Their activities are primarily limited to: reviewing the requisition, drafting the RFP/RFQ/IFB, issuing the RFP/RFQ/IFB, consolidating bid responses for the requesting agency to review, and facilitating the negotiation and contracting phase.
- The Procurement and Contracts group does not have an analytic function to conduct spend analyses and therefore is not able to effectively leverage statewide spend.
- This is no evidence of a formal supplier relationship or quality management capability. Each agency is responsible for monitoring the performance of their suppliers. The Procurement and Contracts group engages with suppliers post-award only if there are substantial performance or contract issues.
- Agencies have no insight into the requisitions pipeline to identify collaboration opportunities.
- There is no upfront involvement by the Procurement and Contracts group in major agency projects to help facilitate a faster RFP/RFQ/IFB process as well as to provide valuable procurement-related insight to the agencies.
- All procurement actions over $5,000 (except for universities and KDOT) go through the Procurement and Contracts group. Other states (Missouri, Nevada, Nebraska, etc.) allow agencies to conduct specific sourcing activities for spend up to $25K or even $50K to reduce the workload on the central procurement team.
- The use of mandatory contracts is well defined and known across the state. This process can be further expanded to other spend categories that can benefit from being managed centrally for greater leverage.

People Observations

- The tenure of the current Procurement and Contracts staff is very short due to significant turnover in the department.
- The Procurement and Contracts commodity managers lack the reporting and analytical tools to execute strategic sourcing.
- Most commodity managers do not have deep knowledge in the categories they manage. This is primarily due to the high turnover rate and because the central Procurement and Contracts group focuses mainly on facilitating the contracting process.

Technology Observations

- The data warehouse in the SMART system is rich with spend information that is currently not being utilized by the Procurement and Contracts group for reports and analysis.

- Line item invoice data is not available for review and analysis because purchase order and invoicing processes are paper-based and not electronic.

- Most universities have different systems to manage their individual procurement operations. The use of different systems hinders collaboration and makes it more challenging to conduct spend analyses that drive towards better procurement.

- P-card spend management is fragmented—data is drawn from different systems causing difficulty to best manage and leverage aggregate P-card spend.

In order to generate more value from the procurement and contracting process, the state should embrace a strategic sourcing mindset. The National Association of State Procurement Officials (NASPO) recently conducted a national study indicating that 53% of states interviewed, incorporated a strategic sourcing approach in their procurement process, and that number is said to be growing. A strategic sourcing mindset will allow the state to:

- Utilize spend analyses to obtain greater insight into what is being purchased statewide and how goods and services are consumed.

- Leverage statewide volumes to obtain lower unit pricing and greater discounts.

- Obtain an accurate view of the total cost of ownership of goods/services purchased.

- Utilize market intelligence to negotiate deals that are more favorable.

- Proactively address contract compliance and supplier performance.

A&M recommends that the State of Kansas take a staged approach to implementing a strategic sourcing and category management capability. This will require significant changes to people, process, and technology.

- Stage 1:
    - » Expand and upgrade the skills requirements for Procurement and Contracts.
    - » Train or hire category managers who are capable of executing strategic sourcing activities.
    - » Develop a spend analysis framework and establish standard reports that offer insight into the statewide spend, to aid the strategic sourcing process.
    - » Rationalize procurement categories to determine centrally sourced goods and services.
- Stage 2:
    - » Implement technology improvements to automate the procure-to-pay process.
    - » Enhance sourcing tools and training.
    - » Review and align procurement related statutes to Procurement and Contracts' mission.
- Stage 3:
    - » Enhance contract compliance procedures and tools.
    - » Build/Implement supplier relationship and performance management capability.
    - » Create visibility to school district spend so that they can be better served.

A&M's experience and research indicates that category management and strategic sourcing methods can significantly reduce costs, when properly implemented. Beyond the top 20 categories identified in recommendation #1, there is an additional $440 million of addressable agency and university spend across several categories, that can be targeted by the Procurement and Contracts group. Savings could range from $8 million – $16 million annually, by sustainably enabling category management and strategic sourcing practices.

Recommendation #2 - (dollars in 000's)			
FY 18	FY 19	FY 20	FY 21
$4,125	**$8,250**	**$8,250**	**$8,250**

Key Assumptions

- The categories represented in the above savings projections include: Building, Building Improvement, Vehicles, Contract Labor, Dues & Subscriptions, Advertising and Marketing, Vehicle Parts and Services, etc. These addressable spend categories are supplemental to the savings estimate included in recommendation #1 and do not include school district spend.

- The Procurement and Contracts group will acquire the skills and resources to implement a sustainable category management and strategic sourcing operation.
- The necessary tools and methodology will be available to the sourcing team.

Critical Steps to Implement

- Define the category manager roles and responsibilities.
- Align category manager workload with updated roles and responsibilities.
- Develop/Provide the necessary training to the category managers.
- Identify and implement the tools required for the category managers to execute their work effectively.
- Identify key stakeholders in the affected agencies and implement a transition plan to guide them through the change process.

RECOMMENDATION #3 - Free Up Working Capital by Paying Invoices on Day 30

The State of Kansas should configure the invoice payment process to automatically trigger payments closer to the invoice due date, in order to reduce working capital needs and forego the interest expense that would have been required to borrow the excess working capital.

Findings and Rationale

The State of Kansas' Prompt Payment Act (K.S.A. 75-6403) states that:

Each government agency shall make payment of the full amount due for such goods or services on or before the 30th calendar day after the date of receipt by the government agency of the goods and services or the date of receipt by the government agency of the bill therefor, whichever is later, unless other provisions for payment are agreed to in writing by the vendor and the government agency...

The state currently pays invoices, on average, 10 days after receipt of the invoice. The majority of supplier contracts have payment terms of Net 30 days (which require payment in 30 days of receiving the invoice) and these contracts do not have any established early pay discount terms. In comparison, the government/military sectors pay supplier invoices in 20 days from the receipt of the invoice, according to the 2015 APQC (non-profit business benchmarking organization) Accounts Payable (AP) and Expense Reimbursement Study.

The state should move to a 30-day payment cycle for supplier invoices, eliminating the need to fund up to 20 additional days of working capital. Increasing the payment cycle closer to 30 days will free up approximately $170 million in working capital that will have an immediate impact on the state's cash requirements. Additionally, the state will realize interest expense savings of $3 million annually.

Recommendation #3 - (dollars in 000's)					
FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$3,000**	**$3,000**	**$3,000**	**$3,000**	**$3,000**

Key Assumptions

- The payment cycle for expenses such as payroll, employee travel and entertainment expenses, welfare-related payments, bond payments, agency-to-agency transfers, payments to localities, utility payments, etc. will remain unchanged and is not subject to this recommendation.
- The reduction in interest expense will start in Q4 FY16.

Critical Steps to Implement

- Update the settings in the SMART system to hold and automatically release approved payments closer to day 30.
- Standardize the state's invoicing procedures to ensure that all agencies consistently enter the 'invoice receipt date' into SMART (provided the

DOA.06 - Statewide contracts repository

- The University of Kansas has implemented an automated procure-to-pay application via Sciquest. With this application, they are able to capture most of the benefits outlined above.
- The other universities have manual processes from the creation of the requisition to the approval process of the invoices.
- The state agencies all use Oracle's SMART application for the requisitioning and payment processes but lack the automation of the purchase orders, 3-way matching and invoice approval workflow. The lack of these key components drives up administrative costs and the time to approve invoices.
- The school districts have a manual procure-to-pay process.

