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Memorandum

To: Representative Neal Foster, Co-Chair House Finance Committee
Representative Jennifer Johnston, Co-Chair House Finance Committee

Cc: Members of the House Finance Committee

From: Cheri Lowenstein

Date: January 15, 2020

Subject: Consolidation of Shared Services

This report is in response to the Fiscal Year (FY) 2020 legislative intent requesting a report to the Legislature outlining a multi-year plan that includes past and future savings resulting from consolidation of shared services and information technology.

The consolidation of information technology and shared services had very different implementation guidelines. In the initial shared services initiative, travel, accounts payable and collections were consolidated into the Division of Shared Services of Alaska (SSoA) and information technology was consolidated into the Office of Information Technology. This report will focus on the consolidation of travel, payables and collections implementation and will introduce the consolidation of procurement through Administrative Order 304.

The purpose of the shared services implementation was to consolidate the back-office support of common administrative transactions to allow agencies to use budget and staff to focus on their core mission and responsibilities.

In the fall of 2016, a survey of all departments identified 615 state employees that “touch” travel and accounts payable. This included all staff that book/arrange travel, process travel and payables and included with the certification process. Because this was only a portion of the duties for the 615 staff identified, when each portion was tallied, the survey resulted in an equivalent total of 263 full time staff. SSoA’s initial goal was to process all travel and accounts payable with 130 full time staff.

In the FY 2018 budget, approximately 75 positions were transferred into SSoA with actual staff moves beginning in January of 2017. While these Position Control Numbers (PCNs) reside in the SSoA budget, for work that has not transferred to SSoA, those staff continue to work in the department until the work is transferred to SSoA.

In January of 2017, the consolidation of travel began with one department, the Department of Administration. The positions identified by the department were transferred to SSoA and the work to support the agencies began by making travel reservations for the travelers and reconciling the travel documents. However, after approximately one year of making travel reservations on behalf of travelers, it was agreed by both SSoA and their customer(s) that the travel reservation process should reside in the department. The staff doing this work were returned to the agencies, with a few exceptions. Travel reconciliation continues to be completed by thirty-four positions, of those five are currently vacant.

In the analysis of each departments travel, it was determined that some specific travel would be excluded in the initial onboarding, such as confidential travel. Once the service was established for all departments, a second analysis would be done to determine if the remaining travel could be transferred to SSoA by creating a confidential unit. At this time, three departments have not transferred their travel processing work to SSoA, the Office of the Governor, Department of Fish and Game (ADF&G) and Department of Military and Veterans Affairs (DMVA), the positions have not transferred either. While it was determined that the Office of the Governor and DMVA were excluded from the initial onboarding, SSoA has recently reinvigorated discussions with the ADF&G.

The initial focus of the travel initiative was to transfer the reconciliation work of each department, and the positions, to SSoA. This work begins after the travel has ended and includes payments to vendors and any out of pocket expense to the traveler, such as per diem. Over the past six months, there has been a new focus on process improvement and several changes have been put in place to streamline travel and accounts payable processes for both SSoA and the agencies. In May of 2019, the standard for each accounting technician was to process four travel requests per day, the current standard is for each accounting technician to process seven per day. One travel transaction could contain as many as 20 documents; however the average number of documents is five. While significant improvements have been made, a new travel process is now being piloted that leverages the State's accounting system. This process will be deemed successful if there is improved reporting and if processing time improves.

The accounts payable initiative began in October of 2018. There are currently two separate accounts payable processes that are in place. At this time, seven departments are participating in this initiative, in full or in part, ten staff are dedicated to these processes. SSoA has again reinvigorated the discussions to onboard the remaining departments.

Over the past six months there has been a focus on accounts payable process improvement and several changes to the process have been put in place. In May of 2019, the standard was to process 25 payables per day per person, the current standard is to process 60 per day per person.

In FY 2020, Administrative Order 304 consolidated procurement functions into SSoA. The first steps of this initiative have been to gather data and to create training for all procurement staff that will utilize the states accounting system. Once procurement staff are using the statewide accounting system, this will provide better statewide data and will add more automation into the accounts payable process.

For each of these initiatives, in order to make significant progress, software upgrades will be necessary. SSoA is researching software options that will make these processes more efficient. Without these types of software improvements, finding significant efficiencies and improvement in processing time will be difficult.

Savings/Revenue:

In FY 2018, all agency budgets were reduced by 10% in conjunction with position transfers resulting in an immediate savings of approximately $760,000.00. In
FY 2019, an additional budget reduction of 10% was taken resulting in further savings of $1,022,800.00 or **a total of $1,782,800.00.**

The first chargeback rate for the travel initiative in FY 2018. The division was allowed to charge agencies that had transferred their work to SSoA for 90% of the personal services cost for any staff that supported the work that transferred to SSoA for this initiative in FY 2017. The second years chargeback for FY 2019 was calculated at 80% of the staff that transferred over in FY 2017, and 90% of new staff that transferred in 2018. In FY 2020, a rate to agencies per document processed will be charged.

One of the goals of this initiative is to seek out new revenues to offset the cost of services provided. Additional revenues are generated through the collection activities that transferred from the Department of Law to SSoA and through a 1.5% vendor fee that is collected on the spend of the State of Alaska statewide contracts.

The collection activity has remained stagnant. Over the past several months, SSoA has reinvigorated the collection discussions and is working to onboard the next State agency. In addition, SSoA is discussing with the Department of Law the ability to provide this service to political subdivisions and other entities. Any increased activity in collections will result in new/additional revenue.

The statewide contracts are available to all State agencies, to municipalities and to school districts. For each purchase made based on the statewide contract, a 1.5% vendor fee is collected by SSoA. We anticipate that marketing and making these entities aware that there are contracts available for them to utilize for purchases. This will not only make their job easier; it will also bring in additional revenues to SSoA which will offset the cost of services the division provides.

In addition to this effort, SSoA staff are in the beginning phases of analyzing purchasing patterns to determine if a new statewide contract can be established for certain goods. Any new statewide contract established would result in new revenues.