

2005 INNOVATIONS AWARDS PROGRAM

APPLICATION

Deadline: April 4, 2005

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1. Program Name

State of Illinois - Shared Services Model

2. Administering Agency

Illinois Department of Central Management Services (CMS)

3. Contact Person (Name and Title)

Paul Campbell, Assistant Director of CMS

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9. Please provide a two-sentence description of the program.

CMS has enhanced the efficiency of much of the state's administrative back-office functions by partnering with private firms and other state government entities to implement a Shared Services Model that incorporates sound management principles designed to build consensus, increase accountability, decrease administrative costs and free up resources to be redirected to core services. This model, which is programmed around a new center-led approach to procurement and the consolidation of other state agencies' internal audit, legal services, facilities management, information technology and media relations functions – has saved the State of Illinois hundreds of millions dollars to date and is projected to recap additional savings this fiscal year and in the years beyond.

10. How long has this program been operational (month and year)?

The Shared Services Model was launched when Governor Blagojevich issued Executive Order 10 to consolidate facilities management, internal auditing, and staff legal functions on March 31, 2003. The streamlining of procurement and information technology initiative were also launched 2003. The media relations consolidation followed in 2004.

11. Why was the program created? What problem[s] or issue[s] was it designed to address? **Indicate how the program applies to the “change driver” that you listed above.**

This program applies to the “Role of Government” change driver. Prior to the implementation of this program, administrative functions were largely decentralized and scattered across agencies. The management of these functions was further complicated by the rigid and bureaucratic structure typical of government, the inflexibility of federal mandates, and increased pressure to provide higher quality services with increasingly scarce resources. In many cases, resources were allocated haphazardly and economies of scale were not achieved. To address these problems, CMS adopted a more networked approach that incorporated shared-services and center-leading strategies. Administrative back-office functions at the various state agencies – such as legal services, audit and media relations – were consolidated into CMS to free those state agencies and other state governmental units from a broad range of administrative responsibilities so that they can allocate their efforts, time, and resources to accomplishing their core missions.

12. Describe the specific activities and operations of the program in chronological order.

Internal Audit Consolidation (launched in 2003) – Through the elimination of Chief Internal Auditor Positions in 26 agencies, CMS consolidated and streamlined the state's internal audit functions and created the Illinois Office of Internal Audit (IOIA). Since its inception, the IOIA has improved the efficiency of the state's internal audit function, saving the state \$5.4 million. The consolidation has also enhanced internal audit operations statewide. In FY2004, the IOIA conducted the state's first cross-agency audit, created an audit team consisting of auditors from

various disciplines, and performed the first statewide risk assessment. In addition, twenty state agencies that did not previously have access to audit services now have auditors who can work with them to increase performance accountability and mitigate risk.

Legal Services Consolidation (launched in 2003) – State agencies’ legal services associated with contracts, procurement, labor and personnel were consolidated into one legal office within CMS. Streamlining these legal services throughout the state resulted in the consistent application of legal principles throughout and enhanced the quality of legal services provided to state agencies. Moreover, the state saved \$8 million through more efficient deployment of legal resources.

Streamlined Facilities Management (launched in 2003) – The centralization of facilities management responsibilities has enabled CMS to better allocate the state’s leased and owned space, taking advantage of the reduced size of state government to streamline space usage and eliminate unnecessary buildings and leases. In addition, CMS implemented a new asset management model to reduce the number and cost of leased buildings the state occupies, as well as focus on ways to reduce the amount the state spends on utilities and outside service contracts. As of March 2005, the facilities management functions at 32 agencies have been consolidated resulting in the transfer of 195 employees, 13.59 million square feet of managed space, and 592 facilities to CMS. Facility related operating expenses have been reduced by \$10 million in FY2004, and is estimated to save \$34 million in FY 2005.