The Gartner Magic Quadrant rated both Oracle PeopleSoft and Sciquest above average in terms of product functionality and customer satisfaction. Therefore, on the state agency side, there is no need to engage in application selection. The state can move forward immediately to implement a fully automated procure-to-pay process across the state agencies. On the university side, a requirements study should be conducted to decide whether to expand Sciquest or SMART to other universities.

Critical Steps to Implement

- Conduct an agency wide assessment to document the business and technical requirements.
- Conduct a university assessment to document business and technical requirements.
- Contact current application providers to document implementation plan, resources and fees.

Recommendation #5 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
($1,200)	$-	$-	$-	$-

RECOMMENDATION #6 - Central Contract Repository

Create a central repository for all state contracts (agencies and universities). The repository should enable any state employee to search and locate all existing contracts easily. The repository should also provide insight and notice to the expiration of contracts.

Findings and Rationale

Across the State of Kansas, agencies store contracts in a decentralized manner. The Office of Procurement and Contracts has an online web portal that lists around 3,400 contracts. The web portal provides the option for end-users to search for contracts; however, searches can be difficult and time consuming due to non-standardized taxonomy. In addition, full contracts are not always stored online, causing lack of visibility for state employees in numerous instances.

Some agency specific contracts are not stored in the DOA contract portal, although the Procurement and Contracts group assisted with the contracting of the product or service. In these cases, the agency maintains those contracts separately. The universities are not required to use the Office of Procurement and Contracts to conduct sourcing events, therefore, all of their contracts are stored individually by each university.

By not making contracts visible to others, the state is:

- Increasing the workload of end-users doing research for contracts
- Losing leverage in situations where another department may benefit from the use of an existing contract
- Limiting collaboration across agencies
- Increasing the workload of the Procurement and Contracts group by conducting multiple sourcing events for the same product or service
- Limiting its ability to effectively monitor and enforce contract compliance

The State of Kansas already has two contract life-cycle management products: one from Oracle (used by state agencies) and the other by Sciquest (used by the University of Kansas and University of Kansas Medical Center). Both products are strong performers in their categories. The state should promptly initiate a project to do the following:

- Update the procurement process to scan and store all contracts electronically
- Determine which contract life-cycle management product(s) to use
- Develop consistent taxonomy to use for the contract storage repository
- Upload full contracts to the data repository
- Train end-users on the new process

There are many benefits to having a contract life cycle management application. The State of Kansas will be able to take advantage of these as its Procurement organization matures. At this time, the key immediate benefits to the state are as follows:

- Ease of use for end-users to search for and locate existing contracts
- Visibility into contract expirations for all contracts
- Better tracking of amendments and extensions to contracts
- Ability to better monitor contract compliance
- Ability to generate meaningful reports and insight to assist with strategic sourcing events

RECOMMENDATION #7 - Centralize the Management of Wireless Services

The state can reduce telecommunication costs by moving to a centrally managed wireless account management model.

Findings and Rationale

Currently, each state agency manages their wireless accounts separately. This decentralized approach has significant disadvantages for the state, which include:

- The inability to optimize rate plans consistently across the state
- Loss of leverage of wireless spend across the organization
- Continuing contract terms that may be out of sync with the current market
- Utilizing excess resources to manage accounts that can be consolidated

The State of Kansas has approximately 5,000 lines with its primary wireless service provider. Each agency with a wireless account is responsible for reviewing and processing invoices for payment, overseeing equipment and plan changes, and helping to resolve end-users issues. To manage these services more efficiently, the state should combine all accounts into one central account structure that will do the following:

- Eliminate the need for agency personnel to oversee the reviewing and processing of the invoice
- Enable better overall management of the data plans and equipment
- Enable the state to better leverage the volume to get lower pricing from wireless providers

A review of detailed usage data on 30% of the wireless lines provided by the state's primary telecom provider, which accounts for 67% of the wireless spend, revealed opportunities to realize approximately $160,000 in net annual savings across all lines, for that particular provider. The state can realize these savings by reducing the number of full time equivalent resources currently managing the accounts, optimizing the voice and data plans and outsourcing the management of the wireless accounts to a Telecom Expense Management company.

Recommendation #7 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$160	**$160**	**$160**	**$160**	**$160**

Key Assumptions

- All wireless accounts can be centralized and combined into one account for each provider.
- The agency resources currently overseeing the wireless accounts spend an average of 20% of their time managing these accounts.
- The state can hire a Telecom Expense Management company to perform the services at a competitive price. Alternatively, the state could opt to

DOA.09 - Optimize facility operations to reduce energy usage

assign a state employee(s) to manage the central accounts.

Critical Steps to Implement: Consolidate all agency accounts into a single account for each provider.

- Issue an RFQ/P for a Telecom Expense Management service provider.
- Develop and effectively communicate the standard operating procedures to the user group.

RECOMMENDATION #8 - Implement a Managed Print Services Model at Universities and Evaluate Agencies

Conduct a statewide assessment to identify which universities/colleges should move to network-based multi-function devices and away from distributed individual printers to reduce procurement and maintenance costs.

Findings/Rationale

There is no university-wide Managed Print Services (MPS) contract setup at Kansas State University and Wichita State University. In both locations, the departments primarily utilize local desk printers and copiers for their needs. Typically, large organizations that take a decentralized approach to managing print services, experience increased costs to the organization to procure printing supplies and equipment, to maintain the equipment, and to run the equipment due to higher energy usage.

Some state agencies have already moved to a networked multi-function device model. Additionally, the University of Kansas has moved to networked-based multi-function devices. They were able to achieve millions in costs savings over four years by prohibiting the use of unauthorized local printers, centralizing IT technicians and setting up an MPS contract. These savings are in line with the 10%-30% savings potential noted by Gartner and various MPS case studies.

A&M recommends that the State of Kansas conduct a statewide printing and copying assessment to identify where to deploy or redeploy an MPS model. The universities spend approximately $7.8 million for print services, supplies and equipment, combined. A&M estimates that they could save approximately $673,000 annually by switching to network-based multi-function devices. This savings estimate does not include the reduction in energy usage or refining existing MPS programs at other agencies or universities to drive higher savings or leveraging the consolidated spend statewide to get more favorable contract pricing from MPS providers.

Reccomendation #8 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$673	**$673**	**$673**	**$673**	**$673**

Key Assumptions

- University departments and colleges will participate in the assessment.
- The University of Kansas and the University of Kansas Medical Center have already implemented an MPS program.
- Some state agencies have implemented networked print services but have not entered into statewide MPS programs.

Critical Steps to Implement

- Initiate a statewide printing and copying assessment to outline all agencies/universities that should be part of the program and gather functional requirements.
- Work with the Office of Information and Technology Services and affected agencies/universities to outline technical requirements, approach, and address challenges.

RECOMMENDATION #9 – Optimize Facility Operations to Reduce Energy Usage

Conduct a comprehensive review of facility operations and control systems at state agency, university and school district buildings, in order to identify and implement control systems and operational changes that will significantly reduce energy usage and cost.

Findings and Rationale

A&M analyzed detailed natural gas and electricity data from a select group of high usage agency and university facilities. The data from these facilities came from

meters that accounted for approximately 75% of total energy usage at the agency/university. The following observations are the result of the analysis:

- The comparison of demand versus degree-days shows large swings in the peak demand during the workweek and weekends at some facilities. Reducing peak demands would result in significant savings in demand charges and in usage costs.

- Optimizing control system performance can reduce the variation in demand on warm days.

- Poor synchronization among building energy management systems (EMS) may be causing volatile swings in energy usage observed at some facilities.

Recommendation #9 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$3,600	**$3,600**	**$3,600**	**$3,600**	**$3,600**

By optimizing facility operations, the state can generate between 10%–20% in reduced energy costs across the agency and university buildings, if the state makes the necessary control system changes and implements an ongoing plan to monitor energy usage.

A&M also reviewed energy data from select school districts. Unfortunately, most school districts reviewed did not have smart meters capable of providing detailed energy usage data in 15-minute intervals. Without smart meter data, the school districts lack a key tool to analyze energy usage to the degree performed for state agencies and universities. The school districts should work with energy providers to install smart meters promptly.

Key Assumptions

- The high demand electric and gas meter data (from the high usage agencies and universities) analyzed are representative of the state's energy spend.

- The analysis benchmarked facility's performance against itself—not against an industry standard.

- The detailed analysis utilized assumptions about actual and avoided cost of energy and demand where detailed bill histories were not available.

- Zero capital expenditure expected to drive cost savings—optimize existing systems only.

- The savings assume building controls systems are functioning properly.

- The savings projections are dependent on the state providing smart meter data and adhering to system changes recommended. A&M assumed an adoption rate of 50%.

Critical Steps to Implement

- Discuss detailed facility operations with the facility operators and control system vendors

- Develop and implement energy optimization plans for facilities

- Optimize build equipment

- Establish best practice maintenance methods

- Conduct subsequent reviews to identify and address performance issues in equipment controlled by the EMS

- Perform similar assessment at remaining high consumption state facilities and develop roadmap

- Install temporary smart meters to obtain detailed energy consumption data at non smart-metered facilities (e.g. school districts)

DOA.03 - Pay invoices on day 30

tions, Advertising and Marketing, Vehicle Parts and Services, etc. These addressable spend categories are supplemental to the savings estimate included in recommendation #1 and do not include school district spend.

- The Procurement and Contracts group will acquire the skills and resources to implement a sustainable category management and strategic sourcing operation.
- The necessary tools and methodology will be available to the sourcing team.

Critical Steps to Implement

- Define the category manager roles and responsibilities.
- Align category manager workload with updated roles and responsibilities.
- Develop/Provide the necessary training to the category managers.
- Identify and implement the tools required for the category managers to execute their work effectively.
- Identify key stakeholders in the affected agencies and implement a transition plan to guide them through the change process.

RECOMMENDATION #3 - Free Up Working Capital by Paying Invoices on Day 30

The State of Kansas should configure the invoice payment process to automatically trigger payments closer to the invoice due date, in order to reduce working capital needs and forego the interest expense that would have been required to borrow the excess working capital.

Findings and Rationale

The State of Kansas' Prompt Payment Act (K.S.A. 75-6403) states that:

Each government agency shall make payment of the full amount due for such goods or services on or before the 30th calendar day after the date of receipt by the government agency of the goods and services or the date of receipt by the government agency of the bill therefor, whichever is later, unless other provisions for payment are agreed to in writing by the vendor and the government agency...

The state currently pays invoices, on average, 10 days after receipt of the invoice. The majority of supplier contracts have payment terms of Net 30 days (which require payment in 30 days of receiving the invoice) and these contracts do not have any established early pay discount terms. In comparison, the government/military sectors pay supplier invoices in 20 days from the receipt of the invoice, according to the 2015 APQC (non-profit business benchmarking organization) Accounts Payable (AP) and Expense Reimbursement Study.

The state should move to a 30-day payment cycle for supplier invoices, eliminating the need to fund up to 20 additional days of working capital. Increasing the payment cycle closer to 30 days will free up approximately $170 million in working capital that will have an immediate impact on the state's cash requirements. Additionally, the state will realize interest expense savings of $3 million annually.

Recommendation #3 - (dollars in 000's)					
FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$3,000**	**$3,000**	**$3,000**	**$3,000**	**$3,000**

Key Assumptions

- The payment cycle for expenses such as payroll, employee travel and entertainment expenses, welfare-related payments, bond payments, agency-to-agency transfers, payments to localities, utility payments, etc. will remain unchanged and is not subject to this recommendation.
- The reduction in interest expense will start in Q4 FY16.

Critical Steps to Implement

- Update the settings in the SMART system to hold and automatically release approved payments closer to day 30.
- Standardize the state's invoicing procedures to ensure that all agencies consistently enter the 'invoice receipt date' into SMART (provided the

contract calls for the 'invoice receipt date' and not the 'invoice date').

- Verify that SMART contains the correct payment terms for all suppliers.

RECOMMENDATION #4 - Negotiate Early Pay Discount Terms with Suppliers

The state should pursue early pay discount terms with suppliers.

Findings and Rationale

Of the numerous contracts reviewed, only one had early pay discount terms. All other contracts were set up with the default net 30 day terms. Based on our analysis of how quickly the state is able to approve and pay invoices (less than 10 days on average), the state can benefit from offering the industry standard 2% 10, net 30 day terms and/or the 1% 20 net 30 day terms to all suppliers that are willing to accept these terms.

After the initial launch of this program, it is likely that early adoption by suppliers may be low since the state's current practice of paying invoices within 10 days already benefits the suppliers significantly. Therefore, any savings associated with the launch of this early pay discount program is dependent on the state adopting the recommendation to start paying supplier invoices closer to the 30 day period, allowed by the statute. A conservative adoption rate of 2% in the early years of the program will yield $1 million in annual savings.

Recommendation #4 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$750**	**$750**	**$1,500**	**$1,500**

Key Assumptions

- The state makes the necessary adjustments to pay supplier invoices closer to day 30.
- The state is able to achieve an adoption rate of 2% of the expenditure available for discounting.
- The state launches the program effectively and efficiently.
- Suppliers are willing to renegotiate terms.

Critical Steps to Implement

- Identify the group of suppliers to target in the initial launch of the program.
- Develop an efficient approach to contact suppliers.
- Update contract terms in SMART.

RECOMMENDATION #5 - Ensure Sustainability of Savings by Automating the Procure-to-Pay Process

Define, enable and implement an automated and standardized procure-to-pay process across all agencies. This will bring consistency, transparency and improved efficiency to the procure-to-pay activities that include:

- Requisitioning
- Purchase order generation and issuance
- Goods receipt and matching
- Invoice receipt, approval and payment

Findings and Rationale

Effective strategic sourcing runs in conjunction with an effective procure-to-pay process that accomplishes the following:

- Captures line item invoice detail of the spend
- Utilizes a robust spend classification structure that properly codes spend information
- Employs electronic workflows throughout the process that reduces administrative costs and enables the capture of early pay or dynamic discounts
- Improves reporting capabilities

The State of Kansas' procure-to-pay processes are mostly manual and utilize a diverse set of tools across agencies, universities and school districts. Below are a few observations:

DOA.04 - Negotiate early pay discounts

contract calls for the 'invoice receipt date' and not the 'invoice date').

- Verify that SMART contains the correct payment terms for all suppliers.

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Findings and Rationale

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After the initial launch of this program, it is likely that early adoption by suppliers may be low since the state's current practice of paying invoices within 10 days already benefits the suppliers significantly. Therefore, any savings associated with the launch of this early pay discount program is dependent on the state adopting the recommendation to start paying supplier invoices closer to the 30 day period, allowed by the statute. A conservative adoption rate of 2% in the early years of the program will yield $1 million in annual savings.