Streamlined Fleet Management (launched in 2003) – Over the last two years, CMS has worked with agencies to reduce the size of the state’s vehicle fleet by more than 1,700. As a result, the state has significantly reduced fuel and maintenance expenses. CMS also saved an immediate \$2 million by canceling the purchase of 124 vehicles in FY 2003. In addition, the state yielded additional revenues for the state by auctioning off surplus vehicles to local government entities and the public. Moreover, this initiative significantly reduced the misuse of state vehicles by implementing comprehensive personal use policy for state-owned vehicles, and by converting more than 250 standard issued license plates on state-owned vehicles to plates that clearly identified them as state vehicles.

Center-Led Procurement (launched in 2003) – Central Management Services (CMS) implemented the statewide Procurement Initiative in response to the Governor’s mandate to “center-lead” procurement in order to maximize the value of each taxpayer dollar state agencies spend on goods and services. Since its launch in 2003, the Procurement Initiative has delivered tremendous benefit to the State, saving the state over \$100 million in FY 2004 and \$200 million by FY 2005. To sustain this initiative, CMS consolidated all of CMS’s procurement personnel and functions into the Bureau of Strategic Sourcing and Procurement (BOSSAP), a new procurement structure designed to work closely with agency State Purchasing Officers (SPOs) and provide improved transparency and accountability in the procurement process. BOSSAP has made significant progress towards reducing the cost of government

while alleviating the burdens Illinois businesses have faced in doing business with the state. Through a center-led approach to procurement and standardizing the procurement process for commodities and services across state agencies, CMS has reduced the total cost of the provision of these services, increased productivity, and made it easier for the private sector to do business with the state. In recognition of CMS' efforts, the State of Illinois was named the Gold winner of the 2004 Cronin Innovation Awards, which is given annually by the National Association of State Procurement Officials to recognize outstanding procurement initiatives and promote the adoption of best practices throughout the states.

IT/Telecom Consolidation (launched in 2003) - In 2004, the State began to consolidate the majority of non-public safety IT infrastructure services within CMS. This involves the physical consolidation of the state's IT resources and data networks, which is expected to result in a minimum annualized savings of \$5 million and significantly improve service reliability, and enhance the state's purchasing power, which will enable it to take better advantage of advanced technologies. A full IT governance authority along with a multi-agency IT Architecture Review Board have been established to standardize and improve the review of all agency IT procurements. The majority of non-public safety IT infrastructure services – including the transition of 450 staff, 3000 assets, 300 contracts – will be completed by June 2005. The physical consolidation of infrastructure resources will begin in July 2005.

Media Relations Consolidation (launched in 2004) – Executive Order 2 issued in 2004 consolidated media relations functions for each agency, board and commission directly responsible to the Governor under the jurisdiction of CMS. These functions include all outreach to and communications with the print, radio and television media, as well as all functions performed by Public Information Officers in state agencies, boards and commissions directly responsible to the Governor.

13. Why is the program a new and creative approach or method?

The CMS Shared Services Model represents a novel approach to addressing the major financial tidal wave hitting all states. State governments have typically operated under a rigid, bureaucratic, hierarchical structure using command and control procedures. Recognizing that this approach is outdated and ill-suited to overcome the many obstacles state governments face today, CMS partnered with private firms and other state government entities to implement a more networked approach to government operations that infuses shared-services and center leading strategies. These private sector concepts, which are relatively new to the public sector, encourage consensus building, increase accountability, decrease administrative costs and free up resources to be redirected to providing citizen-centered, core services. They provide for greater flexibility, and better engage the creativity and specialized skills of the state's workforce.

14. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

Additional capital was not necessary to start-up the program. CMS partnered with several best-in-class consulting firms, investing approximately \$70 million to develop and support the programs initiatives. The program was largely paid for by a state revolving fund (Efficiency Initiatives Revolving Fund), which was funded by the savings state agencies incurred as a result of reduced operating costs.