Recommendation #4 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$750**	**$750**	**$1,500**	**$1,500**

Key Assumptions

- The state makes the necessary adjustments to pay supplier invoices closer to day 30.
- The state is able to achieve an adoption rate of 2% of the expenditure available for discounting.
- The state launches the program effectively and efficiently.
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- Captures line item invoice detail of the spend
- Utilizes a robust spend classification structure that properly codes spend information
- Employs electronic workflows throughout the process that reduces administrative costs and enables the capture of early pay or dynamic discounts
- Improves reporting capabilities

The State of Kansas' procure-to-pay processes are mostly manual and utilize a diverse set of tools across agencies, universities and school districts. Below are a few observations:

DOA.08 - Implement networked printers at universities

assign a state employee(s) to manage the central accounts.

Critical Steps to Implement: Consolidate all agency accounts into a single account for each provider.

- Issue an RFQ/P for a Telecom Expense Management service provider.
- Develop and effectively communicate the standard operating procedures to the user group.

RECOMMENDATION #8 - Implement a Managed Print Services Model at Universities and Evaluate Agencies

Conduct a statewide assessment to identify which universities/colleges should move to network-based multi-function devices and away from distributed individual printers to reduce procurement and maintenance costs.

Findings/Rationale

There is no university-wide Managed Print Services (MPS) contract setup at Kansas State University and Wichita State University. In both locations, the departments primarily utilize local desk printers and copiers for their needs. Typically, large organizations that take a decentralized approach to managing print services, experience increased costs to the organization to procure printing supplies and equipment, to maintain the equipment, and to run the equipment due to higher energy usage.

Some state agencies have already moved to a networked multi-function device model. Additionally, the University of Kansas has moved to networked-based multi-function devices. They were able to achieve millions in costs savings over four years by prohibiting the use of unauthorized local printers, centralizing IT technicians and setting up an MPS contract. These savings are in line with the 10%-30% savings potential noted by Gartner and various MPS case studies.

A&M recommends that the State of Kansas conduct a statewide printing and copying assessment to identify where to deploy or redeploy an MPS model. The universities spend approximately $7.8 million for print services, supplies and equipment, combined. A&M estimates that they could save approximately $673,000 annually by switching to network-based multi-function devices. This savings estimate does not include the reduction in energy usage or refining existing MPS programs at other agencies or universities to drive higher savings or leveraging the consolidated spend statewide to get more favorable contract pricing from MPS providers.

Reccomendation #8 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$673	$673	$673	$673	$673

Key Assumptions

- University departments and colleges will participate in the assessment.
- The University of Kansas and the University of Kansas Medical Center have already implemented an MPS program.
- Some state agencies have implemented networked print services but have not entered into statewide MPS programs.

Critical Steps to Implement

- Initiate a statewide printing and copying assessment to outline all agencies/universities that should be part of the program and gather functional requirements.
- Work with the Office of Information and Technology Services and affected agencies/universities to outline technical requirements, approach, and address challenges.

RECOMMENDATION #9 – Optimize Facility Operations to Reduce Energy Usage

Conduct a comprehensive review of facility operations and control systems at state agency, university and school district buildings, in order to identify and implement control systems and operational changes that will significantly reduce energy usage and cost.

Findings and Rationale

A&M analyzed detailed natural gas and electricity data from a select group of high usage agency and university facilities. The data from these facilities came from

DOA.07 - Centralize the management Wireless Services

categories. The state should promptly initiate a project to do the following:

- Update the procurement process to scan and store all contracts electronically
- Determine which contract life-cycle management product(s) to use
- Develop consistent taxonomy to use for the contract storage repository
- Upload full contracts to the data repository
- Train end-users on the new process

There are many benefits to having a contract life cycle management application. The State of Kansas will be able to take advantage of these as its Procurement organization matures. At this time, the key immediate benefits to the state are as follows:

- Ease of use for end-users to search for and locate existing contracts
- Visibility into contract expirations for all contracts
- Better tracking of amendments and extensions to contracts
- Ability to better monitor contract compliance
- Ability to generate meaningful reports and insight to assist with strategic sourcing events

RECOMMENDATION #7 - Centralize the Management of Wireless Services

The state can reduce telecommunication costs by moving to a centrally managed wireless account management model.

Findings and Rationale

Currently, each state agency manages their wireless accounts separately. This decentralized approach has significant disadvantages for the state, which include:

- The inability to optimize rate plans consistently across the state
- Loss of leverage of wireless spend across the organization
- Continuing contract terms that may be out of sync with the current market
- Utilizing excess resources to manage accounts that can be consolidated

The State of Kansas has approximately 5,000 lines with its primary wireless service provider. Each agency with a wireless account is responsible for reviewing and processing invoices for payment, overseeing equipment and plan changes, and helping to resolve end-users issues. To manage these services more efficiently, the state should combine all accounts into one central account structure that will do the following:

- Eliminate the need for agency personnel to oversee the reviewing and processing of the invoice
- Enable better overall management of the data plans and equipment
- Enable the state to better leverage the volume to get lower pricing from wireless providers

A review of detailed usage data on 30% of the wireless

Recommendation #7 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$160	**$160**	**$160**	**$160**	**$160**

lines provided by the state's primary telecom provider, which accounts for 67% of the wireless spend, revealed opportunities to realize approximately $160,000 in net annual savings across all lines, for that particular provider. The state can realize these savings by reducing the number of full time equivalent resources currently managing the accounts, optimizing the voice and data plans and outsourcing the management of the wireless accounts to a Telecom Expense Management company.

Key Assumptions

- All wireless accounts can be centralized and combined into one account for each provider.
- The agency resources currently overseeing the wireless accounts spend an average of 20% of their time managing these accounts.
- The state can hire a Telecom Expense Management company to perform the services at a competitive price. Alternatively, the state could opt to

assign a state employee(s) to manage the central accounts.

Critical Steps to Implement: Consolidate all agency accounts into a single account for each provider.

- Issue an RFQ/P for a Telecom Expense Management service provider.
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Findings/Rationale

There is no university-wide Managed Print Services (MPS) contract setup at Kansas State University and Wichita State University. In both locations, the departments primarily utilize local desk printers and copiers for their needs. Typically, large organizations that take a decentralized approach to managing print services, experience increased costs to the organization to procure printing supplies and equipment, to maintain the equipment, and to run the equipment due to higher energy usage.

Some state agencies have already moved to a networked multi-function device model. Additionally, the University of Kansas has moved to networked-based multi-function devices. They were able to achieve millions in costs savings over four years by prohibiting the use of unauthorized local printers, centralizing IT technicians and setting up an MPS contract. These savings are in line with the 10%-30% savings potential noted by Gartner and various MPS case studies.

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Reccomendation #8 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$673	**$673**	**$673**	**$673**	**$673**

Key Assumptions

- University departments and colleges will participate in the assessment.
- The University of Kansas and the University of Kansas Medical Center have already implemented an MPS program.
- Some state agencies have implemented networked print services but have not entered into statewide MPS programs.

Critical Steps to Implement

- Initiate a statewide printing and copying assessment to outline all agencies/universities that should be part of the program and gather functional requirements.
- Work with the Office of Information and Technology Services and affected agencies/universities to outline technical requirements, approach, and address challenges.

RECOMMENDATION #9 – Optimize Facility Operations to Reduce Energy Usage

Conduct a comprehensive review of facility operations and control systems at state agency, university and school district buildings, in order to identify and implement control systems and operational changes that will significantly reduce energy usage and cost.

Findings and Rationale

A&M analyzed detailed natural gas and electricity data from a select group of high usage agency and university facilities. The data from these facilities came from

KPERS.02 - Maximize Investment Income

final average salary calculations reduces the plan's normal cost, albeit very marginally (0.01%-0.03%). Totally eliminating vacation and sick leave from final average salaries results in a reduction in contribution rates of 0.18% for the State Group, 0.04% for the School Group, and 0.07% for the Local Group." This would result in an estimated annual reduction of $3.2 million for the State and School Group and $1.2 million for the Local Group.