15. What are the program’s annual operational costs?

The Shared Service Model centralized most administrative functions, thus eliminating those functions in other state agencies and consolidating them into CMS. To ensure the quality of services was not compromised, a portion of the resources necessary to operate those functions was transferred to CMS. Thus, the costs associated with those resources were also absorbed causing CMS expenditures to increase. However, **the streamlining of these functions reduced the overall cost of state government by hundreds of millions of dollars in the last two years.** The Illinois Department of Central Management Services annual operating expenditures as a result of the consolidation of other state agency administrative functions into the department are broken down in the table below:

Division	(\$ thousands)	
	FY 2004 Actual	FY 2005 Estimated
Administrative Operations	55,913.0	53,453.8
Information Services	4,419.5	6,972.3
Strategic Sourcing and Procurement	36,405.3	40,823.1
Benefits	191,443.6	228,837.2
Personnel	14,144.4	14,052.6
Business Enterprise Program	442.9	465.6
Property Management	26,338.9	190,571.3
Communication and Computer Services	189,571.3	213,789.5

16. How is the program funded?

The program was largely paid for by the state’s Efficiency Initiatives Revolving Fund, which was funded by the savings state agencies incurred as a result of reduced operating costs.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

Yes. The Governor issued the following Executive Orders to support this program’s initiatives:

Executive Order Number 2 – 2003: Executive Order mandating the freeze on the acquisition of state motor vehicles and the implementation of a comprehensive review of potential cost savings associated with motor vehicles.

Executive Order Number 10 – 2003: Executive Order to consolidate facilities management, internal auditing and staff legal functions.

Executive Order 2 – 2004: Executive Order to reorganize agencies the transfer of certain media relations functions to the Department of Central Management Services.

Public Act 093-0025: FY2004 Budget Implementation Act includes the centralization of information technology and procurement services and established the Efficiency Initiatives Revolving Fund.

18. What equipment, technology and software are used to operate and administer this program?

CMS has implemented an in-house Knowledge Management (KM) system to harness critical information, particularly in relation to the procurement process. The KM system has already helped to save over \$100 million in its first full year of operation. CMS is also implementing a spend management system which will enable the state to keep better track of state spending, improve fiscal accountability, and support fact-based decision making. Following are other technological enhancements that support the operation and administration of this program:

- Dozens of disparate e-mail systems, which have hampered communications among state agencies and with the general public, are being reduced to three systems. The hundreds of e-mail naming conventions will be replaced by one.
- The state purchased and implemented Remedy Customer Support, Asset Management, and Action Request System solutions and is leveraging these technologies to increase accountability, improve service levels, and maximize their operational efficiency.
- Twenty-two data centers are in the process of being consolidated into 5 state-of-the-art facilities providing 24/7 services. The number of IT contractors was reduced by 30% and every remaining contract was adjusted to more favorable and current market rates.
- The state consolidated three unnecessarily redundant telecommunications systems into one. The new network increases capacity four-fold, increases utilization three fold, and drops marginal cost by 45%.
- Every lease has been abstracted electronically to provide exceptional facility management information. In addition, CMS has completed 40 million square feet

of facility condition assessment to give us real information on what our capital priorities are.

- A facilities management central call center with a ticketing system that tracks every work request from consolidated agencies, which provides CMS with meaningful data on the efficiency and effectiveness of the services we provide.

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

A number of states have adopted the concept of shared-services. However, to our knowledge, Illinois is the first state to implement a model of such comprehensive scope. By adopting center-leading strategies and a more networked, less hierarchical approach, CMS was able to successfully implement a model that improved fiscal control and accountability across state agencies, while still providing agencies the level of autonomy to make decisions which are core to their missions. This program is one of Governor Rod Blagojevich's key initiatives. The key contact for information regarding this program is Paul Campbell, Assistant Director of CMS. His contact information is listed below.

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20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

To our knowledge, a number of states have adopted shared-services strategies but on a smaller scope than the model implemented at CMS. For example, the State of Ohio's Enterprise Shared Services model currently coordinates Geographic Information Services, electronic commerce, and electronic filing services. We are not aware of other states' efforts to implement a shared-services model that consolidates most general administrative and support functions across state agencies.