The memo went on to note that "a reduction in actuarial required contribution rates would ultimately result in fewer contributions entering the KPERS Trust Fund. However, because the State/School Group statutory employer contribution rate is below the actuarial required contribution rate, only the Local Group reduction would result in reduced contributions, totaling approximately $1.2 million.

In both cases, the reduced revenue reflects lower employer contributions required to fund benefits for pre-1993 members. However, HB 2426 would not be expected to result in savings of the amount projected by the cost study, and therefore, the contribution rates would not decline to the extent above."

It is important to note that KPERS also cautioned that administrative costs to implement this could be considerable. This is partially due to the difficulty in collecting the data of permissible leave and non-permissible leave.

Deferred Compensation

Certain employees, typically key employees, enter into a contract with their employer to defer compensation under Section 457(f) of the tax code. This provides tax deferral. Currently, such amounts may enter into the pension calculation. KPERS identified several reasons that this is not a substantial cost.

- Only three times in the past twenty years have such amounts entered into the calculation
- The IRS imposes a limit on compensation which can be considered for pension purposes:
  - » $265,000 for those hired after July 1, 1996
  - » $395,000 for those hired prior to July 1, 1996
- There may be contract rights or legal issues which could preclude a change in the program

Based on this, the A&M team estimates that a total elimination of this benefit would save the system less than $200,000 per year. A prospective elimination might save $100,000 per year in the long run.

Summary

The A&M team performed a review of KPERS while keeping in mind their mission "...to deliver [in its fiduciary capacity] retirement, disability and survivor benefits to its members and their beneficiaries."

Many of the recommendations developed align with these goals, including program delivery, organization improvement, workforce and external partnerships.

Recommendations

Recommendation #1 – Make Required Contributions to KPERS as Specified under Current Law

Specifically, all KPERS employers, including the State, should make the required contributions contemplated under current law. Deferral of contributions would result in higher long term costs and put the burden of past public service costs on future Kansans.

Recommendation #2 – Encourage KPERS to Carry out its Strategic Plan with Emphasis on Maximizing Investment Income Consistent with Fiduciary Responsibility

Investment return is the most important driver of long-term costs for the KPERS system. The A&M team reviewed the KPERS strategic plan—which covers investment return—and believe that the plan is reasonable and that KPERS has a strong focus on investment return. The State should support that emphasis and encourage KPERS initiatives, which improve investment performance.

KPERS.01 - KPERS Contributions

final average salary calculations reduces the plan's normal cost, albeit very marginally (0.01%-0.03%). Totally eliminating vacation and sick leave from final average salaries results in a reduction in contribution rates of 0.18% for the State Group, 0.04% for the School Group, and 0.07% for the Local Group." This would result in an estimated annual reduction of $3.2 million for the State and School Group and $1.2 million for the Local Group.

The memo went on to note that "a reduction in actuarial required contribution rates would ultimately result in fewer contributions entering the KPERS Trust Fund. However, because the State/School Group statutory employer contribution rate is below the actuarial required contribution rate, only the Local Group reduction would result in reduced contributions, totaling approximately $1.2 million.

In both cases, the reduced revenue reflects lower employer contributions required to fund benefits for pre-1993 members. However, HB 2426 would not be expected to result in savings of the amount projected by the cost study, and therefore, the contribution rates would not decline to the extent above."

It is important to note that KPERS also cautioned that administrative costs to implement this could be considerable. This is partially due to the difficulty in collecting the data of permissible leave and non-permissible leave.

Deferred Compensation

Certain employees, typically key employees, enter into a contract with their employer to defer compensation under Section 457(f) of the tax code. This provides tax deferral. Currently, such amounts may enter into the pension calculation. KPERS identified several reasons that this is not a substantial cost.

- Only three times in the past twenty years have such amounts entered into the calculation
- The IRS imposes a limit on compensation which can be considered for pension purposes:
  - $265,000 for those hired after July 1, 1996
  - $395,000 for those hired prior to July 1, 1996
- There may be contract rights or legal issues which could preclude a change in the program

Based on this, the A&M team estimates that a total elimination of this benefit would save the system less than $200,000 per year. A prospective elimination might save $100,000 per year in the long run.

Summary

The A&M team performed a review of KPERS while keeping in mind their mission "...to deliver [in its fiduciary capacity] retirement, disability and survivor benefits to its members and their beneficiaries."

Many of the recommendations developed align with these goals, including program delivery, organization improvement, workforce and external partnerships.

Recommendations

Recommendation #1 – Make Required Contributions to KPERS as Specified under Current Law

Specifically, all KPERS employers, including the State, should make the required contributions contemplated under current law. Deferral of contributions would result in higher long term costs and put the burden of past public service costs on future Kansans.

Recommendation #2 – Encourage KPERS to Carry out its Strategic Plan with Emphasis on Maximizing Investment Income Consistent with Fiduciary Responsibility

Investment return is the most important driver of long-term costs for the KPERS system. The A&M team reviewed the KPERS strategic plan—which covers investment return—and believe that the plan is reasonable and that KPERS has a strong focus on investment return. The State should support that emphasis and encourage KPERS initiatives, which improve investment performance.

MEMO.02 - Statewide assessment on alternative memo billing

for adjustments in personnel to align with centralized management.

Recommendation #2 – Conduct a statewide assessment on alternative billing model for state central services

Conduct a statewide assessment to evaluate the use of memo billing as an alternative model for billings from shared services agencies such as the DOA and OITS.

Background

The State of Kansas Department of Administration's Office of Financial Management is responsible for the development and submission of the Statewide Cost Allocation Plan (SWCAP), in accordance by OMB Circular A-87. The circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments. Some federal agreements have provisions that allow for the inclusion of overhead or indirect costs. The federal government will reimburse the agency for a share of these indirect costs, such as central service costs.

In accordance with the federal requirements, the Kansas central service costs are categorized into two components :

- Allocation of non-billed allowable indirect costs:
    - » These indirect costs are expenditures incurred for central services such as accounting, payroll, purchasing, personnel, budget, etc.
- Documentation of direct billed services costs:

These are central service costs billed directly to user agencies based on demand usage. A rate is established to recover the full cost of the operations. Examples include inter fund vouchers for telephone and computer services, building rent, and payroll assessments. The OMB A-87 circular disallows certain costs from federal reimbursement. For this reason, Kansas uses a "dual-rate" structure for certain central service cost centers—a "federal rate" calculated under the OMB A-87 guidelines and paid by federal dollars, and a "state rate," which provides for full cost recovery and is paid from other state funding sources, such as the general fund or a fee fund.

Findings

- Kansas utilizes a significant amount of direct billing to agencies for central service costs. Direct billing leads to administrative burden across both the issuing and receiving agencies.
- Kansas uses an open market model in which the agencies receiving services have the option not to direct service requests to the state central services (i.e. print services, information technology, fleet services, etc.). This approach creates disincentives for the agencies to consolidate requirements and negatively impacts opportunities for volume driven management of services. Additionally, this approach may impact federal cost recovery for services that have been maintained in-house and are not receiving federal fund allocations.
- The state central services handle the highest cost services, such as case bound books and legislative overnight printing. When high cost services are added to the overall base, it creates the appearance of higher overall cost for standard services and therefore a disincentive to use centralized services.
- The current lack of centralized budgeting for services is an impediment toward long term planning and investment.

Key Considerations for Memo Billing

- Memo billing treats the handling of cash differently than direct billing. In direct billing, a state central service agency submits a bill for payment to a customer agency and collects the cash payment. In memo billing, the state central service agency works from existing cash budget and provides the customer agency a memo bill with the billed costs to use for their federal claims and budgeting processes. Memo billing eliminates cash from the billing model.
- Memo billing operates interchangeably with direct billing.

- Critical to memo billing is that the state uses an equitable rate structure and a consistent process is used to establish the rates.
- The benefit of a memo billing model is that the service agency is funded with a budget to manage the services. Consolidating budget requirements would support forecasting and long term planning.
- There are instances where a central service agency must still collect cash from the customer agency due to the federal reimbursement requirements. For example, employment security must draw down their federal funds and also comply with the Cash Management Act requirements for timely disbursements. For this, there will be a manual process to separate expenses for direct billing and claims processing for memo billing.

Critical Steps to Implement

- onduct interviews/discussions with the fiscal officers from the agencies, especially large agencies with federal funds, to understand their processes and the impact of memo billing on their agency. The state should determine which agencies are eligible and which could be exempt from the use of memo billing.
- The study should also determine the use of automated processes, where possible, to allocate administrative costs to federal funds. This can be accomplished by the use of accounting cost centers.
- Implement a pilot program of the memo billing approach on the newly formed Centralized Fleet Management, where the state should require the use of consolidated fleet management for statewide passenger vehicles to prevent mini-fleet operations within agencies.

Recommendation #3 – Compel agencies to utilize centralized service functions

As part of recommendations related to centralized administrative functions, the Department of Administration should review costs associated with service delivery and determine if these costs can be lowered, while requirements are met or exceeded through the following:

- Strategic sourcing implementation for commodities to improve volume driven pricing
- Outsourcing of delivery functions
- Consolidation of services within the state

In order to compel agencies to work with DOA, the costs and pricing offered must be equivalent to what the agency would pay if it contracted individually with outside parties. DOA is best positioned to receive the lowest possible pricing if all volume for standard and extraordinary services is contracted centrally.

Critical Steps to Implement

- As DOA responds to recommendations specific to procurement and similar technology recommendations are acted upon, additional cost analyses for services will be undertaken. As these analyses move forward, DOA can evaluate agency costs.
- If necessary, cost allocations may need to be reviewed to determine routine versus extraordinary requirements to ensure they are appropriately allocated based on service requirements.

DOA.05 - Automate the Procure to Pay process

contract calls for the 'invoice receipt date' and not the 'invoice date').

- Verify that SMART contains the correct payment terms for all suppliers.

RECOMMENDATION #4 - Negotiate Early Pay Discount Terms with Suppliers

The state should pursue early pay discount terms with suppliers.

Findings and Rationale

Of the numerous contracts reviewed, only one had early pay discount terms. All other contracts were set up with the default net 30 day terms. Based on our analysis of how quickly the state is able to approve and pay invoices (less than 10 days on average), the state can benefit from offering the industry standard 2% 10, net 30 day terms and/or the 1% 20 net 30 day terms to all suppliers that are willing to accept these terms.

After the initial launch of this program, it is likely that early adoption by suppliers may be low since the state's current practice of paying invoices within 10 days already benefits the suppliers significantly. Therefore, any savings associated with the launch of this early pay discount program is dependent on the state adopting the recommendation to start paying supplier invoices closer to the 30 day period, allowed by the statute. A conservative adoption rate of 2% in the early years of the program will yield $1 million in annual savings.

Recommendation #4 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$750**	**$750**	**$1,500**	**$1,500**

Key Assumptions

- The state makes the necessary adjustments to pay supplier invoices closer to day 30.
- The state is able to achieve an adoption rate of 2% of the expenditure available for discounting.
- The state launches the program effectively and efficiently.
- Suppliers are willing to renegotiate terms.

Critical Steps to Implement

- Identify the group of suppliers to target in the initial launch of the program.
- Develop an efficient approach to contact suppliers.
- Update contract terms in SMART.

RECOMMENDATION #5 - Ensure Sustainability of Savings by Automating the Procure-to-Pay Process

Define, enable and implement an automated and standardized procure-to-pay process across all agencies. This will bring consistency, transparency and improved efficiency to the procure-to-pay activities that include:

- Requisitioning
- Purchase order generation and issuance
- Goods receipt and matching
- Invoice receipt, approval and payment

Findings and Rationale

Effective strategic sourcing runs in conjunction with an effective procure-to-pay process that accomplishes the following:

- Captures line item invoice detail of the spend
- Utilizes a robust spend classification structure that properly codes spend information
- Employs electronic workflows throughout the process that reduces administrative costs and enables the capture of early pay or dynamic discounts
- Improves reporting capabilities

The State of Kansas' procure-to-pay processes are mostly manual and utilize a diverse set of tools across agencies, universities and school districts. Below are a few observations:

- The University of Kansas has implemented an automated procure-to-pay application via Sciquest. With this application, they are able to capture most of the benefits outlined above.
- The other universities have manual processes from the creation of the requisition to the approval process of the invoices.
- The state agencies all use Oracle's SMART application for the requisitioning and payment processes but lack the automation of the purchase orders, 3-way matching and invoice approval workflow. The lack of these key components drives up administrative costs and the time to approve invoices.
- The school districts have a manual procure-to-pay process.

The Gartner Magic Quadrant rated both Oracle PeopleSoft and Sciquest above average in terms of product functionality and customer satisfaction. Therefore, on the state agency side, there is no need to engage in application selection. The state can move forward immediately to implement a fully automated procure-to-pay process across the state agencies. On the university side, a requirements study should be conducted to decide whether to expand Sciquest or SMART to other universities.

Critical Steps to Implement

- Conduct an agency wide assessment to document the business and technical requirements.
- Conduct a university assessment to document business and technical requirements.
- Contact current application providers to document implementation plan, resources and fees.

Recommendation #5 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
($1,200)	$-	$-	$-	$-

RECOMMENDATION #6 - Central Contract Repository

Create a central repository for all state contracts (agencies and universities). The repository should enable any state employee to search and locate all existing contracts easily. The repository should also provide insight and notice to the expiration of contracts.

Findings and Rationale

Across the State of Kansas, agencies store contracts in a decentralized manner. The Office of Procurement and Contracts has an online web portal that lists around 3,400 contracts. The web portal provides the option for end-users to search for contracts; however, searches can be difficult and time consuming due to non-standardized taxonomy. In addition, full contracts are not always stored online, causing lack of visibility for state employees in numerous instances.

Some agency specific contracts are not stored in the DOA contract portal, although the Procurement and Contracts group assisted with the contracting of the product or service. In these cases, the agency maintains those contracts separately. The universities are not required to use the Office of Procurement and Contracts to conduct sourcing events, therefore, all of their contracts are stored individually by each university.

By not making contracts visible to others, the state is:

- Increasing the workload of end-users doing research for contracts
- Losing leverage in situations where another department may benefit from the use of an existing contract
- Limiting collaboration across agencies
- Increasing the workload of the Procurement and Contracts group by conducting multiple sourcing events for the same product or service
- Limiting its ability to effectively monitor and enforce contract compliance

The State of Kansas already has two contract life-cycle management products: one from Oracle (used by state agencies) and the other by Sciquest (used by the University of Kansas and University of Kansas Medical Center). Both products are strong performers in their

HC.01 - Outsource Leave Administration

with a $5,000 limit and up to $50,000 per adopted suggestion.