21. Has the program been fully implemented? If NO, what actions remain to be taken?

No. The program's initiatives are in various stages of completion. The intention is to have the key program deliverables implemented by 2006.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

The transformation to a Shared Services Model requires substantial effort and determination. The transfer and consolidation of administrative back-office functions into CMS did reduce the level of autonomy and resources at the various state agencies under the Governor’s jurisdiction which, at times, exacerbated the resistance to change that is characteristic of government organizations. While this change was jarring to some state agencies, the shared services model yielded significant reductions in cost; economies of scale; increased flexibility, transparency and accountability; and enhanced the quality of services. These accomplishments have economic value in terms of immediate cost savings, as well as, far-reaching strategic benefits. By eliminating redundancies and consolidating administrative back-office functions, agency staffs have been freed from routine administrative tasks and can focus on more value-added core services and higher-impact strategic activities. Furthermore, the streamlining of these functions has resulted in significant returns on investment, reducing the cost of government operations statewide. (See table below.)

CMS Shared Services Program Savings Fiscal Years 2004 and 2005 combined	
IT/Telecom Consolidation	
Investment	\$41 million
Savings	\$250 million
Return on Investment	\$6.08 saved for every \$1 spent
Internal Audit Consolidation	
Investment	\$0.3 million
Savings	\$5.4 million
Return on Investment	\$18.00 saved for every \$1 spent
Legal Services Consolidation	
Investment	\$0.5 million
Savings	\$8 million
Return on Investment	\$16.00 saved for every \$1 spent
Streamlined Facilities Management	
Investment	\$14 million
Savings	\$44 million
Return on Investment	\$3.14 saved for every \$1 spent
Streamlined Fleet Management	
Investment	\$0.3 million
Savings	\$8 million
Return on Investment	\$26.67 saved for every \$1 spent
Center-Led Procurement	

Investment	\$17 million
Savings	\$200 million
Return on Investment	\$11.76 saved for every \$1 spent

23. How has the program grown and/or changed since its inception?

Prior to the implementation of the Shared Services Model, CMS merely served as a “pass through” agency for a broad range of administrative programs and services for other state agencies and the general public ranging from personnel and employee benefits to management of numerous properties around the state. For the most part, these functions were largely decentralized and scattered across state agencies. As a consequence, resources were allocated haphazardly and economies of scale were not achieved. Therefore, while CMS was responsible for administering these services, it had little control over spending and other decisions related to them.

Today, administrative functions are largely centralized within CMS. Services are delivered using a Shared Services Model which incorporates a new center-led approach to procurement, along with the consolidation of other state agencies’ internal audit, legal services, facilities management, information technology and media relations functions. As a result, the State of Illinois has saved hundreds of millions of dollars to date, and is expected to recap additional savings this fiscal year and in the years beyond. The center-led procurement initiative, in particular, has become a key element of CMS’ overall business strategy. Through the adoption of strategic sourcing methods, CMS has transformed the State’s procurement process to a model that more closely parallels leading businesses in the private sector and generated over \$100 million in savings last fiscal year and is projected to save an aggregate of \$200 million this fiscal year. CMS intends to continuously improve this program and further codify its experience to share with other state, local and federal government entities.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

Implementing shared services model in state government is a considerable undertaking that requires commitment to organizational transformation. It involves making decisions – such as headcount reductions, facility closures and other budget cuts – that many government executives would rather avoid. The change resistant, stove-piped, bureaucratic mentality that typifies most government organizations can make the successful implementation of a shared services model all the more difficult. Thus, information regarding the benefits and requirements of shared-services should be communicated to all affected parties to help ensure the buy-in. In addition, the greater the model’s scope, the greater the complexity of implementation. Therefore, state governments also need to determine the applicability of Illinois’ shared-services model to their state and, if so, develop a clear strategy early on to effectively manage and support the size and scope of the implementation.

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