- Tennessee and North Dakota have employee suggestion programs with limits of up to $10,000 and up to $4,000, respectively.
- Kansas' employee suggestion program awarded $1,025 in 2013, $3,250 in 2014, and $6,650 in 2015.

Key Assumptions

- The cost of administering the Ideas Festival and annual program can be developed and instituted with minimal administrative burden.
- The Governor's annual award for excellence in government would award up to $40,000 annually for the Ideas Festival.
- The Ideas Festival will enable Kansas to improve the employee suggestion program to help generate an additional $240,000 per year in new savings opportunities.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Ideas Festival recommendation include:

- Add a component to the statute that allows for additional Governor's excellence award for discretionary bonuses tied to the annual Ideas Festival program.
- Identify and assign administrative management for the program.
- Design and rollout of the annual Ideas Festival program.
- Host the program and awards ceremony.

Recommendation #1 - Explore Leading Practices for Centralized Administration of Family and Medical Leave

Currently, Kansas has a dedicated state manager for Family Medical Leave Act (FMLA) administration which is a recommended practice. Yet given the complexity of managing absences given compliance considerations and associated administrative burden, it is recommended that Kansas explore opportunities to outsource absence management.

Excessive use of the Family Medical Leave can generate challenges for personnel management and shift scheduling.

Findings

The Family and Medical Leave Act (FMLA) is a federal policy intended to balance the demands of the workplace with the needs of families. The Act allows eligible employees to take up to 12 work weeks of unpaid leave during any 12-month period to attend to the serious health condition of the employee or the employee's family, for pregnancy or care of a newborn child, or for the adoption of foster care of a child.

While FMLA does not require that employers compensate employees, Kansas, in alignment with many other states, allows employees to use annual or sick leave, where appropriate, while they are on leave. As a result, Kansas may thousands of hours of work on an annual basis.

Information requests to fail to identify specific FMLA leave versus other absence types (sick, vacation, and shared) are tracked at the employee level by the Office of Personnel Services. In FY 14, there were over 43,000 individual sick and vacation leave events tracked. Therefore, determining the specific impact of FMLA and the potential for savings is not possible.

Rationale

Best practices for reducing unnecessary FMLA absences implemented in other state governments include closer scrutiny of FMLA requests, stricter enforcement of paperwork requirements under the Health Insurance Portability and Accountability Act (HIPAA) , and more consistency in the application of the FMLA policies. While these actions are effective, they are often time intensive for human resources personnel administering FMLA leave. For this reason, many government agencies choose to outsource all or part of their FMLA administration.

Third party administrators can manage the administrative tasks associated with FMLA requests, provide guidance on requirements and eligibility, coordinate the FMLA benefit on behalf of the state, and train state human resources staff on how best to manage FMLA leave. The result is a decrease in the number of FMLA absences, decreased legal risk through consistent application of FMLA policies, and increased availability for human resources staff to focus on critical recruiting and retention tasks.

By contracting with a third party administrator, the state may be able to reduce the number of FMLA absences per year per 100 employees in each agency. This reduction in FMLA absences per 100 employees would result in annual cost savings of $3.0 million per year, assuming a $0.5 million annual third party administration fee. The table, below, provides additional information on the cost savings realized by reducing FMLA absences as well as by contracting with a third party administrator.

MEMO.03 - Centralized service functions

- Critical to memo billing is that the state uses an equitable rate structure and a consistent process is used to establish the rates.
- The benefit of a memo billing model is that the service agency is funded with a budget to manage the services. Consolidating budget requirements would support forecasting and long term planning.
- There are instances where a central service agency must still collect cash from the customer agency due to the federal reimbursement requirements. For example, employment security must draw down their federal funds and also comply with the Cash Management Act requirements for timely disbursements. For this, there will be a manual process to separate expenses for direct billing and claims processing for memo billing.

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Critical Steps to Implement

- As DOA responds to recommendations specific to procurement and similar technology recommendations are acted upon, additional cost analyses for services will be undertaken. As these analyses move forward, DOA can evaluate agency costs.
- If necessary, cost allocations may need to be reviewed to determine routine versus extraordinary requirements to ensure they are appropriately allocated based on service requirements.

INS.01 - Establish a DOA Office of Risk Management (ORM)

Summary

The approach to property and casualty (P&C) insurance and risk management focused on the enhancement of current capabilities, cost reduction, and the creation of new ways to improve the state's ability to function more effectively across all agencies, particularly among the Department of Administration (DOA), Department of Labor (KDOL), Department of Education (KSDE), and the Kansas Department of Health and Environment's (KDHE's) Workers' Compensation State Self Insurance Fund (WC SSIF). The team worked with various state agencies to identify cost savings and efficiency improvement opportunities that can generate financial savings over the next five years.

- Short-term opportunities – Two recommendations will achieve cost savings in FY16, and include re-bidding insurance policy procurement and expanding participation of Department of Education K-12 Unified School Districts (USDs) in a new or existing insurance pool program.
- Medium-term opportunities – There are three additional P&C insurance opportunities that will generate efficiencies, savings and revenue over the next three fiscal years. These recommendations are:
  - » Develop a shared service function for P&C insurance procurement, claims management, and coordination of safety & loss control, under a centralized Office of Risk Management (ORM)
  - » KDOL Administrative Fund revenue enhancement and investment
  - » Operational changes to KDHE's WC SSIF claims management
- Long-term opportunities – All opportunities can be implemented in the first three years, and there are no recommendations that extend a start date beyond FY20.

Short and medium-term recommendations are detailed in the chart above.

Recommendations

Recommendation #1 – Establish a Department of Administration (DOA) Office of Risk Management (ORM)

The state should establish a new Office of Risk Management (ORM) within the Department of Administration (DOA) to centralize the state's insurance and risk management functions. The ORM, should be led by staff who have insurance, claims and safety industry expertise, and should be responsible to:

- Act as a single point of contact to provide risk management, safety and loss control support,

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)						
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Establish a DOA Office of Risk Management (ORM)	($70)	($417)	($417)	($417)	($417)	($417)	($2,155)
2	KDOL Assessment Rate Change	$-	$30,900	$30,900	$30,900	$30,900	$30,900	$154,500
3	Statewide Insurance Procurement Re-Bid	$71	$284	$284	$284	$284	$284	$1,491
4	Replace WC State Self Insurance Fund (SSIF) Claims Staff with an Experienced Third Party Administrator (TPA) Overseen by ORM	$-	$3,116	$4,956	$4,956	$4,956	$4,956	$22,940
Risk and Insurance Management Total		**$1**	**$33,883**	**$35,723**	**$35,723**	**$35,723**	**$35,723**	**$176,776**

and claims handling expertise across state agencies.

- Coordinate with the Department of Procurement to competitively market and leverage insurance procurement.
- Oversee administration of the Workers' Compensation State Self Insurance Fund (WC SSIF) and manage the new Third Party Administrator (TPA) recommended to minimize WC claims costs and improve the overall claims management process.
- Support and coordinate efforts of the Department of Labor's Division of Industrial Safety and Health to develop and implement safety programs and inspections for state agencies and employees.
- Implement formal WC SSIF claims, safety, and loss control process improvement initiatives to reduce claims frequency and severity by preventing and mitigating accidents and injuries. These initiatives include:
  - » Educate agencies on the costs of WC accident reporting lag.
    - – Encourage agencies to report claims within one day of the Date of Accident via the Employer's Report of Accident (KWC 1101-A).
  - » Implement a more robust RTW program to ensure, for example, that:
    - – Agencies make interim work positions available for employees who cannot return to normal duties.
  - » Improve safety training and processes by:
    - – Designing a Fleet Safety Manual/Process for drivers of state owned and rented vehicles.
    - – Working with DOL to coordinate safety training and utilize insurance carrier assessment funds to help generate reductions in claim costs.
  - » Improve data analytics and reporting processes so the ORM can:
    - – Monitor WC claims trends—especially for high-risk departments such as the Department of Transportation—and design and implement specific safety training accordingly.
    - – Provide agencies WC loss statistics and experience data in order to measure and monitor performance improvements.
    - – Compare WC claims data with State Employee Health Plan (SEHP) data to identify any overlaps in claims reporting or payment.
    - – Establish a Fraud Awareness Program and educate agencies on the distinction between fraud and abuse. Expand the Fraud Hotline to 24/7 functionality.
    - – Convert to electronic delivery of checks for bi-weekly Indemnity claim payments.
    - – Develop automated red flags and perform data mining on WC claims to identify repeat claimants.
    - – Advise state employees regarding choices for their WC claims other than hiring an outside WC attorney.
    - – Encourage agencies to take recorded and/or signed statements from employees and witnesses on the day of the accident, in order to secure facts for ORM / WC SSIF.

Background and Findings

- Kansas currently has no centralized insurance procurement and risk management and safety function.
- Interviews with various staff at Kansas state agencies and departments found a desire for a single point of contact on matters regarding risk management, insurance, safety and claims.
- A review of all states found that at least 38 of the 50 states have a centralized insurance and/or risk management office or division to serve state agencies. Most commonly, these offices or divisions are organized under each state's Department of Administration. Specific responsibilities and services of these state ORMs

include but are not limited to:

- » Identify and analyze risk exposures to state agencies, individuals, assets, and third-parties
- » Develop and implement safety and loss control programs to protect life and state assets, as well as reduce the costs and consequences of accidents, either directly or by providing support to state Safety & Health divisions
- » Procure insurance, manage policies, and allocate premiums
- » Administer State Insurance Funds including State Self Insurance Programs and Insurance Trusts
- » Investigate and manage workers' compensation (WC), property, liability and specialty claims, iincluding oversight of Third Party Administrators (TPAs)
- » Develop and manage state employee assistance, workplace safety committee, and other such programs to promote safety and loss control
- » Manage equipment maintenance programs
- » Develop risk management programs and documentation such as Safety Handbooks and Fleet Safety Manuals
- » Conduct safety training and awareness programs for state agencies and employees
- » Assist state agencies in answering questions in matters relating to risk assessment, risk management, and insurance and provide guidance in specialty areas such as OSHA Recordkeeping and Reporting
- » Assist state agencies with contractual risk transfer, including provision of rinsurance and indemnification guidelines for state contracts
- » Work with state agencies to ensure a safe environment for state employees and the general public who come into contact with state employees or property as services are provided, to mitigate third party risk
- » Host 24-hour hotlines for WC claims and fraud reporting

- Claims reporting lag time is a notable issue for WC SSIF, and significant reporting delays can be attributed to various agencies based on reviewed claims data.
  - » Delayed injury reporting can increase WC claim costs up to 51%, according to the study "The Relationship Between Accident Report Lag and Claim Cost in Workers Compensation Insurance," published by the National Council on Compensation Insurance (NCCI) in 2015.
- Kansas' Return-To-Work (RTW) program is not centralized and lacks a robust infrastructure.
  - » The benefit of an efficient RTW program: When safety professionals, adjusters, and medical providers worked together to prevent accidents and quickly treated injured or ill workers—helping them return to work through jobs with restricted or modified duties—lost-time decreased by 73% and medical-only claims decreased by 61%, according to "Ten Years' Experience Utilizing an Integrated Workers' Compensation Management System to Control Workers' Compensation Costs," published in the Journal of Occupational & Environmental Medicine in 2003. In addition, total WC expenses—including all medical, indemnity and administrative costs—fell from \$0.81 per \$100 payroll in 1992 to \$0.37 per \$100 of payroll in 2002—a 54% decrease. The study also found that the value of RTW programs does not vary by industry classification.
- Vehicle accident reporting and handling procedure is inconsistent and varies by Agency.
- The state currently maintains no list of employee drivers and does not run Motor Vehicle Record (MVR) checks to verify employee safety records.

Recommendation # 1 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
(\$70)	(\$417)	(\$417)	(\$417)	(\$417)	(\$417)

Key Assumptions

- Centralizing the P&C Insurance and Risk Management functions by establishing an Office of Risk Management staffed with industry-experienced personnel is the overarching catalyst to drive cost savings and revenue enhancement for the state across Recommendations 2 to 5.
- Projected cost savings generated through the ORM will result in:

   - » Enhanced operating efficiency
   - » Centralized insurance and risk contracting
   - » Alignment of risk with controls
   - » Strategic risk transfer
   - » Enhanced risk management brought by the new ORM's industry expertise and oversight including claims reduction and insurance cost management

- Savings assume cooperation by the state agencies with the new ORM, Department of Procurement and KDHE initiatives.
- Capital outlay breakdown for ORM includes new salaries and wages of $200,000 for a staff of three, plus an estimated 21% ($42,000) staff overhead cost and $6,276 each employee benefits cost (based on the State's Budget Cost Indices for FY16 and FY17), plus an estimated annual operational overhead expense of $150,000.
   - » The first ORM staff hire, the Director of Risk Management, is completed by the fourth quarter of FY16, with the other two ORM members to be hired in FY17.
   - » Recruiting and hiring the ORM Director may take approximately three months to complete. The FY16 investment cost estimate is discounted accordingly to represent one Director at an estimated $100,000 salary plus 21% staff overhead and $6,276 benefits cost, discounted to 25% of that cost for the fourth quarter of FY16.
   - » ORM implementation and operational overhead costs (other than salaries and benefits—recruiting costs, office space and utilities allocations) are estimated at $150,000 annually, with 25% of that amount allocated to the final quarter of FY16 in conjunction with hiring the new Director of Risk Management.
- The resultant efficiencies and cost savings of centralized risk management will outweigh the initial capital outlay and new salaries and wages costs for ORM creation. The investment costs associated with coordination with the new TPA and elimination of existing WC SSIF claims staff are accounted for in recommendation #4.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #1 include:

- Prompt recruiting process to hire Director of Risk Management by fourth quarter FY16, and Claims and Safety specialists in early FY17.
- Director of ORM to coordinate with Procurement to develop and expedite an RFP for the new TPA services discussed in recommendation #4.

Recommendation #2 – Adjust the Kansas Department of Labor (KDOL) Administrative Fund Assessment Rate to 1% on a Written Premium Basis

Specifically, the KDOL should:

- Increase revenue by adjusting the KDOL Administrative Fund assessment levied to state Workers' Compensation (WC) carriers to a 1.00% rate using carriers' written premium as the rating base, from the current 2.79% rate that uses prior year losses as the rating base.

Background and Findings

- A review of National Council on Compensation Insurance (NCCI) statistical data found that—states that maintain an Administrative Fund (and finance such fund by levying an assessment surcharge or tax to their state WC insurance carriers), mostly use one of two rating bases—either written premiums or paid losses. A few states take a different approach, such as assessing a flat surcharge amount. Variations exist in each state's assessment methodology and application of the two identified general rating bases. For example, some states calculate assessments on net premiums (gross premiums less any returned premiums due to cancellations) while others use gross premiums including taxes, fees and other assessments; or some states use paid indemnity or total losses for each individual carrier while others use aggregated paid losses for all carriers in the state, with the total assessment amount levied to each carrier on a pro-rated basis. The most standardized methodology identified amongst all 50 states was to calculate assessments using prior